



COLGATE UNIVERSITY

Consolidated Financial Statements

June 30, 2014 and 2013

(With Independent Auditors' Report Thereon)

COLGATE UNIVERSITY
Consolidated Financial Statements
June 30, 2014 and 2013

Table of Contents

	Page(s)
Independent Auditors' Report	1-2
Consolidated Financial Statements:	
Statements of Financial Position	3
Statements of Activities	4-5
Statements of Cash Flows	6
Notes to Consolidated Financial Statements	7-27



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 statement of financial position as of June 30, 2014, and the related consolidated statements of activities and cash flows for the year 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 audit. We conducted our audit 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 at June 30, 2014, and the changes in its net assets and its cash flows for the year then ended in accordance with U.S. generally accepted accounting principles.



Other Matter

The accompanying consolidated financial statements of Colgate University as of June 30, 2013 and for the year then ended were audited by other auditors whose report thereon, dated October 25, 2013, expressed an unmodified opinion on those financial statements.

KPMG LLP

October 10, 2014

COLGATE UNIVERSITY

Consolidated Statements of Financial Position

June 30, 2014 and 2013

(In thousands of dollars)

Assets	2014	2013
Cash and cash equivalents	\$ 33,819	32,406
Accounts receivable, net	1,484	2,106
Intermediate-term investments	20,226	32,448
Inventories	1,842	2,229
Prepaid expenses and other assets	4,236	4,120
Student loans receivable, net	2,889	3,067
Pledges receivable, net	13,074	6,539
Long-term investments	894,090	794,765
Land, buildings and equipment, net	353,265	339,740
Funds held in trust by others	9,251	9,228
Total assets	<u>\$ 1,334,176</u>	<u>1,226,648</u>
Liabilities and Net Assets		
Accounts payable and accrued expenses	\$ 19,827	15,871
Deposits and deferred revenues	13,739	15,806
Annuities and deferred giving arrangements	14,196	13,546
Postretirement benefits	20,779	17,470
Federal student loan funds	3,424	3,425
Conditional asset retirement obligations	9,602	9,243
Long-term debt, net	196,350	199,597
Total liabilities	<u>277,917</u>	<u>274,958</u>
Net assets:		
Unrestricted	331,078	314,337
Temporarily restricted	365,110	297,046
Permanently restricted	360,071	340,307
Total net assets	<u>1,056,259</u>	<u>951,690</u>
Total liabilities and net assets	<u>\$ 1,334,176</u>	<u>1,226,648</u>

See accompanying notes to consolidated financial statements.

COLGATE UNIVERSITY
Consolidated Statement of Activities
Year ended June 30, 2014
(with summarized information for the year ended June 30, 2013)
(In thousands of dollars)

	2014			Total	2013 Total
	Unrestricted	Temporarily restricted	Permanently restricted		
Operating revenues:					
Tuition and fees	\$ 133,736	—	—	133,736	127,934
Less scholarships	(46,060)	—	—	(46,060)	(43,779)
Net tuition and fees	87,676	—	—	87,676	84,155
Sales and services of auxiliaries	29,216	—	—	29,216	28,834
Government grants and contributions	689	1,516	—	2,205	2,491
Private grants and contributions	6,271	5,128	—	11,399	13,868
Investment return designated for operations	9,059	27,988	—	37,047	34,966
Other	3,494	—	—	3,494	2,700
Net assets released from restrictions	33,739	(33,739)	—	—	—
Total operating revenues	170,144	893	—	171,037	167,014
Operating expenses:					
Instruction and research	67,014	—	—	67,014	63,846
Athletics	21,537	—	—	21,537	20,442
Academic support	17,531	—	—	17,531	16,662
Student services	13,669	—	—	13,669	12,916
Institutional support	28,504	—	—	28,504	27,039
Auxiliary operations	25,029	—	—	25,029	25,003
Total operating expenses	173,284	—	—	173,284	165,908
(Decrease) increase in net assets from operating activities	(3,140)	893	—	(2,247)	1,106
Nonoperating activities:					
Investment return, less amounts designated for current operations	15,719	53,979	4,434	74,132	56,229
Grants and contributions	2,676	18,908	12,926	34,510	19,635
Change in value of split interest agreements	—	285	1,920	2,205	3,793
Postretirement benefits	(3,309)	—	—	(3,309)	3,124
Other	(722)	—	—	(722)	(3,615)
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	19,881	67,171	19,764	106,816	79,166
Net increase in net assets	16,741	68,064	19,764	104,569	80,272
Net assets:					
Beginning of year	314,337	297,046	340,307	951,690	871,418
End of year	\$ 331,078	365,110	360,071	1,056,259	951,690

