HOBART AND WILLIAM SMITH COLLEGES

Financial Statements

May 31, 2015 and 2014

(With Independent Auditors' Report Thereon)

HOBART AND WILLIAM SMITH COLLEGES

Financial Statements

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Table of Contents

KPMG LLP
515 Broadway
Albany, NY 12207-2974

Independent Auditors' Report

The Board of Trustees
Hobart and William Smith Colleges:

We have audited the accompanying financial statements of Hobart and William Smith Colleges, which comprise the statements of financial position as of May 31, 2015 and 2014, the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these 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 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 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 financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the 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 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 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 financial statements referred to above present fairly, in all material respects, the financial position of Hobart and William Smith Colleges as of May 31, 2015 and 2014, and change in its net assets and its cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

KPMG LLP

October 27, 2015

HOBART AND WILLIAM SMITH COLLEGES

Statements of Financial Position

May 31, 2015 and 2014

Assets		**2015**	**2014**
Cash and cash equivalents	$	25,188,618	27,186,716
Short-term investments		6,474,363	6,537,010
Bond deposits for future construction		7,069,199	15,043,648
Accounts receivable, net		1,704,998	2,136,335
Notes receivable, net		2,352,845	2,457,033
Inventories		767,730	811,337
Contributions receivable, net		4,486,204	6,790,177
Other assets		1,524,245	1,261,602
Long-term investments		204,004,874	205,418,689
Land, buildings and equipment, net		145,111,387	134,547,644
Total assets	$	398,684,463	402,190,191
Liabilities and Net Assets			
Liabilities:			
Accounts payable and accrued liabilities	$	11,438,251	8,385,361
Deferred revenue and deposits		3,219,678	5,055,323
Deferred giving liabilities		1,524,598	1,543,634
Refundable advances from government loan programs		1,937,038	1,938,143
Asset retirement obligations		2,466,997	2,354,260
Fair value of swap agreement		7,671,687	6,647,203
Bonds and note payable, net		69,754,136	71,672,169
Total liabilities		98,012,385	97,596,093
Net assets:			
Unrestricted		112,418,888	111,999,571
Temporarily restricted		61,958,453	67,606,026
Permanently restricted		126,294,737	124,988,501
Total net assets		300,672,078	304,594,098
Total liabilities and net assets	$	398,684,463	402,190,191

See accompanying notes to financial statements.

HOBART AND WILLIAM SMITH COLLEGES

Statement of Activities

Year ended May 31, 2015

(with summarized information for the year ended May 31, 2014)

	2015				2014
	Unrestricted	**Temporarily restricted**	**Permanently restricted**	**Total**	**Total**
Operating revenues:					
Tuition and fees	$ 111,479,565	—	—	111,479,565	106,386,932
Student aid	(45,777,308)	—	—	(45,777,308)	(43,774,550)
Net tuition and fees	65,702,257	—	—	65,702,257	62,612,382
Sales and services of auxiliaries	24,618,167	—	—	24,618,167	24,382,009
Government grants and contracts	1,834,889	—	—	1,834,889	1,934,615
Private gifts and grants	6,239,711	176,067	—	6,415,778	5,626,313
Endowment spending	7,524,143	756,784	—	8,280,927	7,775,585
Other investment income	308,197	625	—	308,822	239,919
Other	371,613	3,900	—	375,513	438,114
Net assets released from restrictions	1,058,478	(1,058,478)	—	—	—
Total operating revenues	107,657,455	(121,102)	—	107,536,353	103,008,937
Operating expenses:					
Instruction	35,575,435	—	—	35,575,435	34,209,693
Academic support	11,191,156	—	—	11,191,156	11,284,496
Student services	23,663,156	—	—	23,663,156	21,956,046
Institutional support	19,538,099	—	—	19,538,099	18,650,335
Auxiliaries operations	16,613,454	—	—	16,613,454	16,078,355
Total operating expenses	106,581,300	—	—	106,581,300	102,178,925
Change in net assets from operating activities	1,076,155	(121,102)	—	955,053	830,012
Nonoperating activities:					
Investment return, net of amounts designated for operations	125,361	(5,702,826)	147,548	(5,429,917)	9,768,313
Private gifts	704,653	1,670,767	2,343,733	4,719,153	12,156,367
Capital campaign expense	—	—	—	—	(425,753)
Other changes, net	4,111	(694,670)	(1,273,674)	(1,964,233)	237,095
Change in value of deferred giving arrangements	30,012	(161,850)	18,588	(113,250)	(140,317)
Change associated with swap agreement	(2,088,826)	—	—	(2,088,826)	(522,187)
Net assets released from restrictions or reclassified	567,851	(637,892)	70,041	—	—
Change in net assets from nonoperating activities	(656,838)	(5,526,471)	1,306,236	(4,877,073)	21,073,518
Increase (decrease) in net assets	419,317	(5,647,573)	1,306,236	(3,922,020)	21,903,530
Net assets:					
Beginning of year	111,999,571	67,606,026	124,988,501	304,594,098	282,690,568
End of year	$ 112,418,888	61,958,453	126,294,737	300,672,078	304,594,098

See accompanying notes to financial statements.

