COLGATE UNIVERSITY

Consolidated Financial Statements

June 30, 2019 and 2018

(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, 2019 and 2018, and the related consolidated statements of activities and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Colgate University as of June 30, 2019 and 2018, 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.

Emphasis of Matter

As discussed in Note 2(o) to the financial statements, during the year ended June 30, 2019, the University adopted Financial Accounting Standards Board Accounting Standards Update No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements for Not-for-Profit Entities*. Our opinion is not modified with respect to this matter.

KPMG LLP

October 7, 2019

COLGATE UNIVERSITY

Consolidated Statements of Financial Position

June 30, 2019 and 2018

(In thousands of dollars)

Assets		**2019**	**2018**
Cash and cash equivalents	$	23,341	30,439
Accounts receivable, net		3,671	1,949
Intermediate-term investments		115,926	118,659
Inventories		1,884	1,603
Prepaid expenses and other assets		1,935	1,463
Pledges receivable, net		31,151	937
Student loans receivable, net		1,061	1,466
Long-term investments		966,927	954,233
Land, buildings and equipment, net		457,450	441,378
Funds held in trust by others		14,447	14,622
Total assets	$	1,617,793	1,566,749
Liabilities and Net Assets			
Accounts payable and accrued expenses	$	20,209	21,215
Deposits and deferred revenues		12,817	13,036
Annuities and deferred giving arrangements		17,028	16,503
Postretirement benefits		21,494	18,181
Federal student loan funds		858	821
Conditional asset retirement obligations		10,635	10,209
Long-term debt, net		332,975	337,698
Total liabilities		416,016	417,663
Net assets:			
Without donor restrictions		391,732	373,483
With donor restrictions		810,045	775,603
Total net assets		1,201,777	1,149,086
Total liabilities and net assets	$	1,617,793	1,566,749

See accompanying notes to consolidated financial statements.

COLGATE UNIVERSITY

Consolidated Statement of Activities

Year ended June 30, 2019
(with summarized information for the year ended June 30, 2018)

(In thousands of dollars)

		2019			
		Without donor restrictions	With donor restrictions	Total	2018 Total
Operating revenues:					
Tuition and fees, net of financial aid of $58,433	$	111,339	—	111,339	103,914
Room and dining income, net of financial aid of $4,469		25,795	—	25,795	23,589
Student revenue		137,134	—	137,134	127,503
Sales and services of auxiliaries		10,555	—	10,555	6,020
Government grants and contributions		629	1,305	1,934	2,703
Private grants and contributions		8,100	5,956	14,056	14,149
Investment return designated for operations		18,905	38,689	57,594	55,290
Other		4,636	—	4,636	4,079
Nonoperating assets used in operations		212	—	212	—
Net assets released from restrictions		45,841	(45,841)	—	—
Total operating revenues		226,012	109	226,121	209,744
Operating expenses:					
Instruction and research		81,887	—	81,887	78,275
Athletics		28,803	—	28,803	27,956
Academic support		19,568	—	19,568	19,788
Student services		18,645	—	18,645	16,868
Institutional support		36,323	—	36,323	33,708
Auxiliary operations		34,002	—	34,002	28,956
Total operating expenses		219,228	—	219,228	205,551
Increase in net assets from operating activities		6,784	109	6,893	4,193
Nonoperating activities:					
Investment return, less amounts designated for current operations		(5,117)	(733)	(5,850)	27,717
Grants and contributions		2,636	51,712	54,348	14,117
Change in value of split interest agreements		—	1,114	1,114	1,635
Postretirement benefits		(3,313)	—	(3,313)	1,398
Other		(289)	—	(289)	(996)
Net assets released from restrictions		17,357	(17,357)	—	—
Nonoperating assets used in operations		(212)	—	(212)	—
Changes in donor intent and other reclassifications		403	(403)	—	—
Increase in net assets from nonoperating activities		11,465	34,333	45,798	43,871
Change in net assets		18,249	34,442	52,691	48,064
Net assets:					
Beginning of year		373,483	775,603	1,149,086	1,101,022
End of year	$	391,732	810,045	1,201,777	1,149,086

See accompanying notes to consolidated financial statements.

