HOBART AND WILLIAM SMITH COLLEGES

Financial Statements

May 31, 2019

(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 statement of financial position as of May 31, 2019, the related statement of activities and cash flows for the year 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 audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the 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, 2019, and the changes in their net assets and their cash flows for the year then ended in accordance with U.S. generally accepted accounting principles.

Emphasis of Matter

As discussed in Note 1(q) to the financial statements, during the year ended May 31, 2019, Hobart and William Smith Colleges adopted Financial Accounting Standards Board Accounting Standards Update (ASU) No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-For-Profit Entities*. Our opinion is not modified with respect to this matter.

KPMG LLP

March 2, 2020

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HOBART AND WILLIAM SMITH COLLEGES

Statement of Financial Position

May 31, 2019

Assets

Cash and cash equivalents	$	7,879,216
Short-term investments		6,766,837
Accounts receivable, net		2,032,024
Notes receivable, net		1,610,145
Contributions receivable, net		2,405,439
Other assets		2,267,761
Long-term investments		229,304,992
Land, buildings and equipment, net		156,066,654
Total assets	$	408,333,068

Liabilities and Net Assets

Liabilities:		
Accounts payable and accrued liabilities	$	6,751,480
Deferred revenue and deposits		4,846,481
Deferred giving liabilities		1,585,981
Refundable advances from government loan programs		1,836,416
Asset retirement obligations		2,862,747
Fair value of swap agreement		6,025,429
Bonds and note payable, net		60,399,460
Total liabilities		84,307,994
Net assets:		
Without donor restrictions		118,442,414
With donor restrictions		205,582,660
Total net assets		324,025,074
Total liabilities and net assets	$	408,333,068

See accompanying notes to financial statements.

HOBART AND WILLIAM SMITH COLLEGES

Statement of Activities

Year ended May 31, 2019

	Net assets without donor restrictions	Net assets with donor restrictions	Total
Operating revenues:			
Tuition and fees, net of student aid of $61,373,499	$ 58,768,261	—	58,768,261
Residence and dining services, net of student aid of $950,440	23,064,406	—	23,064,406
Net student revenue	81,832,667	—	81,832,667
Sales and services of other auxiliaries	2,601,762	—	2,601,762
Government grants and contracts	2,378,059	—	2,378,059
Private gifts and grants	7,886,231	2,000,992	9,887,223
Investment return designated for current operations	1,830,514	7,814,889	9,645,403
Other investment income	325,537	6,501	332,038
Other	964,424	210,440	1,174,864
Net assets released from restrictions	9,090,703	(9,090,703)	—
Total operating revenues	106,909,897	942,119	107,852,016
Operating expenses:			
Instruction	35,055,158	—	35,055,158
Academic support	12,770,102	—	12,770,102
Student services	26,149,081	—	26,149,081
Institutional support	19,265,182	—	19,265,182
Auxiliaries operations	16,340,471	—	16,340,471
Total operating expenses	109,579,994	—	109,579,994
Change in net assets from operating activities	(2,670,097)	942,119	(1,727,978)
Nonoperating activities:			
Investment return, net of amounts designated for operations	(774,478)	(5,604,577)	(6,379,055)
Private gifts	—	4,799,960	4,799,960
Other changes, net	587,359	(204,168)	383,191
Change in value of deferred giving arrangements	4,065	(211,232)	(207,167)
Change in fair value of swap agreement	(1,030,290)	—	(1,030,290)
Realized losses on swap agreement	(594,372)	—	(594,372)
Net assets released from restrictions or reclassified	(284,721)	284,721	—
Decrease in net assets from nonoperating activities	(2,092,437)	(935,296)	(3,027,733)
Increase (decrease) in net assets	(4,762,534)	6,823	(4,755,711)
Net assets:			
Beginning of year	123,204,948	205,575,837	328,780,785
End of year	$ 118,442,414	205,582,660	324,025,074

See accompanying notes to financial statements.

