KPMG

COLGATE UNIVERSITY

Consolidated Financial Statements

June 30, 2015 and 2014

(With Independent Auditors’ Report Thereon)

COLGATE UNIVERSITY

Consolidated Financial Statements

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KPMG LLP
515 Broadway
Albany, NY 12207-2974

Independent Auditors' Report

The Board of Trustees
Colgate University:

We have audited the accompanying consolidated financial statements of Colgate University, which comprise the consolidated statements of financial position as of June 30, 2015 and 2014, 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, 2015 and 2014, and the changes in its net assets and its cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

KPMG LLP

October 6, 2015

COLGATE UNIVERSITY

Consolidated Statements of Financial Position

June 30, 2015 and 2014

(in thousands of dollars)

Assets		**2015**	**2014**
Cash and cash equivalents	$	34,686	33,819
Accounts receivable, net		1,849	1,484
Intermediate-term investments		59,045	20,226
Inventories		2,199	1,842
Prepaid expenses and other assets		875	961
Student loans receivable, net		2,644	2,889
Pledges receivable, net		6,966	13,074
Long-term investments		921,780	894,090
Land, buildings and equipment, net		356,360	353,265
Funds held in trust by others		15,340	9,251
Total assets	$	1,401,744	1,330,901
Liabilities and Net Assets			
Accounts payable and accrued expenses	$	21,514	19,827
Deposits and deferred revenues		13,992	13,739
Annuities and deferred giving arrangements		15,858	14,196
Postretirement benefits		21,542	20,779
Federal student loan funds		3,457	3,424
Conditional asset retirement obligations		9,713	9,602
Long-term debt, net		234,099	193,075
Total liabilities		320,175	274,642
Net assets:			
Unrestricted		335,301	331,078
Temporarily restricted		374,869	365,110
Permanently restricted		371,399	360,071
Total net assets		1,081,569	1,056,259
Total liabilities and net assets	$	1,401,744	1,330,901

See accompanying notes to consolidated financial statements.

COLGATE UNIVERSITY

Consolidated Statement of Activities

Year ended June 30, 2015

(with summarized information for the year ended June 30, 2014)

(in thousands of dollars)

	2015				2014
	Unrestricted	Temporarily restricted	Permanently restricted	Total	Total
Operating revenues:					
Tuition and fees	$ 141,750	—	—	141,750	133,736
Less scholarships	(50,130)	—	—	(50,130)	(46,060)
Net tuition and fees	91,620	—	—	91,620	87,676
Sales and services of auxiliaries	29,139		—	29,139	29,216
Government grants and contributions	654	1,136	—	1,790	2,205
Private grants and contributions	6,006	6,487	—	12,493	11,399
Investment return designated for operations	11,777	31,517	—	43,294	38,828
Other	3,082		—	3,082	3,494
Net assets released from restrictions	37,921	(37,921)	—	—	—
Total operating revenues	180,199	1,219	—	181,418	172,818
Operating expenses:					
Instruction and research	72,539	—	—	72,539	67,014
Athletics	21,653	—	—	21,653	21,537
Academic support	17,507	—	—	17,507	17,531
Student services	14,405	—	—	14,405	13,669
Institutional support	28,504	—	—	28,504	28,504
Auxiliary operations	24,742	—	—	24,742	25,029
Total operating expenses	179,350	—	—	179,350	173,284
Increase (decrease) in net assets from operating activities	849	1,219	—	2,068	(466)
Nonoperating activities:					
Investment return, less amounts designated for current operations	(1,139)	5,551	272	4,684	72,351
Grants and contributions	733	10,447	11,583	22,763	34,510
Change in value of split interest agreements	—	(1,001)	(458)	(1,459)	2,205
Postretirement benefits	(763)	—	—	(763)	(3,309)
Other	(1,983)	—	—	(1,983)	(722)
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	105,035
Change in net assets	4,223	9,759	11,328	25,310	104,569
Net assets:					
Beginning of year	331,078	365,110	360,071	1,056,259	951,690
End of year	$ 335,301	374,869	371,399	1,081,569	1,056,259

See accompanying notes to consolidated financial statements.