COLGATE UNIVERSITY

Consolidated Statement of Activities

Year ended June 30, 2018

(In thousands of dollars)

		Without donor restrictions	With donor restrictions	Total
Operating revenues:				
Tuition and fees, net of financial aid of $56,129	$	103,914	—	103,914
Room and dining income, net of financial aid of $4,455		23,589	—	23,589
Student revenue		127,503	—	127,503
Sales and services of auxiliaries		6,020	—	6,020
Government grants and contributions		662	2,041	2,703
Private grants and contributions		7,843	6,306	14,149
Investment return designated for operations		17,922	37,368	55,290
Other		4,079	—	4,079
Net assets released from restrictions		45,046	(45,046)	—
Total operating revenues		209,075	669	209,744
Operating expenses:				
Instruction and research		78,275	—	78,275
Athletics		27,956	—	27,956
Academic support		19,788	—	19,788
Student services		16,868	—	16,868
Institutional support		33,708	—	33,708
Auxiliary operations		28,956	—	28,956
Total operating expenses		205,551	—	205,551
Increase in net assets from operating activities		3,524	669	4,193
Nonoperating activities:				
Investment return, less amounts designated for current operations		1,218	26,499	27,717
Grants and contributions		1,098	13,019	14,117
Change in value of split interest agreements		—	1,635	1,635
Postretirement benefits		1,398	—	1,398
Other		(996)	—	(996)
Net assets released from restrictions		3,803	(3,803)	—
Changes in donor intent and other 'reclassifications		900	(900)	—
Increase in net assets from nonoperating activities		7,421	36,450	43,871
Change in net assets		10,945	37,119	48,064
Net assets:				
Beginning of year, as restated		362,538	738,484	1,101,022
End of year, as restated	$	373,483	775,603	1,149,086

See accompanying notes to consolidated financial statements.

COLGATE UNIVERSITY

Consolidated Statements of Cash Flows

Years ended June 30, 2019 and 2018

(In thousands of dollars)

		2019	2018
Cash flows from operating activities:			
Change in net assets	$	52,691	48,064
Adjustments to reconcile change in net assets to net cash used in operating activities:			
Depreciation, amortization and accretion		14,416	14,299
Receipt of contributed securities		(5,892)	(10,252)
Contributions for long-term investment		(18,326)	(9,497)
Realized and unrealized gain on investments		(42,217)	(74,993)
Changes in assets and liabilities that provide (use) cash:			
Accounts receivable, net		(1,722)	(436)
Inventories		(281)	(314)
Prepaid expenses and other assets		(472)	(99)
Pledges receivable, net		(30,214)	3,047
Funds held in trust by others		175	(243)
Accounts payable and accrued expenses		2,012	(330)
Deposits and deferred revenues		(219)	(488)
Annuities and deferred giving arrangements		525	666
Postretirement benefits		3,313	(1,398)
Conditional asset retirement obligations		(84)	(365)
Net cash used in operating activities		(26,295)	(32,339)
Cash flows from investing activities:			
Purchases of land, buildings, and equipment, net		(33,824)	(45,242)
Proceeds from student loan collections		405	424
Purchases of investments		(176,402)	(177,553)
Proceeds from sales and maturities of investments		208,658	241,305
Sales of contributed securities		5,892	10,252
Net cash provided by investing activities		4,729	29,186
Cash flows from financing activities:			
Contributions for long-term investment		18,326	8,652
Change in federal student loan funds		37	(1,179)
Payments on long-term debt		(3,895)	(3,695)
Net cash provided by financing activities		14,468	3,778
Net (decrease) increase in cash and cash equivalents		(7,098)	625
Cash and cash equivalents at beginning of year		30,439	29,814
Cash and cash equivalents at end of year	$	23,341	30,439
Supplemental data:			
Noncash investing and financing activities:			
Capital gifts in kind	$	100	845
Decrease in construction related payables		(3,018)	(1,360)
Interest paid		12,750	12,579

See accompanying notes to consolidated financial statements.