See accompanying notes to consolidated financial statements.

COLGATE UNIVERSITY

Consolidated Statement of Activities

Year ended June 30, 2013

(In thousands of dollars)

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Operating revenues:				
Tuition and fees	\$ 127,934	—	—	127,934
Less scholarships	(43,779)	—	—	(43,779)
Net tuition and fees	84,155	—	—	84,155
Sales and services of auxiliaries	28,834	—	—	28,834
Government grants and contributions	701	1,790	—	2,491
Private grants and contributions	6,496	7,372	—	13,868
Investment return designated for operations	8,478	26,488	—	34,966
Other	2,700	—	—	2,700
Net assets released from restrictions	35,051	(35,051)	—	—
Total operating revenues	166,415	599	—	167,014
Operating expenses:				
Instruction and research	63,846	—	—	63,846
Athletics	20,442	—	—	20,442
Academic support	16,662	—	—	16,662
Student services	12,916	—	—	12,916
Institutional support	27,039	—	—	27,039
Auxiliary operations	25,003	—	—	25,003
Total operating expenses	165,908	—	—	165,908
Increase in net assets from operating activities	507	599	—	1,106
Nonoperating activities:				
Investment return, less amounts designated for current operations	11,239	40,573	4,417	56,229
Grants and contributions	698	8,422	10,515	19,635
Change in value of split interest agreements	—	937	2,856	3,793
Postretirement benefits	3,124	—	—	3,124
Other	(3,615)	—	—	(3,615)
Net assets released from restrictions	2,781	(2,781)	—	—
Changes in donor intent and other reclassifications	(1,958)	466	1,492	—
Increase in net assets from nonoperating activities	12,269	47,617	19,280	79,166
Net increase in net assets	12,776	48,216	19,280	80,272
Net assets:				
Beginning of year	301,561	248,830	321,027	871,418
End of year	\$ 314,337	297,046	340,307	951,690

See accompanying notes to consolidated financial statements.

COLGATE UNIVERSITY
Consolidated Statements of Cash Flows
Years ended June 30, 2014 and 2013
(In thousands of dollars)

	2014	2013
Cash flows from operating activities:		
Change in net assets	\$ 104,569	80,272
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation, amortization and accretion	13,196	15,188
Debt writeoff, net of accumulated amortization	—	(498)
Premium on long-term debt issuance	—	6,799
Receipt of contributed securities	(5,288)	(3,170)
Contributions for long-term investment	(22,598)	(12,599)
Realized and unrealized gain on investments	(104,720)	(85,447)
Changes in assets and liabilities that provide (use) cash:		
Accounts receivable	622	(880)
Inventories	387	(225)
Prepaid expenses	(248)	1,406
Pledges receivable	(6,535)	(3,841)
Funds held in trust by others	(23)	(1,133)
Accounts payable and accrued expenses	2,330	1,678
Deposits and deferred revenues	(2,067)	(196)
Annuities and deferred giving arrangements	650	(2,643)
Postretirement benefits	3,309	(3,124)
Conditional asset retirement obligations	(103)	(1,218)
Net cash used in operating activities	(16,519)	(9,631)
Cash flows from investing activities:		
Purchases of land, buildings, and equipment	(25,072)	(18,906)
Proceeds from student loan collections	502	527
Student loans issued	(324)	(354)
Purchases of investments	(127,005)	(264,694)
Proceeds from sales and maturities of investments	144,622	257,425
Sales of contributed securities	5,288	3,170
Net cash used in investing activities	(1,989)	(22,832)
Cash flows from financing activities:		
Contributions for long-term investment	22,508	12,462
Change in federal student loan funds	(1)	79
Proceeds from issuance of long-term debt	—	67,975
Payments on long-term debt	(2,580)	(48,262)
Bond issuance costs	(6)	(986)
Net cash provided by financing activities	19,921	31,268
Net increase (decrease) in cash and cash equivalents	1,413	(1,195)
Cash and cash equivalents:		
Beginning of year	32,406	33,601
End of year	\$ 33,819	32,406
Supplemental data:		
Noncash investing and financing activities – capital gifts in kind	\$ 90	137
Increase in construction related payables	1,626	247
Interest paid	8,376	7,395