COLGATE UNIVERSITY

Consolidated Statement of Activities

Year ended June 30, 2014

(In thousands of dollars)

		Unrestricted	Temporarily restricted	Permanently restricted	Total
Operating revenues:					
Tuition and fees	$	133,736	—	—	133,736
Less scholarships		(46,060)	—	—	(46,060)
Net tuition and fees		87,676	—	—	87,676
Sales and services of auxiliaries		29,216	—	—	29,216
Government grants and contributions		689	1,516	—	2,205
Private grants and contributions		6,271	5,128	—	11,399
Investment return designated for operations		10,840	27,988	—	38,828
Other		3,494	—	—	3,494
Net assets released from restrictions		33,739	(33,739)	—	—
Total operating revenues		171,925	893	—	172,818
Operating expenses:					
Instruction and research		67,014	—	—	67,014
Athletics		21,537	—	—	21,537
Academic support		17,531	—	—	17,531
Student services		13,669	—	—	13,669
Institutional support		28,504	—	—	28,504
Auxiliary operations		25,029	—	—	25,029
Total operating expenses		173,284	—	—	173,284
(Decrease) increase in net assets from operating activities		(1,359)	893	—	(466)
Nonoperating activities:					
Investment return, less amounts designated for current operations		13,938	53,979	4,434	72,351
Grants and contributions		2,676	18,908	12,926	34,510
Change in value of split interest agreements		—	285	1,920	2,205
Postretirement benefits		(3,309)	—	—	(3,309)
Other		(722)	—	—	(722)
Net assets released from restrictions		6,229	(6,229)	—	—
Changes in donor intent and other reclassifications		(712)	228	484	—
Increase in net assets from nonoperating activities		18,100	67,171	19,764	105,035
Change in net assets		16,741	68,064	19,764	104,569
Net assets:					
Beginning of year		314,337	297,046	340,307	951,690
End of year	$	331,078	365,110	360,071	1,056,259

See accompanying notes to consolidated financial statements.

COLGATE UNIVERSITY

Consolidated Statements of Cash Flows

Years ended June 30, 2015 and 2014

(in thousands of dollars)

		2015	2014
Cash flows from operating activities:			
Change in net assets	$	25,310	104,569
Adjustments to reconcile change in net assets to net cash used in operating activities:			
Depreciation, amortization and accretion		12,896	13,196
Premium on long-term debt issuance		5,579	—
Receipt of contributed securities		(7,367)	(5,288)
Contributions for long-term investment		(21,413)	(22,598)
Realized and unrealized gain on investments		(39,678)	(104,720)
Changes in assets and liabilities that provide (use) cash:			
Accounts receivable		(365)	622
Inventories		(357)	387
Prepaid expenses and other assets		86	(248)
Pledges receivable		6,108	(6,535)
Funds held in trust by others		(6,089)	(23)
Accounts payable and accrued expenses		2,320	2,330
Deposits and deferred revenues		253	(2,067)
Annuities and deferred giving arrangements		1,662	650
Postretirement benefits		763	3,309
Conditional asset retirement obligations		(368)	(103)
Net cash used in operating activities		(20,660)	(16,519)
Cash flows from investing activities:			
Purchases of land, buildings, and equipment, net		(16,424)	(25,072)
Proceeds from student loan collections		531	502
Student loans issued		(286)	(324)
Purchases of investments		(98,641)	(127,005)
Proceeds from sales and maturities of investments		71,810	144,622
Sales of contributed securities		7,367	5,288
Net cash used in investing activities		(35,643)	(1,989)
Cash flows from financing activities:			
Contributions for long-term investment		21,133	22,508
Change in federal student loan funds		33	(1)
Proceeds from issuance of long-term debt		39,985	—
Payments on long-term debt		(3,205)	(2,580)
Bond issuance costs		(776)	(6)
Net cash provided by financing activities		57,170	19,921
Net increase in cash and cash equivalents		867	1,413
Cash and cash equivalents at beginning of year		33,819	32,406
Cash and cash equivalents at end of year	$	34,686	33,819
Supplemental data:			
Noncash investing and financing activities - capital gifts in kind	$	280	90
(Decrease) increase in construction related payables		(633)	1,626
Interest paid		8,609	8,376

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: the 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.

