KPMG

HOBART AND WILLIAM SMITH COLLEGES

Financial Statements

May 31, 2016 and 2015

(With Independent Auditors' Report Thereon)

HOBART AND WILLIAM SMITH COLLEGES

Financial Statements

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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, 2016 and 2015, 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, 2016 and 2015, 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 28, 2016

HOBART AND WILLIAM SMITH COLLEGES

Statements of Financial Position

May 31, 2016 and 2015

Assets		**2016**	**2015**
Cash and cash equivalents	$	16,176,509	25,188,618
Short-term investments		6,589,126	6,474,363
Bond deposits for future construction		1,693	7,069,199
Accounts receivable, net		1,674,135	1,704,998
Notes receivable, net		2,175,412	2,352,845
Inventories		729,878	767,730
Contributions receivable, net		3,323,828	4,486,204
Other assets		1,354,722	1,524,245
Long-term investments		191,639,463	204,004,874
Land, buildings and equipment, net		154,980,195	145,111,387
Total assets	$	378,644,961	398,684,463
Liabilities and Net Assets			
Liabilities:			
Accounts payable and accrued liabilities	$	9,630,063	11,438,251
Deferred revenue and deposits		2,431,454	3,219,678
Deferred giving liabilities		1,505,577	1,524,598
Refundable advances from government loan programs		1,942,380	1,937,038
Asset retirement obligations		2,580,484	2,466,997
Fair value of swap agreement		8,334,011	7,671,687
Bonds and note payable, net		67,575,467	69,754,136
Total liabilities		93,999,436	98,012,385
Net assets:			
Unrestricted		109,232,301	112,418,888
Temporarily restricted		45,914,981	61,958,453
Permanently restricted		129,498,243	126,294,737
Total net assets		284,645,525	300,672,078
Total liabilities and net assets	$	378,644,961	398,684,463

See accompanying notes to financial statements.

HOBART AND WILLIAM SMITH COLLEGES

Statement of Activities

Year ended May 31, 2016

(with summarized information for the year ended May 31, 2015)

	2016				
	Unrestricted	Temporarily restricted	Permanently restricted	Total	2015 Total
Operating revenues:					
Tuition and fees	$ 112,086,756	—	—	112,086,756	111,479,565
Student aid	(47,689,551)	—	—	(47,689,551)	(45,777,308)
Net tuition and fees	64,397,205	—	—	64,397,205	65,702,257
Sales and services of auxiliaries	24,777,751	—	—	24,777,751	24,618,167
Government grants and contracts	1,970,841	—	—	1,970,841	1,834,889
Private gifts and grants	5,222,624	502,311	—	5,724,935	6,415,778
Endowment spending	8,038,798	908,914	—	8,947,712	8,280,927
Other investment income	181,394	180	—	181,574	308,822
Other	388,814	32,127	—	420,941	375,513
Net assets released from restrictions	718,518	(718,518)	—	—	—
Total operating revenues	105,695,945	725,014	—	106,420,959	107,536,353
Operating expenses:					
Instruction	35,860,597	—	—	35,860,597	35,575,435
Academic support	11,150,255	—	—	11,150,255	11,191,156
Student services	24,015,566	—	—	24,015,566	23,663,156
Institutional support	19,648,657	—	—	19,648,657	19,538,099
Auxiliaries operations	16,194,175	—	—	16,194,175	16,613,454
Total operating expenses	106,869,250	—	—	106,869,250	106,581,300
Change in net assets from operating activities	(1,173,305)	725,014	—	(448,291)	955,053
Nonoperating activities:					
Investment return, net of amounts designated for operations	(6,744,057)	(11,704,120)	50,443	(18,397,734)	(5,429,917)
Private gifts	163,030	1,131,062	2,863,885	4,157,977	4,719,153
Other changes, net	45,196	448,838	28,917	522,951	(1,964,233)
Change in value of deferred giving arrangements	16,736	(164,017)	(38,416)	(185,697)	(113,250)
Change in fair value of swap agreement	(662,324)	—	—	(662,324)	(1,024,484)
Realized losses on swap agreement	(1,013,435)	—	—	(1,013,435)	(1,064,342)
Net assets released from restrictions or reclassified	6,181,572	(6,480,249)	298,677	—	—
Change in net assets from nonoperating activities	(2,013,282)	(16,768,486)	3,203,506	(15,578,262)	(4,877,073)
Increase (decrease) in net assets	(3,186,587)	(16,043,472)	3,203,506	(16,026,553)	(3,922,020)
Net assets:					
Beginning of year	112,418,888	61,958,453	126,294,737	300,672,078	304,594,098
End of year	$ 109,232,301	45,914,981	129,498,243	284,645,525	300,672,078