See accompanying notes to consolidated financial statements.

COLGATE UNIVERSITY

Notes to Consolidated Financial Statements

June 30, 2014 and 2013

(Dollars in thousands)

(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 largest 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.

COLGATE UNIVERSITY

Notes to Consolidated Financial Statements

June 30, 2014 and 2013

(Dollars in thousands)

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.

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

COLGATE UNIVERSITY

Notes to Consolidated Financial Statements

June 30, 2014 and 2013

(Dollars in thousands)

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.

(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 net asset value (NAV) reported by the managers of these funds as a practical expedient to fair value because the alternative investment funds (a) do not have a 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. Alternative investments reported at NAV as a practical expedient to fair value are included in Level 2 (redeemable in the near term) or Level 3 (not redeemable in the near term) under the above described fair value hierarchy.

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 \$949 and \$939 at June 30, 2014 and 2013, 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.

COLGATE UNIVERSITY

Notes to Consolidated Financial Statements

June 30, 2014 and 2013

(Dollars in thousands)

(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 \$27,365 and \$33,116 at June 30, 2014 and 2013, 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 \$462 and \$498 in 2014 and 2013, respectively.

COLGATE UNIVERSITY

Notes to Consolidated Financial Statements

June 30, 2014 and 2013

(Dollars in thousands)

(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 the 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.

COLGATE UNIVERSITY

Notes to Consolidated Financial Statements

June 30, 2014 and 2013

(Dollars in thousands)

(3) Pledges Receivable

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

	2014	2013
Less than one year	\$ 4,686	2,701
One year to five years	9,507	4,880
More than five years	1,000	—
Subtotal	15,193	7,581
Less discount and allowance	(2,119)	(1,042)
Total pledges receivable, net	\$ 13,074	6,539

At June 30, 2014 and 2013, the University had outstanding conditional pledges and bequests of approximately \$142,778 and \$167,513, 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:

	2014		2013	
	Cost	Fair value	Cost	Fair value
Cash equivalents	\$ 57,323	57,323	67,842	67,842
Equity investments	173,174	293,537	163,618	241,287
Fixed income investments	20,714	21,476	33,406	33,903
Private equity	70,001	101,992	70,426	102,083
Venture capital	19,066	25,431	19,100	24,419
Hedge	185,414	309,534	154,458	255,690
Real assets	56,737	83,919	49,323	68,733
Other	879	879	808	808
	\$ 583,308	894,091	558,981	794,765

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. The fair value of these investments at June 30, 2014 and 2013 was \$293,537 and \$241,287, respectively. These investments allow redemptions daily with one

COLGATE UNIVERSITY

Notes to Consolidated Financial Statements

June 30, 2014 and 2013

(Dollars in thousands)