(1) Organization

Colgate University (the University) obtained its charter of incorporation in 1819 after being founded in 1817 by Baptist ministers in the central New York State Village of Hamilton. It was originally called the Baptist Education Society of the State of New York. Today, the University is a highly selective, independent, coeducational, residential, liberal arts institution set on a beautiful campus of more than 575 acres. It operates as an educational institution in accordance with the New York State Not-for-Profit Corporation Law under the direction of an independent Board of Trustees. With approximately 3,000 undergraduates from all regions of the United States and over nearly 80 countries worldwide, the University is recognized as one of the leading national liberal arts colleges. Students enjoy small class sizes taught by a superb faculty and take advantage of the University's award winning curriculum, off-campus programs and numerous undergraduate research opportunities.

(2) Summary of Significant Accounting Policies

(a) Basis of Presentation

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

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

- *With donor restrictions* – 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 and those required to 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.
- *Without donor restrictions* – Net assets that are not subject to donor-imposed stipulations. Net assets without donor restrictions 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 net assets without donor restrictions.

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 donor restricted revenues and are reclassified to net assets without donor restrictions 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 are reported as donor restricted revenues. These contributions are reclassified to net assets without donor restrictions when the asset is placed in service. Contributions received that will be used for facilities and equipment are included in nonoperating activities and released to operating to match depreciation over the life of the asset.

(b) Cash and Cash Equivalents

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

(c) Fair Value

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

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

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

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

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

(d) Investments

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

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

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

(e) Inventories

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

(f) Student Loans Receivable

Student loans receivable are reported net of reserves for doubtful loans of $1,164 and $1,118 at June 30, 2019 and 2018, 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.

(In thousands of dollars)

(g) Land, Buildings and Equipment

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

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

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

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

(h) Funds Held in Trust by Others

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

(i) Annuities and Deferred Giving Arrangements

Planned gifts are separately invested in accordance with trust instruments that provide for income distributions to beneficiaries and final distributions of the remainder value to the University. When the University serves as trustee, or has the power to appoint the trustee, the trust assets are included in long-term investments. The expected payments to beneficiaries are recorded as a liability on the statements of financial position at their net present value. The fair value of planned giving investments was $31,659 and $29,706 at June 30, 2019 and 2018, 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 $510 and $503 in 2019 and 2018, respectively.

(k) Revenue Recognition

Tuition and fees revenue is recognized over the academic term to which it relates. Room and dining income is also recognized over the academic term with the exception of student debit card balances which are included in deferred revenue until utilized as goods or services are provided to the students. These amounts are reflected on the statement of activities, net of any student aid, and recognized as services are provided. To the extent such aid exceeds a student's tuition and fees, it is applied against room and dining charges. Payments received in advance of services to be rendered are reported within deposits and deferred revenues. Deferred revenues of approximately $8,479 and $8,514 at June 30, 2019 and 2018, respectively, generally represent prepayments of tuition and other student revenue amounts and are recognized in revenue as the services are provided to the students. Revenue from other exchange transactions, including from athletics and certain retail operations, is recognized when goods or services are provided to customers.

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.

(Continued)

(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.

(o) *Recent Accounting Pronouncements*

In August 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-14, *Presentation of Financial Statements for Not-for-Profit Entities (ASU 2016-14)*. The primary changes include simplifying and enhancing the presentation of net assets, requiring operating expenses to be reported by both natural and functional classifications, and expanding disclosures regarding liquidity and availability of resources. ASU 2016-14 has been adopted during 2019 with retrospective application to the prior period. A summary of the net asset reclassifications resulting from the adoption of ASU 2016-14 is below:

	ASU 2016-14 Classification		
	Without donor restrictions	With donor restrictions	Total net assets
2018 beginning assets, as previously presented:			
Unrestricted	$ 367,149	—	367,149
Temporarily restricted	—	346,687	346,687
Permanently restricted	—	387,186	387,186
	367,149	733,873	1,101,022
Reclassifications to implement ASU 2016-14:			
Capital gifts released prior to being placed in service	(4,611)	4,611	—
2018 beginning net assets, as restated	362,538	738,484	1,101,022
2018 fiscal year activity:	18,552	29,512	48,064
Reclassifications to implement ASU 2016-14:			
Capital gifts released prior to being placed in service	(7,607)	7,607	—
2018 ending net assets, as restated	$ 373,483	775,603	1,149,086