HOBART AND WILLIAM SMITH COLLEGES

Statement of Activities

Year ended May 31, 2014

	2014			
	Unrestricted	**Temporarily restricted**	**Permanently restricted**	**Total**
Operating revenues:				
Tuition and fees	$ 106,386,932	—	—	106,386,932
Student aid	(43,774,550)	—	—	(43,774,550)
Net tuition and fees	62,612,382	—	—	62,612,382
Sales and services of auxiliaries	24,382,009	—	—	24,382,009
Government grants and contracts	1,934,615	—	—	1,934,615
Private gifts and grants	5,304,158	322,155	—	5,626,313
Endowment spending	7,469,076	306,509	—	7,775,585
Other investment income	239,554	365	—	239,919
Other	432,655	5,459	—	438,114
Net assets released from restrictions	885,229	(885,229)	—	—
Total operating revenues	103,259,678	(250,741)	—	103,008,937
Operating expenses:				
Instruction	34,209,693	—	—	34,209,693
Academic support	11,284,496	—	—	11,284,496
Student services	21,956,046	—	—	21,956,046
Institutional support	18,650,335	—	—	18,650,335
Auxiliaries operations	16,078,355	—	—	16,078,355
Total operating expenses	102,178,925	—	—	102,178,925
Change in net assets from operating activities	1,080,753	(250,741)	—	830,012
Nonoperating activities:				
Investment return, net of amounts designated for operations	1,355,945	8,103,594	308,774	9,768,313
Private gifts	7,305,597	1,723,291	3,127,479	12,156,367
Capital campaign expense	(425,753)	—	—	(425,753)
Other changes, net	21,954	14,395	200,746	237,095
Change in value of deferred giving arrangements	—	(190,319)	50,002	(140,317)
Change associated with swap agreement	(522,187)	—	—	(522,187)
Net assets released from restrictions or reclassified	(9,695)	(141,257)	150,952	—
Change in net assets from nonoperating activities	7,725,861	9,509,704	3,837,953	21,073,518
Increase in net assets	8,806,614	9,258,963	3,837,953	21,903,530
Net assets:				
Beginning of year	103,192,957	58,347,063	121,150,548	282,690,568
End of year	$ 111,999,571	67,606,026	124,988,501	304,594,098

See accompanying notes to financial statements.

HOBART AND WILLIAM SMITH COLLEGES

Statements of Cash Flows

Years ended May 31, 2015 and 2014

		2015	2014
Cash flows from operating activities:			
Change in net assets	$	(3,922,020)	21,903,530
Adjustments to reconcile change in net assets to net cash provided by operating activities:			
Depreciation, amortization and accretion		8,005,711	7,842,072
Provision for uncollectible contributions receivable		2,163,743	160,220
Loss on disposal of land, buildings and equipment		232	81,386
Change in value of deferred giving arrangements		(19,036)	17,803
Change in fair value of swap agreement		1,024,484	(657,322)
Receipt of contributed securities		(1,146,450)	(568,427)
Contributions restricted for long-term investment		(3,769,765)	(12,841,967)
Noncash contributions for long-term purposes		—	(410,000)
Interest and dividends restricted for long-term investment		(182,350)	(166,001)
Net realized and unrealized gains on investments		(736,293)	(15,834,747)
Changes in operating assets and liabilities that provide (use) cash:			
Accounts receivable, net		431,337	692,096
Inventories		43,607	(92,326)
Contributions receivable		140,230	462,194
Other assets		(262,643)	44,522
Accounts payable and accrued liabilities		351,652	1,321,984
Asset retirement obligations		4,470	(92,339)
Deferred revenues and deposits		(1,835,645)	840,630
Net cash provided by operating activities		291,264	2,703,308
Cash flows from investing activities:			
Acquisition of land, buildings and equipment, net of construction related payable		(15,907,829)	(5,842,810)
Change in bond deposits for future construction		7,974,449	(15,043,648)
Notes issued		(286,700)	(276,900)
Proceeds from note collections		390,888	272,022
Proceeds from sale and maturities of investments		83,314,216	125,383,834
Purchases of investments		(81,101,461)	(130,821,280)
Net cash used in investing activities		(5,616,437)	(26,328,782)
Cash flows from financing activities:			
Proceeds from contributions for:			
Investment in endowment		2,785,611	10,171,458
Investment in plant		2,090,249	3,140,733
Investment subject to deferred giving arrangements		40,355	98,203
Interest and dividends restricted for reinvestment		182,350	166,001
Bond issuance costs		(42,885)	(401,635)
Decrease in refundable advances from government loan programs		(1,105)	(25,695)
Proceeds from issuance of long-term debt		—	15,416,105
Payment of long-term debt		(1,727,500)	(1,652,500)
Net cash provided by financing activities		3,327,075	26,912,670
Net (decrease) increase in cash and cash equivalents		(1,998,098)	3,287,196
Cash and cash equivalents:			
Beginning of year		27,186,716	23,899,520
End of year	$	25,188,618	27,186,716
Supplemental data:			
Interest paid	$	1,888,074	1,288,776
Noncash activities:			
Change in construction related payables	$	2,701,238	51,051

See accompanying notes to financial statements.