See accompanying notes to financial statements.

HOBART AND WILLIAM SMITH COLLEGES

Statement of Activities

Year ended May 31, 2015

	2015			
	Unrestricted	**Temporarily restricted**	**Permanently restricted**	**Total**
Operating revenues:				
Tuition and fees	$ 111,479,565	—	—	111,479,565
Student aid	(45,777,308)	—	—	(45,777,308)
Net tuition and fees	65,702,257	—	—	65,702,257
Sales and services of auxiliaries	24,618,167	—	—	24,618,167
Government grants and contracts	1,834,889	—	—	1,834,889
Private gifts and grants	6,239,711	176,067	—	6,415,778
Endowment spending	7,524,143	756,784	—	8,280,927
Other investment income	308,197	625	—	308,822
Other	371,613	3,900	—	375,513
Net assets released from restrictions	1,058,478	(1,058,478)	—	—
Total operating revenues	107,657,455	(121,102)	—	107,536,353
Operating expenses:				
Instruction	35,575,435	—	—	35,575,435
Academic support	11,191,156	—	—	11,191,156
Student services	23,663,156	—	—	23,663,156
Institutional support	19,538,099	—	—	19,538,099
Auxiliaries operations	16,613,454	—	—	16,613,454
Total operating expenses	106,581,300	—	—	106,581,300
Change in net assets from operating activities	1,076,155	(121,102)	—	955,053
Nonoperating activities:				
Investment return, net of amounts designated for operations	125,361	(5,702,826)	147,548	(5,429,917)
Private gifts	704,653	1,670,767	2,343,733	4,719,153
Other changes, net	4,111	(694,670)	(1,273,674)	(1,964,233)
Change in value of deferred giving arrangements	30,012	(161,850)	18,588	(113,250)
Change in fair value of swap agreement	(1,024,484)	—	—	(1,024,484)
Realized losses on swap agreement	(1,064,342)	—	—	(1,064,342)
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)
Increase in net assets	419,317	(5,647,573)	1,306,236	(3,922,020)
Net assets:				
Beginning of year	111,999,571	67,606,026	124,988,501	304,594,098
End of year	$ 112,418,888	61,958,453	126,294,737	300,672,078

See accompanying notes to financial statements.