ASU 2014-09, *Revenue from Contracts with Customers*, was issued by the FASB in May 2014 and is intended to improve the financial reporting requirements for revenue from contracts with customers. ASU 2014-09 establishes a five-step model and application guidance for determining the timing and amount of revenue recognition. The related application guidance in the ASU replaces most existing revenue recognition guidance in GAAP. The ASU became effective for the University for the year ended June 30, 2019. The University's retrospective adoption of the ASU did not materially change the timing or amount of revenue recognized by the University. However, the ASU requires that tuition, fees and auxiliary student revenues be presented in the consolidated statement of activities at the transaction price, i.e., net of any student aid. Previously, such revenues were presented gross, i.e., at published rates, followed by a reduction for student aid. Accordingly, the University's 2018 consolidated statement of activities has been revised to conform to the 2019 presentation.

(Continued)

(In thousands of dollars)

ASU 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*, was issued by the FASB in June 2018. ASU 2018-18 is intended to assist entities in (1) evaluating whether transactions should be accounted for as contributions (nonexchange transactions) within the scope of Topic 958, *Not-for-Profit Entities*, or as exchange transactions subject to other guidance and (2) determining whether a contribution is conditional. The ASU clarifies that a contribution is conditional if the agreement includes one or more barriers that must be overcome for the recipient to be entitled to the assets transferred and a right of return for the transferred assets or a right of release of the promisor's obligation to transfer assets. The ASU became effective for the University for the year ended June 30, 2019. The University's adoption of the ASU on a modified prospective basis did not have a material effect on its consolidated financial statements.

(3) Financial Assets and Liquidity Resources

As of June 30, 2019 and 2018, financial assets and liquidity resources available within one year for general expenditures, including operating expenses, scheduled principal payments on debt, and capital construction expenditures not financed with debt, include the below:

		2019	2018
Financial assets:			
Cash and cash equivalents	$	23,341	30,439
Accounts receivable, net		3,671	1,949
Intermediate-term investments		115,926	118,659
Long-term investments not subject to donor restrictions		5,892	6,697
Board-approved endowment spending distribution		51,681	51,757
Total financial assets available within one year	$	200,511	209,501

The University's working capital and cash flows have seasonal variations due to the timing of tuition billing as well as a concentration of contributions received at calendar and fiscal year end. To manage liquidity, the University operates with a balanced budget on a cash flow basis in accordance with policies approved by the Board of Trustees. In addition to the liquidity resources stated in the above table, the University also has a revolving line of credit of $15,000 for working capital needs. The University did not draw upon this line of credit during the years ended June 30, 2019 and 2018.

Additionally, as of June 30, 2019, the University has $194,347 in quasi endowment which can be made available for general expenditure with approval from the Board, subject to investment liquidity provisions. The University also anticipates collection of $5,718 of amounts currently included in pledges receivable within the next year, which are restricted by the donors for construction projects and endowment.

(Continued)

(In thousands of dollars)

(4) Pledges Receivable

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

		2019	2018
Less than one year	$	5,718	990
One year to five years		18,335	—
More than five years		14,700	—
Subtotal		38,753	990
Less present value discount (3.4% to 4.6%) and allowance		(7,602)	(53)
Total pledges receivable, net	$	31,151	937

At June 30, 2019 and 2018, the University had outstanding conditional pledges and bequests of approximately $149,760 and $149,866, respectively, which due to their conditional nature, are not recorded by the University.

(5) Long-Term Investments and Fair Value Measurements

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

		2019		2018	
		Cost	Fair value	Cost	Fair value
Cash equivalents	$	37,144	37,144	39,952	39,952
Equities		176,946	309,146	168,995	314,575
Fixed income		111,676	112,418	110,866	110,238
Private equity		84,350	90,320	73,541	83,417
Venture capital		51,374	63,736	39,161	43,489
Hedge – long/short equity		86,871	120,980	75,772	112,621
Hedge – absolute return		90,165	159,695	113,026	165,793
Real assets		75,939	72,714	72,021	83,412
Other		774	774	736	736
Total long-term investments	$	715,239	966,927	694,070	954,233

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

(a) Equities

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

June 30, 2019 and 2018. These investments allow redemptions semi-monthly with seven days notice, monthly with ten days notice or quarterly with 30–90 days notice.