(1) Summary of Significant Accounting Policies

(a) Organization

Hobart and William Smith Colleges (the Colleges) are coordinate colleges located in the Finger Lakes Region of Central New York. Hobart College for men and William Smith College for women are selective, residential liberal arts institutions. The Colleges share a single curriculum, campus, faculty and central administration, but have separate deans, student governments, and athletics organizations. The Colleges' coordinate system provides men and women opportunities for independent learning and leadership in an environment of shared resources and objectives.

(b) Basis of Presentation

The Colleges' financial statements have been prepared on the accrual basis of accounting and are presented in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 958, *Not-for-Profit Entities*, which addresses the presentation of financial statements for not-for-profit entities. Accordingly, net assets and revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. The net assets of the Colleges are classified as follows:

Unrestricted net assets are not subject to donor stipulations restricting their use, but may be designated for specific purposes by the board of trustees or may otherwise be limited by contractual agreements with outside parties.

Temporarily restricted net assets are subject to donor-imposed stipulations that expire by the passage of time or can be fulfilled or removed by actions pursuant to the stipulations. Temporarily restricted net assets consist primarily of gifts restricted by donors for capital projects and other operating purposes.

Permanently restricted net assets are subject to donor-imposed stipulations that they be maintained in perpetuity. Generally, donors of these assets usually permit the use of all or part of the investment return on these assets.

Contributions, including unconditional pledges, are recognized as revenue when donors' commitments are received. Conditional pledges are recognized as revenue when the conditions are substantially met. Gifts whose restrictions are met in the same fiscal year as their receipt are combined with unrestricted gifts and reported as unrestricted contribution revenue. Contributions specified for the acquisition or construction of long lived assets are reported as unrestricted net assets when the assets are placed in service.

Expenses are reported as decreases in unrestricted net assets. Expirations of donor-imposed stipulations that simultaneously increase one class of net assets and decrease another are reported as reclassifications between the applicable classes of net assets.

(c) Use of 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 dates of the financial statements. Estimates also affect the reported amount of revenues and expenses during the reporting periods. The Colleges' significant estimates made in the preparation of these financial statements include, but are not limited to, valuation of certain alternative investments, valuation of swap agreement, estimation of asset retirement obligation, useful lives of fixed assets and estimated net realizable value of accounts and contributions receivable. Actual results could differ from these estimates.

(d) Cash and Cash Equivalents

Cash and cash equivalents include cash on deposit with financial institutions or other highly liquid investments with a maturity of three months or less when purchased or other similar interest-bearing accounts. At certain points in time, the Colleges may maintain funds in excess of amounts insured by the Federal Depository Insurance Corporation.

(e) Short-term Investments

Short-term investments are recorded at fair value. The Colleges periodically invest excess operating cash generally in a select fixed-income fund on a short-term basis.

(f) Accounts and Notes Receivable

Accounts and notes receivable are reported net of reserves for doubtful accounts. The receivables are recorded at their current unpaid principal balance and associated interest income, if applicable, is accrued based on the principal amount outstanding and applicable interest rates. Allowances for doubtful accounts are recorded representing amounts that, in the opinion of management of the Colleges, are necessary to account for probable losses related to the receivables. These allowances are determined based upon numerous considerations, including economic conditions, the specific composition of the receivable balance, as well as trends of delinquencies and write offs. On a periodic basis, these factors are considered and the allowances for doubtful accounts are adjusted accordingly, with a corresponding adjustment to the provision for allowances for doubtful accounts.

Allowances of approximately $963,000 and $893,000 at May 31, 2015 and 2014, respectively, have been provided for accounts receivable estimated to be uncollectible.

Allowances of approximately $128,000 at May 31, 2015 and 2014 have been provided for notes receivable estimated to be uncollectible.

(g) Contributions Receivable

Contributions receivable includes unconditional pledges and funds held in trust by others. Unconditional pledges are recognized at their estimated net present value, net of an allowance for uncollectible amounts, and are classified as either permanently restricted or temporarily restricted net assets. Funds held in trust by others represent resources neither in the possession nor under the control of the Colleges, but paid and administered by outside trustees, with the Colleges deriving income or a residual interest from the assets of such funds. Funds held in trust by others are recognized at the estimated fair value of the assets which approximates the net present value of the future cash flows when the irrevocable trust is established or the Colleges are notified of its existence and are subsequently adjusted for changes in the fair value annually.

(Continued)

(h) Long-term Investments

Long-term investments are recorded at fair value. If an investment is held directly by the Colleges and in an active market where quoted prices exists, the Colleges report the fair value as the market price of an identical security. Shares in mutual funds are based on share values reported by the funds as of the last business day of the fiscal year. The Colleges also hold shares or units in alternative investment funds involving real estate, hedge and private equity strategies. Such alternative investment funds may hold securities or other financial instruments for which a ready market exists and are priced accordingly. In addition, such funds may hold assets that require the estimation of fair values in the absence of readily determinable market values. Such valuations are determined by fund managers and generally consider variables such as operating results, comparable earnings multiples, projected cash flows, recent sales prices, and other pertinent information, and may reflect discounts for the illiquid nature of certain investments held.