HOBART AND WILLIAM SMITH COLLEGES

Statements of Cash Flows

Years ended May 31, 2016 and 2015

	2016	2015
Cash flows from operating activities:		
Change in net assets	$ (16,026,553)	(3,922,020)
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities:		
Depreciation, amortization and accretion	7,653,336	8,005,711
Provision for uncollectible contributions receivable	(532,609)	2,163,743
Loss on disposal of land, buildings and equipment	—	232
Change in value of deferred giving arrangements	(19,021)	(19,036)
Change in fair value of swap agreement	662,324	1,024,484
Receipt of contributed securities	(529,151)	(1,146,450)
Contributions restricted for long-term investment	(5,039,409)	(3,769,765)
Interest and dividends restricted for long-term investment	(174,515)	(182,350)
Net realized and unrealized losses (gains) on investments	10,981,555	(736,293)
Changes in operating assets and liabilities that (use) provide cash:		
Accounts receivable, net	30,863	431,337
Inventories	37,852	43,607
Contributions receivable	1,694,985	140,230
Other assets	169,523	(262,643)
Accounts payable and accrued liabilities	871,541	351,652
Asset retirement obligations	—	4,470
Deferred revenues and deposits	(788,224)	(1,835,645)
Net cash (used in) provided by operating activities	(1,007,503)	291,264
Cash flows from investing activities:		
Acquisition of land, buildings and equipment	(20,234,555)	(15,907,829)
Change in bond deposits for future construction	7,067,506	7,974,449
Notes issued	(300,609)	(286,700)
Proceeds from note collections	478,042	390,888
Proceeds from sale and maturities of investments	82,834,887	83,314,216
Purchases of investments	(81,565,794)	(81,101,461)
Net cash used in investing activities	(11,720,523)	(5,616,437)
Cash flows from financing activities:		
Proceeds from contributions for:		
Investment in endowment	2,945,915	2,785,611
Investment in plant	2,596,799	2,090,249
Investment subject to deferred giving arrangements	25,846	40,355
Interest and dividends restricted for reinvestment	174,515	182,350
Bond issuance costs	—	(42,885)
Decrease in refundable advances from government loan programs	5,342	(1,105)
Payment of long-term debt	(2,032,500)	(1,727,500)
Net cash provided by financing activities	3,715,917	3,327,075
Net decrease in cash and cash equivalents	(9,012,109)	(1,998,098)
Cash and cash equivalents:		
Beginning of year	25,188,618	27,186,716
End of year	$ 16,176,509	25,188,618
Supplemental data:		
Interest paid	$ 1,896,534	1,888,074
Noncash investing activities:		
Change in construction related payables	$ (2,679,729)	2,701,238

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 $938,000 and $963,000 at May 31, 2016 and 2015, respectively, have been provided for accounts receivable estimated to be uncollectible.

Allowances of approximately $128,000 at May 31, 2016 and 2015 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.

(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 \$3,312,000 and \$4,034,000 are included in long-term investments at their fair value as of May 31, 2016 and 2015, 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

(Continued)

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 $113,000 in 2016 and $108,000 in 2015. 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 fair value of the swap agreement is based on dealer quotes of the estimated settlement amounts required of the Colleges if the agreement was terminated, taking into consideration current interest rates. The interest rate swap is categorized as Level 2 in the fair value hierarchy. The change in the fair value of the swap agreement 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.

(Continued)

(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 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 relative square footage of facilities used for such functions.

(r) Reclassifications

Certain amounts in the 2015 financial statements have been reclassified to conform to 2016 presentation.

(2) Contributions Receivable

Unconditional contributions receivable at May 31, 2016 and 2015 are restricted by donors predominantly for scholarships and capital projects. They are expected to be realized in the following periods:

		2016	2015
Less than one year	$	4,265,237	12,110,848
One year to five years		781,407	1,709,671
More than five years		—	671,429
		5,046,644	14,491,948
Less present value discount		(13,108)	(115,666)
Allowance for uncollectible receivables		(2,324,691)	(10,547,652)
		2,708,845	3,828,630
Funds held in trust by others		614,983	657,574
	$	3,323,828	4,486,204

(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 trusts that hold fixed income and equity securities.
- 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.

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 statements of financial position. As of May 31, 2016, 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.

In June 2015, the FASB issued ASU 2015-10, Technical Corrections and Improvements, that clarified one aspect of the definition of readily determinable fair value (RDFV) thereby affecting the measurement of and disclosure about certain equity investments. During 2016, based on this technical correction, the Colleges re-evaluated their investments historically measured using net asset value (NAV) as a practical expedient in structures with characteristics similar to a mutual fund as to whether they have a RDFV. Based on this re-evaluation, NAV disclosures have been amended, and certain investments aggregating $23,032,602 previously accounted for using NAV as a practical expedient as of May 31, 2015 and previously excluded from the fair value hierarchy were determined to have a RDFV and have been included as Level 1 investments at that date.