(b) Fixed Income

This category includes funds that invest in core fixed income positions. These investments, combined with cash and cash equivalents, are meant to provide liquidity to the University. There were no unfunded commitments for these investments as of June 30, 2019 and 2018. These investments allow redemptions daily.

(c) Private Equity

This category includes investments in private equity buyout and distressed credit opportunity funds that invest primarily in companies domiciled in the United States. Total commitments for these investments were approximately $266,716, with $87,821 unfunded at June 30, 2019, and approximately $299,804, with $92,737 unfunded at June 30, 2018. The University does not have any redemption rights in these investments and the investments have estimated remaining lives between one and fifteen years.

(d) Venture Capital

This category includes investments in venture capital funds that invest primarily in companies domiciled in the United States. Total commitments for these investments were approximately $90,817, with $23,473 unfunded at June 30, 2019, and approximately $71,817, with $21,447 unfunded at June 30, 2018. The University does not have any redemption rights in these investments and the investments have estimated remaining lives between one and fifteen years.

(e) Hedge – Long/Short Equity

This category includes funds that invest traditional equities but compliment the holdings with short positions in securities they believe are overvalued. The short portfolio acts as a hedge during market declines but may also serve as an additional source of investment return. Managers of these funds have the ability to shift between growth and value stocks across all capitalizations. There were no unfunded commitments for these investments as of June 30, 2019 and 2018. These investments have varying redemption rights including monthly with 60 days notice, quarterly with 45–60 days notice, and annually with 45 days notice.

(f) Hedge – Absolute Return

This category includes single and multi-strategy hedged investments such as merger and risk arbitrage, distressed securities, asset-backed securities, and other credit and volatility investments. These strategies are designed to provide equity-like returns regardless of the economic environment with limited correlation to the traditional equity and fixed income markets. There were no unfunded commitments for these investments as of June 30, 2019 and 2018. These investments allow redemptions monthly with 30 days notice, semi-annually with 60 days notice, quarterly with 90 days notice or annually with 45 or 90 days notice.

(In thousands of dollars)

(g) Real Assets

This category includes global investments in residential and commercial real estate and interests in natural resources. Total commitments for these investments were approximately $172,146, with $52,120 unfunded at June 30, 2019, and approximately $157,828, with $40,789 unfunded at June 30, 2018. The University does not have any redemption rights in these investments and the investments have estimated remaining lives between one and fifteen years.

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

		2019	2018
Interest income and dividends, net	$	9,527	8,014
Realized and unrealized gains, net		42,217	74,993
Total investment return	$	51,744	83,007

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

		2019	2018
Investment return designated for operations:			
Without donor restrictions	$	18,905	17,922
With donor restrictions		38,689	37,368
		57,594	55,290
Nonoperating investment return:			
Without donor restrictions		(5,117)	1,218
With donor restrictions		(733)	26,499
		(5,850)	27,717
Total investment return	$	51,744	83,007

(In thousands of dollars)

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

	2019				
	Quoted prices in active markets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Investments measured at NAV	Total
Intermediate investments:					
Cash equivalents	$ 115,926	—	—	—	115,926
Funds held in trust by others	—	—	14,447	—	14,447
Long-term investments:					
Cash equivalents	37,144	—	—	—	37,144
Equities	205,880	—	—	103,266	309,146
Fixed income	111,975	443	—	—	112,418
Private equity	—	—	—	90,320	90,320
Venture capital	—	—	—	63,736	63,736
Hedge – long/short equity	—	—	—	120,980	120,980
Hedge – absolute return	—	—	—	159,695	159,695
Real assets	—	—	—	72,714	72,714
Other	4	770	—	—	774
Total long-term investments	355,003	1,213	—	610,711	966,927
	$ 470,929	1,213	14,447	610,711	1,097,300

COLGATE UNIVERSITY

Notes to Consolidated Financial Statements

June 30, 2019 and 2018

(In thousands of dollars)

	2018				
	Quoted prices in active markets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Investments measured at NAV	Total
Intermediate investments:					
Cash equivalents	$ 118,659	—	—	—	118,659
Funds held in trust by others	—	—	14,622	—	14,622
Long-term investments:					
Cash equivalents	39,952	—	—	—	39,952
Equities	184,441	—	—	130,134	314,575
Fixed income	109,832	406	—	—	110,238
Private equity	—	—	—	83,417	83,417
Venture capital	—	—	—	43,489	43,489
Hedge – long/short equity	—	—	—	112,621	112,621
Hedge – absolute return	—	—	—	165,793	165,793
Real assets	—	—	—	83,412	83,412
Other	16	720	—	—	736
Total long-term investments	334,241	1,126	—	618,866	954,233
	$ 452,900	1,126	14,622	618,866	1,087,514

There were no changes in methodologies used at June 30, 2019 and 2018 and there were no transfers among levels during the years ended June 30, 2019 and 2018.