The Colleges utilize the net asset value (NAV) reported by each of the alternative investment funds as a practical expedient for determining the fair value of the investment. These investments are redeemable at NAV under the original terms of the subscription agreements and operations of the underlying funds. However, it is possible that these redemption rights may be restricted or eliminated by the funds in the future in accordance with the underlying fund agreements. Due to the nature of the investments held by these funds, changes in market conditions and the economic environment may significantly impact the NAV of the funds and, consequently, the fair value of the Colleges' interests in the funds. Furthermore, changes to the liquidity provisions of the funds may significantly impact the fair value of the Colleges' interest in the funds.

Endowment and investment return includes interest and dividends, realized gains and losses, and the change in unrealized appreciation (depreciation) on the associated investments. The average cost of investment securities sold is used to determine the basis for computing realized gains or losses, and the Colleges account for investment sales and purchases on a trade date basis.

(i) Land, Buildings and Equipment

Grounds, site improvements, buildings, equipment and library books are recorded at cost at the date of acquisition or their fair value at the date of donation, less accumulated depreciation, computed on a straight line basis over the estimated useful lives of the site improvements (20 years), buildings (15 – 45 years), equipment (5 – 20 years) and library books (20 years). Expenditures for maintenance, repairs, and renewals of relatively minor items are not capitalized.

(j) Deferred Giving Arrangements

The Colleges' deferred giving arrangements consist primarily of gift annuities, pooled life income funds and charitable remainder trusts. Deferred giving assets of approximately $4,034,000 and $4,210,000 are included in long-term investments at their fair value as of May 31, 2015 and 2014, respectively. Contribution revenues are recognized at the date the arrangements are established after recording liabilities for the present value of the estimated future payments to be made to the donors and/or beneficiaries. The liabilities are adjusted during the term of the arrangements for changes in the value of the assets, changes in the estimated present value of future cash outflows and other changes in the estimates of future benefits. The deferred giving liabilities represent the net present value of future cash outflows over the beneficiary's life expectancy as required by the deferred gift agreements. Discount rates are used to calculate the net present value of the obligations, and are based on market rates commensurate with the beneficiary life expectancy.

(k) Refundable Advances from Government Loan Programs

Funds provided by the U.S. government under the Federal Perkins Loan Program are loaned to qualified students and may be reloaned after collections. These funds are ultimately refundable to the government and are reported as a liability.

(l) Asset Retirement Obligations

Asset retirement obligations (AROs) are legal obligations associated with the retirement of long-lived assets. These liabilities are initially recorded at fair value and the related asset retirement costs are capitalized by increasing the carrying amount of the related assets by the same amount as the liability. Asset retirement costs are subsequently depreciated over the useful lives of the related assets. Subsequent to initial recognition, the Colleges record period-to-period changes in the ARO liability resulting from the passage of time as other changes, net. Accretion expense was approximately $108,000 during 2015 and 2014. Upon settlement of the obligation, any difference between the actual cost to settle the ARO and the liability recorded is recognized as a gain or loss in the statement of activities.

(m) Derivative Instruments

A derivative instrument related to the Colleges' long-term debt is included in the fair value of the swap agreement on the statements of financial position. The change in the fair value of the derivative instrument is included in nonoperating activities in the statements of activities. The Colleges selected the combination of a variable rate bond issue and an interest rate swap agreement to obtain fixed rate financing at the lowest available cost at the time of the transaction. The Colleges are exposed to credit loss in the event of nonperformance by the counterparty to its long term rate swap. The interest rate swap does not qualify for cash flow hedge accounting.

(n) Taxation

The Colleges are a not-for-profit organization as described in Section 501(c)(3) of the Internal Revenue Code and are generally exempt from income tax on related income.

The Colleges recognize the effect of income tax positions only if those positions are more likely than not of being sustained. Recognized income tax positions are measured at the largest amount that is greater than 50% likely of being realized. Changes in recognition or measurement are reflected in the period in which the change in judgment occurs. The Colleges believe they have taken no significant uncertain tax positions.

(o) Revenue Recognition

Tuition, fees, room, and board revenue is recognized over the academic year as services are provided. Funds received in advance of services provided are included in deferred revenue.

(p) Operations

The statement of activities reflects a subtotal for the change in net assets from operations. This subtotal reflects revenues the Colleges received for operating purposes, including investment return used for operations and all expenses. Nonoperating activity reflects all other activity, including but not limited to the investment to return, net of the amount appropriated under the Board of Trustees' approved spending formula, contributions for endowment and plant purposes, and the change in present value of deferred giving arrangements.

(q) Allocation of Certain Expenses

The statements of activities present expenses by functional classification. Operation and maintenance of plant, depreciation and interest expense are allocated based on square footage.

(r) Fair Value of Financial Instruments

The following methods and assumptions were used to estimate the fair value of each class of financial instruments for which it is practical to estimate that value:

Cash and cash equivalents, short-term and long-term investments, accounts receivable, notes receivables, accounts payable and accrued liabilities – The carrying amounts approximate fair value.