(Continued)

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 (NAV) or its equivalent 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.

Estimates of fair value made using NAV per share or its equivalent as a practical expedient are not required to be categorized in the fair value hierarchy due to the adoption of FASB ASU 2015-07, *Fair Value Measurement: Disclosures for Investments in Certain Entities that Calculate NAV per Share (or its Equivalent)* (ASU 2015-07) as of June 30, 2015. Among other things, ASU 2015-07 removes the requirement to classify within Levels 2 or 3 of the fair value hierarchy investments in certain funds measured at NAV or its equivalent as a practical expedient to estimate fair value.

The adoption of ASU 2015-07 has been retrospectively applied to the University's June 30, 2014 investment footnote disclosures and did not impact the University’s statement of financial position, statement of activities, or statement of cash flows.

(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 or its equivalent, 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 $926 and $949 at June 30, 2015 and 2014, 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 $28,358 and $27,365 at June 30, 2015 and 2014, 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 $479 and $462 in 2015 and 2014, 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.

(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.

(in thousands of dollars)

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:

		2015	2014
Less than one year	$	3,449	4,686
One year to five years		4,848	9,507
More than five years		—	1,000
Subtotal		8,297	15,193
Less discount and allowance		(1,331)	(2,119)
Total pledges receivable, net	$	6,966	13,074

At June 30, 2015 and 2014, the University had outstanding conditional pledges and bequests of approximately $160,622 and $142,778, 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:

		2015		2014	
		Cost	Fair value	Cost	Fair value
Cash equivalents	$	74,935	74,935	57,323	57,323
Equity investments		170,469	295,927	173,174	293,537
Fixed income investments		21,905	22,037	20,714	21,476
Private equity		63,889	92,969	70,001	101,992
Venture capital		20,590	24,650	19,066	25,431
Hedge - long/short equity		96,079	164,846	91,108	154,244
Hedge - absolute return		118,855	172,578	94,307	155,290
Real assets		54,826	72,896	56,737	83,919
Other		942	942	878	878
	$	622,490	921,780	583,308	894,090

Below is a list of University investments in other investment companies (or similar entities) 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, 2015 and 2014. These investments allow redemptions daily with one day notice, semimonthly with three 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, 2015 and 2014. These investments allow redemptions daily with one day notice or monthly with 30 days 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 $209,838, with $25,278 unfunded at June 30, 2015, and approximately $224,042, with $36,601 unfunded at June 30, 2014. The University does not have any redemption rights in these investments and the investments have 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 $60,317, with $20,405 unfunded at June 30, 2015, and approximately $42,817, with $3,498 unfunded at June 30, 2014. 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, 2015 and 2014. These investments have varying redemption rights including monthly with 60 days notice, quarterly with 30–60 days notice, and annually with 45 days notice.