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. The fair value of these investments at June 30, 2014 and 2013 was \$21,476 and \$33,903, respectively. 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 \$224,042 with \$36,601 unfunded at June 30, 2014 and approximately \$210,292 with \$38,931 unfunded at June 30, 2013. The fair value of these investments at June 30, 2014 and 2013 was \$101,992 and \$102,083, respectively. 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 \$42,817 with \$3,498 unfunded at June 30, 2014 and approximately \$40,817 with \$1,247 unfunded at June 30, 2013. The fair value of these investments at June 30, 2014 and 2013 was \$25,431 and \$24,419, respectively. 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. The fair value of these investments at June 30, 2014 and 2013 was \$154,244 and \$116,741, respectively. On July 1, 2013, an additional investment of \$7 million was made to an existing fund. These investments have varying redemption rights including monthly with 60 days notice, quarterly with 30–60 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. Unfunded commitments to these funds were \$0 and \$5,000 at June 30, 2014 and 2013, respectively. The fair value of these

COLGATE UNIVERSITY

Notes to Consolidated Financial Statements

June 30, 2014 and 2013

(Dollars in thousands)

investments at June 30, 2014 and 2013 was \$155,290 and \$138,949, respectively. In July 2013, a full redemption was submitted for an existing fund with a fair value of \$12,129 and \$25,599 as of June 30, 2014 and 2013, respectively. 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 \$111,796 with \$21,945 unfunded at June 30, 2014 and approximately \$104,296 with \$26,852 unfunded at June 30, 2013. The fair value of these investments at June 30, 2014 and 2013 was \$83,919 and \$68,733, respectively. 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:

	2014	2013
Interest income and dividends	\$ 6,459	5,748
Realized and unrealized gains, net	104,720	85,447
Total investment return	\$ 111,179	91,195

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

	2014	2013
Investment return designated for operations:		
Unrestricted	\$ 9,059	8,478
Temporarily restricted	27,988	26,488
	37,047	34,966
Nonoperating investment return:		
Unrestricted	15,719	11,239
Temporarily restricted	53,979	40,573
Permanently restricted	4,434	4,417
	74,132	56,229
Total investment return	\$ 111,179	91,195

COLGATE UNIVERSITY

Notes to Consolidated Financial Statements

June 30, 2014 and 2013

(Dollars in thousands)

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:

	2014			
	Total	Quoted prices in active markets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
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	293,537	49,073	157,154	87,310
Fixed income investments	21,476	10,074	11,402	—
Private equity	101,992	—	—	101,992
Venture capital	25,431	—	—	25,431
Hedge	309,534	—	75,284	234,250
Real assets	83,919	—	—	83,919
Other	878	48	555	275
Total long-term investments	<u>894,090</u>	<u>116,518</u>	<u>244,395</u>	<u>533,177</u>
	<u>\$ 923,567</u>	<u>136,744</u>	<u>244,395</u>	<u>542,428</u>

COLGATE UNIVERSITY

Notes to Consolidated Financial Statements

June 30, 2014 and 2013

(Dollars in thousands)

	2013			
	Total	Quoted prices in active markets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Intermediate investments:				
Cash equivalents	\$ 32,448	32,448	—	—
Funds held in trust by others	9,228	—	—	9,228
Long-term investments:				
Cash equivalents	67,842	67,842	—	—
Equity investments	241,287	49,648	139,030	52,609
Fixed income investments	33,903	22,933	10,970	—
Private equity	102,083	—	—	102,083
Venture capital	24,419	—	—	24,419
Hedge	255,690	—	82,740	172,950
Real assets	68,733	—	—	68,733
Other	808	55	477	276
Total long-term investments	<u>794,765</u>	<u>140,478</u>	<u>233,217</u>	<u>421,070</u>
	\$ <u>836,441</u>	<u>172,926</u>	<u>233,217</u>	<u>430,298</u>