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

	Level 3
Balance at June 30, 2017	$ 14,379
Net realized and unrealized gains	243
Balance at June 30, 2018	14,622
Net realized and unrealized gains	51
Settlements	(226)
Balance at June 30, 2019	$ 14,447

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.

(6) 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 $934,426 and $923,604 as of June 30, 2019 and 2018, 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 net assets with restrictions 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 net assets with restrictions 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 net assets with restrictions are classified as net assets without restrictions.

(In thousands of dollars)

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

Unless otherwise directed in the gift instrument or required by applicable law, annual spending will normally increase 4.5% over the prior year's spending, provided that the amount so determined is not greater than 5.5% of the average fair value for the preceding four quarters, or less than 4.5% of the average fair value for the preceding eight quarters. The endowment provided support for general operations of $48,189 and $46,594 in fiscal 2019 and 2018, respectively. The endowment also provided an additional regularly scheduled draw for unrestricted purposes of $5,462 and $5,888 in fiscal 2019 and 2018, respectively.

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

The following tables provide (1) the net asset composition of the endowment as of June 30 and (2) a rollforward of the net assets from July 1 to June 30. The net assets of the endowment include an interfund receivable of $14,804 and $10,990 at June 30, 2019 and 2018, respectively.

Endowment net asset composition by type of fund as of June 30, 2019		**Without restrictions**	**With restrictions**	**Total**
Donor-restricted funds	$	—	741,613	741,613
Funds functioning as endowment (Quasi)		207,617	—	207,617
Total funds at June 30, 2019	$	207,617	741,613	949,230

(In thousands of dollars)

Endowment net asset composition by type of fund as of June 30, 2018		Without restrictions	With restrictions	Total
Donor-restricted funds	$	—	727,923	727,923
Funds functioning as endowment (Quasi)		206,671	—	206,671
Total funds at June 30, 2018	$	206,671	727,923	934,594

		2019		
		Without restrictions	With restrictions	Total
Net assets at beginning of year	$	206,671	727,923	934,594
Investment return		8,575	35,537	44,112
New gifts		2,540	14,072	16,612
Amounts appropriated for expenditure		(9,511)	(38,678)	(48,189)
Total other changes and reclassifications		(658)	2,759	2,101
Net assets at end of year	$	207,617	741,613	949,230

		2018		
		Without restrictions	With restrictions	Total
Net assets at beginning of year	$	194,491	688,860	883,351
Investment return		15,841	61,988	77,829
New gifts		247	11,509	11,756
Amounts appropriated for expenditure		(9,249)	(37,345)	(46,594)
Total other changes and reclassifications		5,341	2,911	8,252
Net assets at end of year	$	206,671	727,923	934,594

(Continued)

(In thousands of dollars)

Pooled Funds

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

		2019	2018
Fair value of investments in pooled funds, net	$	948,789	934,188
Total number of units		49,408	48,414
Market value per unit	$	19.20	19.30

Total return on endowment and similar funds, consisting of realized and unrealized gains and losses, dividends and interest income, was 5.7% and 10.0% for the years ended June 30, 2019 and 2018, respectively.

(7) Land, Buildings and Equipment, Net

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

		2019	2018
Land and improvements	$	43,576	40,837
Buildings		586,245	519,538
Equipment and library books		105,195	102,549
Construction in progress		167	41,978
Total cost		735,183	704,902
Less accumulated depreciation		(277,733)	(263,524)
Total land, buildings and equipment, net	$	457,450	441,378

Depreciation expense for the years ended June 30, 2019 and 2018 was $14,734 and $14,624, respectively. Outstanding commitments for construction contracts amounted to $1,994 and $24,312 at June 30, 2019 and 2018, respectively. Net capitalized interest was $0 and $1,253 for the years ended June 30, 2019 and 2018, respectively.