(in thousands of dollars)

(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, 2015 and 2014. These investments allow redemptions monthly with 30 or 90 days notice, semi-annually with 60 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 $139,987, with $47,769 unfunded at June 30, 2015, and approximately $111,796, with $21,945 unfunded at June 30, 2014. 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:

		2015	2014
Interest income and dividends,net	$	8,300	6,459
Realized and unrealized gains, net		39,678	104,720
Total investment return	$	47,978	111,179

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

		2015	2014
Investment return designated for operations:			
Unrestricted	$	11,777	10,840
Temporarily restricted		31,517	27,988
		43,294	38,828
Nonoperating investment return:			
Unrestricted		(1,139)	13,938
Temporarily restricted		5,551	53,979
Permanently restricted		272	4,434
		4,684	72,351
Total investment return	$	47,978	111,179

(in thousands of dollars)

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:

	2015				
	Quoted prices in active markets (Level 1)	**Significant other observable inputs (Level 2)**	**Significant unobservable inputs (Level 3)**	**Investments Measured at Net Asset Value**	**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	45,511	—	—	250,416	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	130,908	1,003	—	789,869	921,780
	$ 189,953	1,003	15,340	789,869	996,165

	2014				
	Quoted prices in active markets (Level 1)	**Significant other observable inputs (Level 2)**	**Significant unobservable inputs (Level 3)**	**Investments Measured at Net Asset Value**	**Total**
Intermediate investments:					
Cash equivalents	$ 20,226	—	—	—	20,226
Funds held in trust by others	—	—	9,251	—	9,251
Long-term investments:					
Cash equivalents	57,323	—	—	—	57,323
Equity investments	49,073	—	—	244,464	293,537
Fixed income investments	10,074	383	—	11,019	21,476
Private equity	—	—	—	101,992	101,992
Venture capital	—	—	—	25,431	25,431
Hedge - long/short equity	—	—	—	154,244	154,244
Hedge - absolute return	—	—	—	155,290	155,290
Real assets	—	—	—	83,919	83,919
Other	48	555	—	275	878
Total long-term investments	116,518	938	—	776,634	894,090
	$ 136,744	938	9,251	776,634	923,567

As a result of the retrospective application of ASU 2015-07 as described in note 2(c), the June 30, 2014 investment information has been restated from prior years to remove the investments measured at NAV or its equivalent from Levels 2 and 3 in the fair value hierarchy.

(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, 2013	$	9,228
Net realized and unrealized gains		23
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

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 $892,549 and $865,882 as of June 30, 2015 and 2014, 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 $39,435 and $35,623 in fiscal 2015 and 2014, respectively. Endowment also provided an additional regularly scheduled draw for unrestricted purposes of $2,371 and $1,782 in fiscal 2015 and 2014, 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 payable and interfund receivable of $2,871 and $7,282 at June 30, 2015 and 2014, respectively.

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

Endowment net asset composition by type of fund as of June 30, 2014	Unrestricted	Temporarily restricted	Permanently restricted	Total
Donor-restricted funds	$ 10,835	323,245	349,330	683,410
Funds functioning as endowment (Quasi)	189,754	—	—	189,754
Total funds at June 30, 2014	$ 200,589	323,245	349,330	873,164

	2015			
	Unrestricted	Temporarily restricted	Permanently restricted	Total
Net assets at beginning of year	$ 200,589	323,245	349,330	873,164
Investment return:				
Investment income	1,491	5,457	—	6,948
Change in fair value, net of fees	8,805	28,351	271	37,427
Total 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

(in thousands of dollars)

		2014			
		Unrestricted	Temporarily restricted	Permanently restricted	Total
Net assets at beginning of year	$	186,557	267,012	321,941	775,510
Investment return:					
Investment income		1,419	5,040	—	6,459
Change in fair value, net of fees		23,042	72,077	4,085	99,204
Total investment return		24,461	77,117	4,085	105,663
New gifts		2,585	5,061	12,590	20,236
Amounts appropriated for expenditure		(8,959)	(26,664)	—	(35,623)
Total other changes and reclassifications		(4,055)	719	10,714	7,378
Net assets at end of year	$	200,589	323,245	349,330	873,164

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:

		2015	2014
Fair value of investments in pooled funds, net	$	888,960	872,520
Total number of units		46,433	45,821
Market value per unit	$	19.15	19.04

Total return on endowment and similar funds, consisting of realized and unrealized gains and losses, dividends and interest income was 5.9% and 14.7% for the years ended June 30, 2015 and 2014, respectively.