The Colleges' short-term and long-term investments at May 31, 2016 are summarized in the following table by their fair value hierarchy classification:

	Total May 31, 2016	Level 1	Level 2	Investments Measured at NAV	Redemption frequency	Days notice
Investments:						
Cash and cash equivalents	$ 11,609,509	11,609,509	—	—	Daily	Same day
Fixed income and government securities	10,741,939	9,161,777	—	1,580,162	Daily – Monthly	Same day – 10 days
Common and preferred stocks	89,862,171	42,259,605	—	47,602,566	Daily – Annual	Same day – 90 days
Real estate (a)	7,834,351	—	—	7,834,351	Illiquid	N/A
Private equity (b)	10,960,730	—	—	10,960,730	Illiquid	N/A
Hedge (c)	65,224,053	—	—	65,224,053	Monthly – Illiquid	24 days – Illiquid
Other	1,995,836	—	1,995,836	—	Illiquid	N/A
Total investments	$ 198,228,589	63,030,891	1,995,836	133,201,862		

The College's 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	15,507,372	—	—	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	55,156,334	—	36,179,400	Daily – Annual	Same day – 90 days
Real estate (a)	7,630,575	—	—	7,630,575	Illiquid	N/A
Private equity (b)	9,351,339	—	—	9,351,339	Illiquid	N/A
Hedge (c)	73,805,782	—	—	73,805,782	Monthly – Illiquid	24 days – Illiquid
Other	2,153,976	—	2,153,976	—	Illiquid	N/A
Total investments	$ 210,479,237	79,830,596	2,153,976	128,494,665		

(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 their 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 their 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 of 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, 2016 and May 31, 2015.

Liquidity

The following presents the fair value of the Colleges' investments as of May 31, 2016 and 2015 by redemption period:

	2016	2015
Investments redemption period:		
Daily	$ 57,564,708	71,554,570
Monthly	51,277,388	56,113,095
Quarterly	19,310,635	17,439,345
Annual	33,622,722	31,477,432
Illiquid (locked-up)	36,453,136	33,894,795
Total	$ 198,228,589	210,479,237

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 $16,700,000 as of May 31, 2016. 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:

	2016	2015
Dividends and interest income	$ 1,713,107	2,423,539
Net realized and unrealized (losses) gains	(10,981,555)	736,293
Total return on investments	(9,268,448)	3,159,832
Investment return designated for current operations (endowment spending and other investment income)	9,129,286	8,589,749
Investment return, net of amounts designated for current operations	$ (18,397,734)	(5,429,917)

(Continued)

(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 $187,188,927 and $199,977,634 as of May 31, 2016 and 2015, 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 2016 and 2015. In any given year, the amount availed from the pooled investments may, therefore, be 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, 2016 and a rollforward of the net assets from June 1, 2015 to May 31, 2016. The endowment net assets differ from the fair value of endowment investments because there are other receivables, payables and interfund balances within the endowment.

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Donor-restricted funds	$ (4,142,052)	24,387,565	127,347,601	147,593,114
Funds functioning as endowment	27,413,882	—	—	27,413,882
	$ 23,271,830	24,387,565	127,347,601	175,006,996

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Endowment net assets at beginning of year	$ 37,253,555	38,003,297	124,720,782	199,977,634
Investment return	4,642,082	(14,529,259)	164,362	(9,722,815)
Change in funds with deficiencies	(3,739,244)	3,739,244	—	—
Private gifts	73,030	—	2,872,885	2,945,915
Other changes	(6,918,795)	(1,916,803)	(410,428)	(9,246,026)
Endowment spending	(8,038,798)	(908,914)	—	(8,947,712)
Endowment net assets at end of year	$ 23,271,830	24,387,565	127,347,601	175,006,996

The following tables provide the net asset composition of the endowment investments as of May 31, 2015 and a rollforward of those net assets from June 1, 2014 to May 31, 2015. The tables do not include the net assets related to other receivables, payables or interfund balances within the endowment.