Bonds and note payable – The carrying value of the variable rate long-term debt approximates fair value within the statement of financial position. The fair value of fixed rate long-term debt is based on quoted market prices for the Colleges' outstanding bonds. The fair value of the Colleges' borrowings is approximately $71,345,000 and $73,053,000 at May 31, 2015 and 2014, respectively, and has been determined using significant observable inputs that would be considered to be Level 2 in the fair value hierarchy.

Fair value of swap agreement – Interest rate swap agreements are recorded at fair value within the accompanying financial statements based on dealer quotes of the estimated settlement amounts required of the College if the agreement was terminated, taking into consideration current interest rates. The interest rate swaps are categorized as Level 2 in the fair value hierarchy.

(s) Reclassifications

Certain amounts in the 2014 financial statements have been reclassified to conform to 2015 presentation.

(t) Adoption of New Accounting Standards

The Colleges retrospectively adopted the provisions of the FASB Accounting Standards Update (ASU) No. 2015-03, *Simplifying the Presentation of Debt Issuance Costs* during the year ended May 31, 2015. The ASU is limited to simplifying the presentation of debt issuance costs, and the recognition and measurement guidance for debt issuance costs is not affected by the ASU. As a result of the adoption, the Colleges have reclassified unamortized bond issuance costs of approximately $1,149,000 from Other assets on the accompanying statement of financial as of May 31, 2014, and presented the amount

(Continued)

as a reduction of Bonds and note payable, net, as required by the ASU. The adoption had no effect on the Colleges' net assets, statement of activities or statement of cash flows for the year ended May 31, 2014.

In addition, as further disclosed in note 3, the Colleges retrospectively adopted the provisions of the FASB Accounting Standards Update (ASU) 2015-07, *Fair Value Measurement: Disclosures for Investments in Certain Entities that Calculate NAV per Share (or its Equivalent)* in the year ended May 31, 2015.

(2) Contributions Receivable

Unconditional contributions receivable at May 31, 2015 and 2014 are restricted by donors predominantly for scholarships and capital projects. They are expected to be realized in the following periods:

	2015	2014
Less than one year	$ 12,110,848	7,776,201
One year to five years	1,709,671	6,594,004
More than five years	671,429	671,429
	14,491,948	15,041,634
Less present value discount	(115,666)	(308,842)
Allowance for uncollectible receivables	(10,547,652)	(8,581,008)
	3,828,630	6,151,784
Funds held in trust by others	657,574	638,393
	$ 4,486,204	6,790,177

(3) Investments

The investment objective of the Colleges is to invest assets in a prudent manner to achieve a long term rate of return sufficient to fund a portion of its spending and to increase investment value after inflation. The Colleges' investment strategy incorporates a diversified asset allocation approach that maintains, within defined limits, exposure to domestic and international equities, fixed income, real estate, commodities, and private equity markets. The majority of the Colleges' investments are managed in a pooled fund that consists primarily of endowment assets.

Fair value represents the price that would be received upon the sale of an asset or paid upon the transfer of a liability in an orderly transaction between market participants as of the measurement date. Financial instruments measured and reported at fair value are classified and disclosed in one of the following categories:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the Colleges have the ability to access at the measurement date. Assets and liabilities classified as

Level 1 generally include listed equities. Level 1 also includes cash and cash equivalents given the short maturity of these investments.

- Level 2 inputs are quoted market prices for markets that are not active or financial instruments for which all significant inputs are observable, either directly or indirectly. Assets and liabilities classified as Level 2 generally include fixed income securities or investments in common collective trusts that hold Level 1 assets and derivative instruments.
- Level 3 inputs include pricing inputs that are unobservable for the assets and reflect certain assumptions to determine fair value. The Colleges have no assets classified as Level 3.

Effective in the year ended May 31, 2015, the Colleges retrospectively adopted the provisions of the FASB Accounting Standards Update (ASU) No. 2015-07, *Fair Value Measurement Disclosures for Investments in Certain Entities that Calculate NAV per Share (or its Equivalent)* (ASU 2015-07). Among other things, ASU 2015-07 removes the requirement to classify within the fair value hierarchy table in Levels 2 or 3 investments in certain funds measured at net asset value as a practical expedient to estimate fair value. As a result of the adoption of ASU 2015-07, the May 31, 2014 fair value hierarchy table was restated to reflect the removal of NAV-measured investments aggregating $97,964,241 in Level 2 and $50,456,370 in Level 3. The adoption did not impact the Colleges' statement of financial position, statement of activities, or statement of cash flow and resulted only in changes to the Colleges' investment footnote disclosures.

With respect to those investments reported at NAV as a practical expedient, fair value hierarchy categorization is not required. The fair value amounts presented as NAV are intended to permit reconciliation of the fair value hierarchy disclosure to the amounts presented in the statement of financial position. As of May 31, 2015, the Colleges had no specific plans or intentions to sell investments at amounts different than NAV.