(in thousands of dollars)

(6) Land, Buildings and Equipment, Net

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

		2015	2014
Land and improvements	$	36,789	35,908
Buildings		441,681	435,960
Equipment and library books		96,001	94,415
Construction in progress		7,421	—
Total cost		581,892	566,283
Less accumulated depreciation		(225,532)	(213,018)
Total land, buildings and equipment, net	$	356,360	353,265

Depreciation expense for the years ended June 30, 2015 and 2014 was $12,976 and $13,263, respectively. Outstanding commitments for construction contracts amounted to $36,280 and $4,818 at June 30, 2015 and 2014, respectively. There was no capitalized interest for the years ended June 30, 2015 and 2014.

(7) Long-Term Debt, Net

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, 2015 and 2014.

(in thousands of dollars)

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

		2015	2014
New York State Dormitory Authority Issue:			
Series 1996, 6.00%, due July 1, 2021	$	8,875	9,870
Madison County Industrial Development Agency:			
Tax-Exempt Civic Facility Revenue Bonds:			
Series 2005A, 5.00%, due July 1, 2040		43,690	43,690
Madison County Capital Resource Corporation:			
Tax-Exempt Revenue Bonds:			
Series 2010A, 4.85%, due July 1, 2040		32,370	33,280
Series 2012A, 4.66%, due July 1, 2033		25,150	26,450
Series 2013A, 4.73%, due July 1, 2039		42,975	42,975
Series 2015A, 4.90%, due July 1, 2041		39,985	—
Colgate University:			
Taxable Revenue Bonds:			
Series 2013B, 4.11%, due July 1, 2043		25,000	25,000
Total long-term debt – principal		218,045	181,265
Bond premium and issuance costs, net		16,054	11,810
Total long-term debt, net	$	234,099	193,075

During fiscal year 2015, the University adopted FASB ASU No. 2015-03, *Simplifying the Presentation of Debt Issuance Costs* (ASU 2015-03), which requires that debt issuance costs be presented as a deduction from the carrying amount of debt on the statement of financial position. The adoption of ASU 2015-03 did not impact the University's statement of financial position, statement of activities, or statement of cash flows. The provisions of ASU 2015-03 have been retrospectively applied to the June 30, 2014 statement of financial position and related disclosures.

The fair value of the University's long-term debt is estimated based upon the amount of future cash flows, discounted using the University's current borrowing rate for similar debt instruments of comparable maturities. The fair value of long-term debt was approximately $233,035 and $190,244 at June 30, 2015 and 2014, respectively. 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 $5,059 and $10,106 and deposits with bond trustees of $53,857 and $9,818 at June 30, 2015 and 2014, respectively.

During fiscal year 2015, the University entered into an agreement with Madison County Capital Resource Corporation whereby Madison County Capital Resource Corporation issued $39,985 in tax exempt revenue bonds (Series 2015A). The Series 2015A bonds were issued at a premium of $5,579. On July 1, 2015 the University used the proceeds from Series 2015A to retire its Series 2005A bonds.

(Continued)

(in thousands of dollars)

In addition, subsequent to June 30, 2015, 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) on July 8, 2015. Proceeds are planned to be 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, a weighted average coupon rate of 5.0%, and a maturity date of July 1, 2043.

Principal maturities of long-term obligations, exclusive of net premium and including the impacts of the retirement of the Series 2005A bonds and issuances of Series 2015B bonds are as follows:

Year ending June 30:		
2016	$	3,365
2017		3,510
2018		3,695
2019		3,895
2020		4,100
2021–2044		205,460
Total principal payments	$	224,025

(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 $6,823 and $6,492 in 2015 and 2014, respectively.