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)						
	Equity	Private equity	Venture capital	Hedge	Real assets	Other	Total
Beginning balance at July 1, 2012 \$	33,921	113,844	23,846	176,140	59,255	246	407,252
Total realized and unrealized gains	7,166	12,705	1,900	20,993	11,721	30	54,515
Purchases	27,000	12,821	894	5,000	10,273	—	55,988
Settlements	(6,250)	(37,287)	(2,221)	(29,183)	(12,516)	—	(87,457)
Transfers in and/or out of Level 3	—	—	—	—	—	—	—
Ending balance at June 30, 2013	<u>61,837</u>	<u>102,083</u>	<u>24,419</u>	<u>172,950</u>	<u>68,733</u>	<u>276</u>	<u>430,298</u>
Total realized and unrealized gains	16,724	15,614	4,154	23,022	15,152	—	74,666
Purchases	18,000	17,500	729	26,413	15,691	—	78,333
Settlements	—	(33,205)	(3,871)	(14,058)	(15,657)	(1)	(66,792)
Transfers in and/or out of Level 3	—	—	—	25,923	—	—	25,923
Ending balance at June 30, 2014 \$	<u>96,561</u>	<u>101,992</u>	<u>25,431</u>	<u>234,250</u>	<u>83,919</u>	<u>275</u>	<u>542,428</u>
Amount of net unrealized gains relating to assets still held at June 30, 2014	\$ 24,777	31,991	6,366	100,546	27,181	—	190,861

COLGATE UNIVERSITY

Notes to Consolidated Financial Statements

June 30, 2014 and 2013

(Dollars in thousands)

Investments included in Level 3 primarily consist of the University's ownership in alternative investments (principally limited partnership interests in hedge, private equity, real estate, and other similar funds). 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 \$865,882 and \$760,825 as of June 30, 2014 and 2013, 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

COLGATE UNIVERSITY

Notes to Consolidated Financial Statements

June 30, 2014 and 2013

(Dollars in thousands)

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 \$35,623 and \$33,667 in fiscal 2014 and 2013, respectively.

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 interfund receivables of \$7,281 and \$14,685 at June 30, 2014 and 2013, respectively.

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)	<u>189,754</u>	<u>—</u>	<u>—</u>	<u>189,754</u>
Total funds at June 30, 2014	<u>\$ 200,589</u>	<u>323,245</u>	<u>349,330</u>	<u>873,164</u>

COLGATE UNIVERSITY

Notes to Consolidated Financial Statements

June 30, 2014 and 2013

(Dollars in thousands)

Endowment net asset composition by type of fund as of June 30, 2013	Unrestricted	Temporarily restricted	Permanently restricted	Total
Donor-restricted funds	\$ 10,452	267,012	321,941	599,405
Funds functioning as endowment (Quasi)	<u>176,105</u>	<u>—</u>	<u>—</u>	<u>176,105</u>
Total funds at June 30, 2013	\$ <u>186,557</u>	<u>267,012</u>	<u>321,941</u>	<u>775,510</u>
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	<u>23,042</u>	<u>72,077</u>	<u>4,085</u>	<u>99,204</u>
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	<u>(4,055)</u>	<u>719</u>	<u>10,714</u>	<u>7,378</u>
Net assets at end of year	\$ <u>200,589</u>	<u>323,245</u>	<u>349,330</u>	<u>873,164</u>

COLGATE UNIVERSITY

Notes to Consolidated Financial Statements

June 30, 2014 and 2013

(Dollars in thousands)

	2013			
	Unrestricted	Temporarily restricted	Permanently restricted	Total
Net assets at beginning of year	\$ 165,349	228,409	305,651	699,409
Investment return:				
Investment income	1,243	4,505		5,748
Change in fair value, net of fees	18,881	58,445	3,185	80,511
Total investment return	20,124	62,950	3,185	86,259
New gifts	520	436	10,515	11,471
Amounts appropriated for expenditure	(8,274)	(25,393)	—	(33,667)
Total other changes and reclassifications	8,838	610	2,590	12,038
Net assets at end of year	\$ 186,557	267,012	321,941	775,510

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:

	2014	2013
Fair value of investments in pooled funds, net	\$ 872,520	774,877
Total number of units	45,821	44,294
Market value per unit	\$ 19.04	17.49

Total return on endowment and similar funds, consisting of realized and unrealized gains and losses, dividends and interest income was 14.7% and 13.7% for the years ended June 30, 2014 and 2013, respectively.