The level in the fair value hierarchy within which a fair value measurement in its entirety falls is based on the lowest level input that is significant to the fair value measurement in its entirety. Accordingly, the inputs or methodology used for valuing or classifying investments for financial reporting purposes is not necessarily an indication of the risk associated with investing in those investments or a reflection on the liquidity of each fund's underlying assets and liabilities.

The Colleges' short-term and long-term investments at May 31, 2015 are summarized in the following table by their fair value hierarchy classification:

		Total May 31, 2015	Level 1	Level 2	Investments Measured at NAV	Redemption frequency	Days notice
Investments:							
Cash and cash equivalents	$	15,507,372	750,796	—	14,756,576	Daily	Same day
Fixed income and government securities		10,694,459	9,166,890	—	1,527,569	Daily – Monthly	Same day – 10 days
Common and preferred stocks		91,335,734	46,880,308	—	44,455,426	Daily – Annual	Same day – 90 days
Real estate (a)		7,630,575	—	—	7,630,575	Illiquid	Illiquid
Private equity (b)		9,351,339	—	—	9,351,339	Illiquid	Illiquid
Hedge (c)		73,805,782	—	—	73,805,782	Monthly – Illiquid	24 days – Illiquid
Other		2,153,976	—	2,153,976	—	Illiquid	Illiquid
Total investments	$	210,479,237	56,797,994	2,153,976	151,527,267		

The College's short-term and long-term investments at May 31, 2014 are summarized in the following table by their fair value hierarchy classification:

		Total May 31, 2014	Level 1	Level 2	Investments Measured at NAV	Redemption frequency	Days' notice
Investments:							
Cash and cash equivalents	$	12,162,230	1,243,886	—	10,918,344	Daily	Same day
Fixed income and government securities		10,732,031	9,087,320	—	1,644,711	Daily – Monthly	Same day – 10 days
Common and preferred stocks		87,116,083	51,081,986	—	36,034,097	Daily – Monthly	Same day – 30 days
Real estate (a)		7,116,637	—	—	7,116,637	Illiquid	Illiquid
Private equity (b)		11,035,013	—	—	11,035,013	Illiquid	Illiquid
Hedge (c)		81,671,809	—	—	81,671,809	Monthly – Illiquid	24 days – Illiquid
Other		2,121,896	—	2,121,896	—	Illiquid	Illiquid
Total investments	$	211,955,699	61,413,192	2,121,896	148,420,611		

(a) This category includes investments with limited partnerships or limited liability companies in commercial, residential improved and unimproved real estate primarily in the United States. The Colleges do not have redemption rights in these investments and the investments remaining lives are between one and ten years.

(b) This category includes investments with limited partnerships or limited liability companies in domestic and international private sector businesses, and similar equity securities. The Colleges do not have redemption rights in these investments and the investments remaining lives are between one and six years.

(c) This category includes investments with limited partnerships, limited liability companies or private investment companies that employ a multi-strategy approach. The Colleges may redeem the majority these investments on a monthly, quarterly or annual basis with notice ranging from 24 to 95 days, however the Colleges do not have redemption rights in certain investments in this category.

The Colleges' policy is to recognize transfers in and transfers out of different levels as of the actual date of the event or circumstance that caused the transfer. No transfers occurred for the years ended May 31, 2015 and May 31, 2014.

Liquidity

The following presents the fair value of the Colleges' investments as of May 31, 2015 and 2014 by redemption period:

		2015	2014
Investments redemption period:			
Daily	$	71,554,570	66,844,656
Monthly		56,113,095	68,892,931
Quarterly		22,906,457	23,639,846
Annual		17,696,775	8,693,282
Illiquid (locked-up)		42,208,340	43,884,984
Total	$	210,479,237	211,955,699

Investments that are in the Illiquid (locked-up) category are primarily related to real estate, private equity and hedge investments. The period of time until liquidation is not necessarily determinable by management, as liquidation terms are at the discretion of the applicable fund's investment manager subject to market conditions and the underlying complexities of the individual investments. These liquidity restrictions have been in effect since the initial purchase of the applicable funds.

The Colleges participate in certain limited partnership arrangements as part of the endowment portfolio. Outstanding unfunded capital commitments on these investments approximate $16,636,000 as of May 31, 2015. The Colleges maintain sufficient liquidity in the investment portfolio to cover such commitments.

In accordance with its spending policy on endowment and other investments the Colleges' return on investments was as follows:

		2015	2014
Dividends and interest income	$	2,423,539	1,949,070
Net realized and unrealized gains		736,293	15,834,747
Total return on investments		3,159,832	17,783,817
Investment return designated for current operations (endowment spending and other investment income)		8,589,749	8,015,504
Investment return, net of amounts designated for current operations	$	(5,429,917)	9,768,313

(4) Endowment

Endowment funds are long-term assets of the Colleges created either by donor gifts or by actions of the Board of Trustees. Their purpose is to generate, in perpetuity, operating revenue for specific activities or for the use of the Colleges. Endowment funds are invested under 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 funds are recorded in the statement 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 $199,977,634 and $202,413,144 as of May 31, 2015 and 2014, respectively.