(in thousands of dollars)

The University also provides health and life insurance benefits for eligible employees upon retirement at the University's early or normal retirement ages. Information with respect to the plan is as follows:

	2015	2014
Change in benefit obligation:		
Benefit obligation at beginning of year	$ 20,779	17,470
Service cost	487	627
Interest cost	740	765
Plan participants' contributions	422	392
Actuarial loss	356	2,788
Benefits paid	(1,242)	(1,263)
Benefit obligation at end of year	21,542	20,779
Change in plan assets:		
Fair value of plan assets at beginning of year	—	—
Employer contribution	820	871
Plan participants' contributions	422	392
Benefits paid	(1,242)	(1,263)
Fair value of plan assets at end of year	—	—
Funded status at June 30	$ 21,542	20,779

	Unamortized prior service cost (credit)	Unamortized net loss (gain)	Amounts recognized in unrestricted net assets
Balance as of June 30, 2013	$ (13,064)	3,751	(9,313)
Amortization	1,180	(181)	999
Actuarial loss	—	2,788	2,788
Total postretirement related charges other than net periodic benefit costs	1,180	2,607	3,787
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)

(Continued)

(in thousands of dollars)

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

		2015	2014
Net periodic benefit cost:			
Service cost	$	487	627
Interest cost		740	765
Amortization of:			
Actuarial net loss		253	181
Prior service cost		(1,180)	(1,180)
Net periodic benefit cost	$	300	393

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:

		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)

		2014	
		One percent point increase	One percent point decrease
Effect on total service and interest cost components	$	299	(232)
Effect on postretirement benefit obligation		3,059	(2,516)

Expected Cash Flows

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

(in thousands of dollars)

Expected benefit payments for the year ended June 30:		
2016	$	868
2017		937
2018		982
2019		1,044
2020		1,080
2021–2025		5,775

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:

	2015	**2014**
Benefit obligations:		
Discount rate	4.26%	4.11%
Net periodic benefit cost:		
Discount rate	4.11	4.49
Healthcare cost trend rates:		
Pre-age 65 health care benefits	7.75	8.00
Post-age 65 health care benefits	6.75	6.75
Prescription drug coverage	8.50	6.75
Rate to which the cost trend rate is to decline	3.86	5.00
Year that rate reaches the ultimate trend rate	2075	2025

Effective July 1, 2012, the University revised its postretirement health benefits. Employees hired by the University after June 30, 2012 are no longer eligible for any University-provided dental or life insurance benefits upon retirement. In addition, 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)

(9) Temporarily and Permanently Restricted Net Assets

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

		2015		2014	
		Temporarily restricted	Permanently restricted	Temporarily restricted	Permanently restricted
Pledges receivable	$	6,966	—	13,074	—
Restricted for facilities		16,451	—	12,276	—
Restricted for operations		5,532	—	4,866	—
Annuities, deferred giving arrangements, and loan funds		17,709	10,352	11,649	10,741
Endowments:					
Financial aid		140,423	172,422	138,530	164,056
Endowed chairs and salaries		82,132	51,881	76,786	51,373
Instruction, facilities, library, and other		105,656	136,744	107,929	133,901
Total net assets	$	374,869	371,399	365,110	360,071

(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 $43,276 and $49,644 at June 30, 2015 and 2014, respectively, all of which were made in accordance with the University's conflict of interest policy.

(11) Natural Classification of Expenses

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

		2015	2014
Salaries and wages	$	78,025	73,428
Payroll taxes and benefits		19,891	20,269
Total compensation		97,916	93,697
General operating expenses		24,711	21,566
Repairs, maintenance, and other contracted services		13,594	14,635
Depreciation expense		12,976	13,263
Travel and entertainment		8,661	8,040
Utilities		5,262	6,006
Cost of goods sold		2,234	2,529
Taxes, contributions, and insurance		3,197	2,932
Auxiliaries and expense		2,159	2,199
Interest and fees		8,640	8,417
Total operating expenses	$	179,350	173,284

(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 6, 2015 and subsequent events have been evaluated through that date.