COLGATE UNIVERSITY

Notes to Consolidated Financial Statements

June 30, 2014 and 2013

(Dollars in thousands)

(6) Land, Buildings and Equipment, Net

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

	<u>2014</u>	<u>2013</u>
Land and improvements	\$ 35,908	28,873
Buildings	435,960	418,868
Equipment and library books	<u>94,415</u>	<u>92,348</u>
Total cost	566,283	540,089
Less accumulated depreciation	<u>(213,018)</u>	<u>(200,349)</u>
Total land, buildings and equipment, net	<u>\$ 353,265</u>	<u>339,740</u>

Depreciation expense for the years ended June 30, 2014 and 2013 was \$13,263 and \$15,051, respectively. Outstanding commitments for construction contracts amounted to \$4,818 and \$7,601 at June 30, 2014 and 2013, respectively. There was no capitalized interest for the years ended June 30, 2014 and 2013.

(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, 2014 and 2013.

COLGATE UNIVERSITY

Notes to Consolidated Financial Statements

June 30, 2014 and 2013

(Dollars in thousands)

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

	2014	2013
New York State Dormitory Authority Issue:		
Series 1996, 6.00%, due July 1, 2021	\$ 9,870	10,810
Madison County Industrial Development Agency:		
Tax-Exempt Civic Facility Revenue Bonds:		
Series 2003A, 4.00%, paid July 1, 2014	—	740
Series 2003B, 4.25%, paid July 1, 2014	—	530
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	33,280	33,650
Series 2012A, 4.66%, due July 1, 2033	26,450	26,450
Series 2013A, 4.73%, due July 1, 2039	42,975	42,975
Colgate University:		
Taxable Revenue Bonds:		
Series 2013B, 4.11%, due July 1, 2043	25,000	25,000
Total long-term debt – principal	181,265	183,845
Bond premium, net	15,085	15,752
Total long-term debt, net	\$ 196,350	199,597

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

2015	\$ 3,205
2016	3,365
2017	3,510
2018	3,695
2019	3,895
2020–2044	163,595
Total principal payments	\$ 181,265

During fiscal year 2013, the University entered into an agreement with Madison County Capital Resource Corporation whereby Madison County Capital Resource Corporation issued \$42,975 in tax-exempt revenue bonds (Series 2013A). Proceeds were used to advance refund its Series 2004A bonds. The agreement is a general secured obligation of the University. The Series 2013A bonds were issued at a premium of \$6,799.

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

COLGATE UNIVERSITY

Notes to Consolidated Financial Statements

June 30, 2014 and 2013

(Dollars in thousands)

maturities. The fair value of long-term debt was approximately \$190,200 and \$194,500 at June 30, 2014 and 2013, 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 \$10,106 and \$23,549 and deposits with bond trustees of \$9,818 and \$8,872 at June 30, 2014 and 2013, respectively.

(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 \$6,492 and \$6,199 in 2014 and 2013, respectively.

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:

	2014	2013
Change in benefit obligation:		
Benefit obligation at beginning of year	\$ 17,470	20,594
Service cost	627	676
Interest cost	765	666
Plan participants' contributions	392	378
Actuarial loss (gain)	2,788	(3,630)
Benefits paid	(1,263)	(1,214)
Benefit obligation at end of year	20,779	17,470
Change in plan assets:		
Fair value of plan assets at beginning of year	—	—
Employer contribution	871	836
Plan participants' contributions	392	378
Benefits paid	(1,263)	(1,214)
Fair value of plan assets at end of year	—	—
Funded status at June 30	\$ 20,779	17,470

COLGATE UNIVERSITY

Notes to Consolidated Financial Statements

June 30, 2014 and 2013

(Dollars in thousands)