The Colleges follow New York Prudent Management of Institutional Funds Act (NYPMIFA) in the management of its endowments. 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. In accordance with NYPMIFA, the Board of Trustees considers the following factors in making a determination to appropriate or accumulate endowment funds: the duration and preservation of the fund; the purposes of the Colleges and the endowment fund; general economic conditions; the possible effect of inflation and deflation; the expected total return from income and the appreciation of investments; other resources of the Colleges; where appropriate and where circumstances would otherwise warrant, alternatives to expenditure of an endowment fund, giving due consideration to the effect that such alternatives may have on the Colleges; and the investment policies of the Colleges.

The Colleges' Board of Trustees has interpreted New York State's Not-for-Profit Corporation Law, including NYPMIFA, as requiring the preservation of the fair value of the original gift as of the gift date of the donor restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Colleges classify as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment 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 the donor restricted endowment fund are classified as temporarily restricted net assets until the amounts are expended by the Colleges in a manner consistent with the donor's intent. The remaining portion of the donor-restricted endowment fund that is not classified as permanently or temporarily restricted net assets is classified as unrestricted net assets.

Spending Policy

The Board of Trustees determines the appropriate amount to withdraw from endowment funds on an annual basis, to provide support for operations with prudent concern for the long-term growth in the underlying assets. The Colleges employ a total return spending policy which recognizes for spending purposes income equal to a percentage of a multi-year moving average of the unit value of pooled investments. The percentage was 5% in 2015 and 2014. In any given year, the amount availed from the pooled investments may, therefore, greater or less than the dividend or interest yield for that year. Investment returns earned in excess of the spending policy are classified as nonoperating revenue; any shortfall is made up from historically earned capital appreciation.

The following tables provide the net asset composition of the endowment as of May 31, 2015 and a rollforward of the net assets in from June 1, 2014 to May 31, 2015.

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Donor-restricted funds	$ (402,808)	38,003,297	124,720,782	162,321,271
Funds functioning as endowment	37,656,363	—	—	37,656,363
	$ 37,253,555	38,003,297	124,720,782	199,977,634

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Endowment net assets at beginning of year	$ 35,281,999	43,773,375	123,357,770	202,413,144
Investment return	505,425	2,221,196	173,006	2,899,627
Change in funds with deficiencies	(257,707)	257,707	—	—
Private gifts	506,656	—	2,324,316	2,830,972
Other changes	2,857,937	(1,608,809)	(1,134,310)	114,818
Endowment spending	(1,640,755)	(6,640,172)	—	(8,280,927)
Endowment net assets at end of year	$ 37,253,555	38,003,297	124,720,782	199,977,634

The following tables provide the net asset composition of the endowment as of May 31, 2014 and a rollforward of the net assets in from June 1, 2013 to May 31, 2014.

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Donor-restricted funds	$ (145,101)	43,773,375	123,357,770	166,986,044
Funds functioning as endowment	35,427,100	—	—	35,427,100
	$ 35,281,999	43,773,375	123,357,770	202,413,144

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Endowment net assets at beginning of year	$ 26,106,308	35,865,600	119,815,708	181,787,616
Investment return	3,170,190	14,622,861	157,172	17,950,223
Change in funds with deficiencies	519,344	(519,344)	—	—
Private gifts	7,010,000	—	3,430,768	10,440,768
Other changes	56,000	—	(45,878)	10,122
Endowment spending	(1,579,843)	(6,195,742)	—	(7,775,585)
Endowment net assets at end of year	$ 35,281,999	43,773,375	123,357,770	202,413,144

Funds with Deficiencies

As a result of market declines, the fair market value of certain donor-restricted endowments was less than the historical cost value of such funds by approximately $403,000 and $145,000 at May 31, 2015 and 2014, respectively. To support spending from these endowment funds the Colleges utilized unrestricted accumulated gains of approximately $306,000 and $89,000, in 2015 and 2014, respectively.

The unrealized losses for these endowment funds have been recorded as reductions in unrestricted net assets. Future market gains will be used to restore this deficiency in unrestricted net assets before any net appreciation above the historical cost value of such funds increases temporarily restricted net assets. While it is the intent of the Colleges to restore this deficiency from future gains, there is no legal obligation to do so.

(5) Land, Buildings and Equipment

The components of land, buildings and equipment, as of May 31, 2015 and 2014 were as follows:

	2015	2014
Grounds	$ 3,566,191	3,566,191
Site improvements	13,464,287	13,306,196
Buildings	160,429,583	158,423,589
Equipment	49,716,834	48,120,999
Library books	19,120,724	18,483,025
Construction in progress	18,002,635	3,855,074
	264,300,254	245,755,074
Accumulated depreciation	(119,188,867)	(111,207,430)
	$ 145,111,387	134,547,644

(Continued)

Depreciation expense amounted to $8,045,092 and $7,895,343 in 2015 and 2014, respectively.