	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

(Continued)

	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

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 $4,142,000 and $403,000 at May 31, 2016 and 2015, respectively. To support spending from these endowment funds the Colleges utilized unrestricted accumulated investment return of approximately $2,533,000 and $306,000, in 2016 and 2015, respectively.

The unrealized losses for these endowment funds have been recorded as reductions in unrestricted net assets. Future investment return 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 investment return, there is no legal obligation to do so.

(5) Land, Buildings and Equipment

The components of land, buildings and equipment, as of May 31, 2016 and 2015 were as follows:

	2016	2015
Grounds	$ 3,566,191	3,566,191
Site improvements	13,505,279	13,464,287
Buildings	191,199,176	160,429,583
Equipment	52,808,628	49,716,834
Library books	19,791,815	19,120,724
Construction in progress	983,991	18,002,635
	281,855,080	264,300,254
Accumulated depreciation	(126,874,885)	(119,188,867)
	$ 154,980,195	145,111,387

Depreciation expense amounted to $7,686,018 and $8,045,092 in 2016 and 2015, respectively.

(6) Bonds and Note Payable

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

	Maturity date	Interest rate	Original issue	2016	2015
City of Geneva Industrial Development Agency Revenue Bonds:					
Series 2007 (a)	2037	Variable	$ 31,250,000	26,325,000	27,025,000
City of Geneva Development Corporation Refunding Bonds:					
Series 2012 (b)	2032	1.0 - 5.0%	26,695,000	22,930,000	23,850,000
Revenue Bonds:					
Series 2014 (c)	2044	3.0 - 5.25%	14,295,000	14,070,000	14,295,000
				63,325,000	65,170,000
Net bond premium				3,607,249	3,807,011
Bond issuance costs				(1,086,282)	(1,139,875)
				65,845,967	67,837,136
Manufacturers and Traders Trust Company:					
Term note (d)	2023	Variable	3,420,000	1,729,500	1,917,000
				$ 67,575,467	69,754,136

(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, 2016 ranged from .02% to .47%. 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 was to expire on September 3, 2016. In July 2016, the Colleges extended the letter of credit through September 3, 2019.

(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, 2016 ranged from 2.18% to 2.44%.

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**
2017	$	2,142,500
2018		2,247,500
2019		2,428,500
2020		2,563,500
2021		2,688,500
Thereafter		52,984,000
		65,054,500
Net bond premium		3,607,249
Bond issuance costs		(1,086,282)
	$	67,575,467

(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, 2016, the notional amount of the swap was $26,325,000. 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 the amounts 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, 2016 and 2015, the Colleges have recognized $1,013,435 and $1,064,342, 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, 2016 and 2015, the Colleges recognized a decrease in net assets of $662,324 and $1,024,484, 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 2016 and 2015. 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 $54,000 in 2016 and $52,000 in 2015.

(7) Net Assets

Temporarily restricted net assets at May 31, 2016 and 2015 are available for the following purposes:

	2016	2015
Accumulated endowment returns	$ 24,020,899	38,003,297
Acquisition of buildings and equipment	18,868,898	23,745,657
Deferred giving arrangements	32,588	200,468
Program and student support	2,992,596	9,031
	$ 45,914,981	61,958,453

Permanently restricted net assets at May 31, 2016 and 2015 are available for the following purposes:

	2016	2015
Program and student support	$ 65,366,003	63,262,668
Scholarship support	44,699,709	43,449,610
Faculty support	16,136,612	16,044,224
Deferred giving arrangements	1,788,914	2,315,568
Library support	1,507,005	1,222,667
	$ 129,498,243	126,294,737

(8) Retirement Plan

The Colleges participate in contributory retirement plans administered by the Teachers Insurance Annuity Association of America (TIAA) 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 $3,672,197 and $3,605,000 for 2016 and 2015, respectively.

(9) Subsequent Events

The Colleges have performed an evaluation of subsequent events through October 28, 2016, the date on which the financial statements were issued. There were no subsequent events having a material effect on the financial statements.