	<u>Unamortized prior service cost (credit)</u>	<u>Unamortized net loss (gain)</u>	<u>Amounts recognized in unrestricted net assets</u>
Balance as of July 1, 2012	\$ (14,244)	7,693	(6,551)
Amortization	1,180	(312)	868
Actuarial gain	<u>—</u>	<u>(3,630)</u>	<u>(3,630)</u>
Total postretirement related charges other than net periodic benefit costs	<u>1,180</u>	<u>(3,942)</u>	<u>(2,762)</u>
Balance as of June 30, 2013	(13,064)	3,751	(9,313)
Amortization	1,180	(181)	999
Actuarial loss	<u>—</u>	<u>2,788</u>	<u>2,788</u>
Total postretirement related charges other than net periodic benefit costs	<u>1,180</u>	<u>2,607</u>	<u>3,787</u>
Balance as of June 30, 2014	\$ <u><u>(11,884)</u></u>	<u><u>6,358</u></u>	<u><u>(5,526)</u></u>

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

	<u>2014</u>	<u>2013</u>
Net periodic benefit cost:		
Service cost	\$ 627	676
Interest cost	765	666
Amortization of:		
Actuarial net loss	181	312
Prior service cost	<u>(1,180)</u>	<u>(1,180)</u>
Net periodic benefit cost	\$ <u><u>393</u></u>	<u><u>474</u></u>

The prior service credit and actuarial loss for the postretirement health care benefit plan that will be amortized from unrestricted net assets into net periodic benefit costs are \$1,180 and \$181, respectively.

COLGATE UNIVERSITY

Notes to Consolidated Financial Statements

June 30, 2014 and 2013

(Dollars in thousands)

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:

	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)

	2013	
	One percent point increase	One percent point decrease
Effect on total service and interest cost components	\$ 289	(224)
Effect on postretirement benefit obligation	2,572	(2,115)

Expected Cash Flows

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

Expected benefit payments:	
2015	\$ 905
2016	933
2017	978
2018	1,031
2019	1,098
2020–2024	5,603

COLGATE UNIVERSITY

Notes to Consolidated Financial Statements

June 30, 2014 and 2013

(Dollars in thousands)

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>2014</u>	<u>2013</u>
Benefit obligations:		
Discount rate	4.11%	4.49%
Net periodic benefit cost:		
Discount rate	4.49	3.72
Healthcare cost trend rates:		
Pre-age 65 health care benefits	8.00	8.50
Post-age 65 health care benefits	6.75	7.00
Prescription drug coverage	6.75	7.00
Rate to which the cost trend rate is to decline	5.00	5.00
Year that rate reaches the ultimate trend rate	2025	2022

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. 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.

(9) Temporarily and Permanently Restricted Net Assets

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

	<u>2014</u>		<u>2013</u>	
	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>
Pledges receivable	\$ 13,074	—	6,539	—
Restricted for facilities	12,276	—	7,116	—
Restricted for operations	4,866	—	5,953	—
Annuities, deferred giving arrangements, and loan funds	11,649	10,741	10,426	18,366
Endowments:				
Financial aid	138,530	164,056	114,087	155,172
Endowed chairs and salaries	76,786	51,373	65,927	48,493
Instruction, facilities, library, and other	107,929	133,901	86,998	118,276
Total net assets	<u>\$ 365,110</u>	<u>360,071</u>	<u>297,046</u>	<u>340,307</u>

COLGATE UNIVERSITY

Notes to Consolidated Financial Statements

June 30, 2014 and 2013

(Dollars in thousands)

(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 \$49,644 and \$53,395 at June 30, 2014 and 2013, 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:

	<u>2014</u>	<u>2013</u>
Salaries and wages	\$ 73,428	71,554
Payroll taxes and benefits	20,269	18,935
Total compensation	93,697	90,489
General operating expenses	21,566	19,418
Repairs, maintenance, and other contracted services	14,635	13,170
Depreciation expense	13,263	15,051
Travel and entertainment	8,040	8,028
Utilities	6,006	4,676
Cost of goods sold	2,529	2,679
Taxes, contributions, and insurance	2,932	2,746
Auxiliaries expense	2,199	2,222
Interest and fees	8,417	7,429
Total operating expenses	\$ <u>173,284</u>	<u>165,908</u>

(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 10, 2014 and subsequent events have been evaluated through that date.