(In thousands of dollars)

(8) Long-Term Debt

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

		2019	2018
New York State Dormitory Authority Issue:			
Series 1996, 6.00%, due July 1, 2021	$	4,250	5,510
Madison County Capital Resource Corporation:			
Tax-exempt revenue bonds:			
Series 2010A, 4.92%, due July 1, 2040		28,355	29,425
Series 2012A, 4.67%, due July 1, 2033		19,325	20,890
Series 2013A, 4.73%, due July 1, 2039		42,975	42,975
Series 2015A, 4.90%, due July 1, 2041		39,985	39,985
Series 2015B, 4.71%, due July 1, 2044		49,670	49,670
Colgate University:			
Taxable revenue bonds:			
Series 2013B, 4.11%, due July 1, 2043		25,000	25,000
Private placement:			
Series 2017, 3.37%, due July 1, 2052		107,594	107,594
Total long-term debt – principal		317,154	321,049
Bond premium and issuance costs, net		15,821	16,649
Total long-term debt, net	$	332,975	337,698

The various notes and bonds are collateralized by the related property and equipment. Certain agreements require the establishment of debt service and building and equipment reserves. Included in intermediate investments are unexpended debt proceeds of $103,965 and $107,356 and deposits with bond trustees of $11,425 and $11,288 at June 30, 2019 and 2018, respectively.

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

2020	$	4,100
2021		4,625
2022		6,957
2023		7,289
2024		7,614
2025–2053		286,569
Total principal payments	$	317,154

(In thousands of dollars)

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, 2019 and 2018. The terms of the line expire on March 1, 2020.

(9) 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 $8,379 and $7,755 in 2019 and 2018, respectively.

The University also provides health and life insurance benefits for eligible employees upon retirement at the University's early or normal retirement ages. Employees hired by the University after June 30, 2012 are not eligible for University-provided dental or life insurance benefits upon retirement. These employees are eligible to participate in a defined contribution plan once they reach the age of 40. Existing employees may still qualify for the current University subsidized retiree programs subject to the continuing right to amend or terminate the programs at any time.

Information with respect to the plan is as follows:

	2019	2018
Change in benefit obligation:		
Benefit obligation at beginning of year	$ 18,181	19,579
Service cost	337	491
Interest cost	807	695
Plan participants' contributions	557	569
Actuarial loss (gain)	3,605	(1,513)
Benefits paid	(1,992)	(1,640)
Benefit obligation at end of year	21,495	18,181
Change in plan assets:		
Fair value of plan assets at beginning of year	—	—
Employer contribution	1,435	1,071
Plan participants' contributions	557	569
Benefits paid	(1,992)	(1,640)
Fair value of plan assets at end of year	—	—
Funded status at June 30	$ 21,495	18,181

(In thousands of dollars)

		Unamortized prior service cost (credit)	Unamortized net loss (gain)	Amounts recognized in net assets without donor restrictions
Balance as of June 30, 2017	$	(8,344)	2,972	(5,372)
Amortization		1,180	(146)	1,034
Actuarial gain		—	(1,513)	(1,513)
Total postretirement related charges other than net periodic benefit costs		1,180	(1,659)	(479)
Balance as of June 30, 2018		(7,164)	1,313	(5,851)
Amortization		1,180	(241)	939
Actuarial loss		—	3,605	3,605
Total postretirement related charges other than net periodic benefit costs		1,180	3,364	4,544
Balance as of June 30, 2019	$	(5,984)	4,677	(1,307)

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

		2019	2018
Net periodic benefit cost:			
Service cost	$	337	491
Interest cost		807	695
Amortization of:			
Actuarial net loss		241	146
Prior service cost		(1,180)	(1,180)
Net periodic benefit cost	$	205	152

Prior service credit of $1,180 and actuarial loss of $241 for the postretirement health care benefit plan will be amortized from net assets without restrictions into net periodic benefit costs in 2020.