(6) Bonds and Note Payable

Bonds and note payable consist of the following at May 31:

	Maturity date	Interest rate	Original issue	2015	2014
City of Geneva Industrial Development Agency Revenue Bonds:					
Series 2007 (a)	2037	Variable	$ 31,250,000	27,025,000	27,700,000
City of Geneva Development Corporation Refunding Bonds:					
Series 2012 (b)	2032	1.0 - 5.0%	26,695,000	23,850,000	24,715,000
Revenue Bonds:					
Series 2014 (c)	2044	3.0 - 5.25%	14,295,000	14,295,000	14,295,000
				65,170,000	66,710,000
Net bond premium				3,807,011	4,006,772
Bond issuance costs				(1,139,875)	(1,149,103)
				67,837,136	69,567,669
Manufacturers and Traders Trust Company:					
Term note (d)	2023	Variable	3,420,000	1,917,000	2,104,500
				$ 69,754,136	71,672,169

(a) Series 2007 City of Geneva Industrial Development Agency Multi-Modal Civic Facility Revenue Bonds are Variable Rate Demand bonds enhanced by a letter of credit with a financial institution. The interest rate is determined every 7 days. Interest is payable monthly and the rates paid during the fiscal year ended May 31, 2015 ranged from .02% to .13%. The bonds mature in 2037.

The letter of credit was issued in the amount of $31,599,316 and will remain in effect until notice that the outstanding bonds have been repaid, the related bonds have been converted to an interest rate other than a Daily Rate or Weekly Rate, or a substitute Credit Agreement or Liquidity Facility has been put in place. The current letter of credit will expire on September 3, 2016.

(b) In June 2012, the Colleges issued $26,695,000 of Series 2012 City of Geneva Development Corporation Refunding Bonds. The proceeds of the bonds were used for the legal defeasance of the Series 2001, 2003A and 2003B bonds. The refunding was accounted for as an early extinguishment of debt resulting in a loss recorded in the statement of activities of approximately $301,000.

(c) In March 2014, the Colleges issued $14,295,000 of Series 2014 City of Geneva Development Corporation Revenue Bonds. The proceeds will partially fund the construction of an academic building for the performing arts program.

(d) Interest on the note is variable at LIBOR plus 2% until maturity in 2023. Rates during the fiscal year ended May 31, 2015 ranged from 2.171% to 2.157%.

The scheduled principal payments on bonds payable and term note for the next five years and thereafter is reflected in the following table:

Fiscal year	**Amount**
2016	$ 2,032,500
2017	2,142,500
2018	2,247,500
2019	2,428,500
2020	2,563,500
Thereafter	55,672,500
	67,087,000
Net bond premium	3,807,011
Bond issuance costs	(1,139,875)
	$ 69,754,136

(a) Interest Rate Swap

On June 18, 2007, the Colleges entered into an interest rate swap agreement with an effective date of December 4, 2007 and a maturity date of December 1, 2037. Neither the Colleges nor the counterparty, which is a prominent financial investment institution, are required to collateralize their respective obligations under this swap. At May 31, 2015, the notional amount of the swap was $27,025,000. Under the agreement, the Colleges will pay the counterparty interest at a fixed rate of 4.0% until maturity. The notional amount does not represent an amount exchanged by the parties, and is thus not a measure of exposure of the Colleges. The amounts exchanged are based on the notional amounts and other terms of the swap. At May 31, 2015 and 2014, the Colleges have recognized $1,064,342 and $1,179,509, respectively, in nonoperating expenses in the statement of activities which represent the net cash payment for the difference between the Colleges' and the counterparty's payments under the swap. At May 31, 2015 and 2014, the Colleges recognized a decrease in net assets of $1,024,484 and an increase in net assets of $657,322, respectively, and related change in liabilities on the statement of financial position.

(b) Line of Credit

The Colleges maintain a line of credit for $1,000,000 which was unused during 2015 and 2014. The line of credit is renewed on an annual basis.

(c) Bond Issuance Costs

The Colleges have capitalized certain bond issuance costs and are amortizing them over the term of the related debt instruments. Amortization expense was approximately $52,000 in 2015 and $39,000 in 2014.

(7) Net Assets

Temporarily restricted net assets at May 31, 2015 and 2014 are available for the following purposes:

	2015	2014
Accumulated endowment gains	$ 38,003,297	43,773,375
Acquisition of buildings and equipment	23,745,657	23,385,384
Deferred giving arrangements	200,468	289,290
Program and student support	9,031	157,977
	$ 61,958,453	67,606,026

Permanently restricted net assets at May 31, 2015 and 2014 are available for the following purposes:

	2015	2014
Program and student support	$ 63,262,668	63,641,126
Scholarship support	43,449,610	42,301,302
Faculty support	16,044,224	15,540,856
Deferred giving arrangements	2,315,568	2,382,830
Library support	1,222,667	1,122,387
	$ 126,294,737	124,988,501

(8) Retirement Plan

The Colleges participate in contributory retirement plans administered by the Teachers Insurance Annuity Association of America (TIAA) and College Retirement Equities Fund (CREF) for full-time employees. The Colleges' policy is to accrue the costs of these defined contribution plans currently. Total expense charged to operations relating to these plans was approximately $3,605,000 and $3,420,000 for 2015 and 2014, respectively.

(9) Subsequent Events

The Colleges have performed an evaluation of subsequent events through October 27, 2015, the date on which the financial statements were issued. There were no subsequent events having a material effect on the financial statements.