(In thousands of dollars)

Assumed health care cost trend rates have a significant effect on the amounts reported for health care plans. A one-percentage point change in the assumed health care cost trend rates would have the following effects as of June 30, 2019:

		One percent point increase	One percent point decrease
Effect on total service and interest cost components	$	180	(145)
Effect on postretirement benefit obligation		2,656	(2,230)

Expected Cash Flows

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

Expected benefit payments for the year ended June 30:		
2020	$	1,445
2021		1,377
2022		1,419
2023		1,373
2024		1,410
2025–2029		7,066

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:

	2019	2018
Benefit obligations:		
Discount rate	3.20 %	4.01 %
Net periodic benefit cost:		
Discount rate	4.01	3.65
Healthcare cost trend rates:		
Pre-age 65 health care benefits	6.75	7.00
Post-age 65 health care benefits	4.75	6.00
Prescription drug coverage	9.00	10.25
Rate to which the cost trend rate is to decline	3.78	3.89
Year that rate reaches the ultimate trend rate	2075	2075

(In thousands of dollars)

(10) Net Assets

Net assets consist of the following at June 30:

		2019		2018	
		Without donor restrictions	With donor restrictions	Without donor restrictions	With donor restrictions
Operating, plant and other	$	165,071	2,925	153,633	3,466
Capital projects and equipment reserves		19,044	5,129	13,179	15,304
Pledges receivable		—	31,151	—	937
Annuities, deferred giving arrangements, and loan funds		—	29,227	—	27,973
Endowments and other funds treated as endowments:					
Undesignated		60,649	—	60,941	—
Board designated		133,697	—	133,038	—
Financial aid		59	342,604	48	336,366
Endowed chairs and salaries		2,106	134,537	2,106	139,175
Instruction, facilities, library, and other		11,106	264,472	10,538	252,382
Total net assets	$	391,732	810,045	373,483	775,603

(11) 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. The fair value of these investments total $1,105 and $8,164 at June 30, 2019 and 2018, respectively, all of which were made in accordance with the University's conflict of interest policy.

(In thousands of dollars)

(12) Natural Classification of Expenses

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

	2019						
	Program activities					Support activities	
	Instruction and research	Athletics	Academic support	Student services	Institutional support	Auxiliary operations	Total
Salaries and wages	$ 44,508	10,913	7,215	8,269	17,199	2,321	90,425
Taxes and benefits	11,500	2,033	1,872	2,355	4,771	939	23,470
Supplies and other	16,208	8,286	6,726	5,966	8,894	6,966	53,046
Contracted services	1,096	780	941	1,272	3,429	12,038	19,556
Depreciation	3,870	2,899	1,354	311	951	5,349	14,734
Interest	3,420	2,830	995	334	693	4,526	12,798
Utilities	1,285	1,062	465	138	386	1,863	5,199
Total	$ 81,887	28,803	19,568	18,645	36,323	34,002	219,228

	2018						
	Program activities					Support activities	
	Instruction and research	Athletics	Academic support	Student services	Institutional support	Auxiliary operations	Total
Salaries and wages	$ 42,836	10,458	6,878	7,423	16,142	2,276	86,013
Taxes and benefits	11,205	2,160	1,765	2,141	4,729	896	22,896
Supplies and other	14,662	7,721	7,040	5,308	6,812	6,357	47,900
Contracted services	1,086	735	1,099	1,437	3,954	7,806	16,117
Depreciation	3,739	2,949	1,504	217	931	5,284	14,624
Interest	3,395	2,808	988	235	687	4,508	12,621
Utilities	1,352	1,125	514	107	453	1,829	5,380
Total	$ 78,275	27,956	19,788	16,868	33,708	28,956	205,551

The University's primary program service is undergraduate instruction. Expenses reported as athletics, academic support, student services, institutional support and auxiliary enterprises are incurred in support of this primary program activity.

Expenses associated with the operation and maintenance of the University's plant assets and depreciation are allocated to functional categories based on square footage. Borrowing costs are allocated based on usage of debt-financed space.

Expenses associated with fundraising activities of the University were $6,541 and $6,606 in 2019 and 2018, respectively, and are included in institutional support. Interest expense is allocated to functional expenses based on the original purpose of the bond proceeds and square footage.

(13) 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.

(14) 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 7, 2019 and subsequent events have been evaluated through that date.