HOBART AND WILLIAM SMITH COLLEGES

Statement of Cash Flows

Year ended May 31, 2019

Cash flows from operating activities:	
Change in net assets	$ (4,755,711)
Adjustments to reconcile change in net assets to net cash used in operating activities:	
Depreciation, amortization and accretion	7,110,321
Adjustments for uncollectible receivables	(375,678)
Change in deferred giving liabilities	143,716
Change in fair value of swap agreement	1,030,290
Contributions restricted for long-term investment	(3,722,540)
Interest and dividends restricted for long-term investment	(245,432)
Net realized and unrealized gains on investments	(99,031)
Changes in operating assets and liabilities that provide (use) cash:	
Accounts receivable	(131,592)
Contributions receivable	1,603,883
Other assets	612,835
Accounts payable and accrued liabilities	(2,215,133)
Deferred revenues and deposits	(1,301,035)
Net cash used in operating activities	(2,345,107)
Cash flows from investing activities:	
Acquisition of land, buildings and equipment	(6,618,077)
Proceeds from note collections	282,771
Proceeds from sales and maturities of investments	65,990,067
Purchases of investments	(58,794,297)
Net cash provided by investing activities	860,464
Cash flows from financing activities:	
Proceeds from contributions for:	
Investment in endowment	2,637,264
Investment in plant	563,251
Investment subject to deferred giving arrangements	522,025
Interest and dividends restricted for reinvestment	245,432
Decrease in refundable advances from government loan programs	(26,430)
Payment of long-term debt	(2,347,500)
Net cash provided by financing activities	1,594,042
Net increase in cash and cash equivalents	109,399
Cash and cash equivalents:	
Beginning of year	7,769,817
End of year	$ 7,879,216
Supplemental data:	
Interest paid	$ 2,121,114

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 in accordance with U.S. generally accepted accounting principles (GAAP), to focus on the Colleges as a whole and to present balances and transactions according to the existence or absence of donor-imposed restrictions.

(c) Classification of Net Assets

Based on the existence or absence of donor-imposed restrictions, the Colleges classify net assets into two categories: without donor restrictions and with donor restrictions.

Without donor restrictions – Net assets not subject to donor-imposed stipulations and available for the general operations of the Colleges. This net asset category principally consists of student revenue as well as investment returns on funds designated by the Board of Trustees to function as endowment, certain types of philanthropic support without restriction such as the annual fund and related expenses associated with the core programs of the Colleges.

With donor restrictions – Net assets subject to donor-imposed stipulations that will be met either by actions of the Colleges or the passage of time. Items that affect this net asset category include gifts or unconditional pledges and the related investment returns on donor-restricted endowment funds, gifts or grants for capital assets not yet placed in service, and annuity and life income funds.

The Colleges classify the following portions of donor-restricted endowment funds as net assets with donor restrictions: (a) the original value of assets contributed to endowment funds, (b) subsequent contributions to such funds valued at the date of contribution, (c) investment return available for appropriation and (d) reinvested earnings on endowment when specified by the donor.

(d) 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.

(e) Cash and Cash Equivalents

Cash and cash equivalents include cash on deposit with financial institutions or other highly liquid investments with an original maturity of three months or less 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.

(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. Associated interest, if applicable, is accrued based on the principal amount outstanding and effective 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 $158,000 at May 31, 2019 have been provided for accounts receivable estimated to be uncollectible.

Allowances of approximately $184,000 at May 31, 2019 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. 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. Contributions specified for the acquisition or construction of long-lived assets are reported as net assets without donor restrictions when the assets are placed in service. Unconditional pledges are recognized at their estimated net present value, net of an allowance for uncollectible amounts.

(h) Investments

(i) 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.

(ii) Long-Term Investments

Long-term investments are reported 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

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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, as well as the liquidity positions of the funds, may significantly impact the NAV of the funds and, consequently, the fair value of the Colleges’ interests in the funds.

Endowment and investment return includes interest and dividends, management fees, 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 and Funds Held in Trust by Others

The Colleges’ deferred giving arrangements consist primarily of gift annuities, pooled life income funds and charitable remainder trusts. Deferred giving assets of approximately $3,211,000 are included in long-term investments at their fair value as of May 31, 2019. 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.

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.

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(k) Refundable Advances from Government Loan Programs

The Colleges hold certain amounts advanced by the U.S. Government under the Federal Perkins Loan Program (the Program). Prior to June 30 2018, such amounts were loaned to students and re-loaned by the College after collection. Congressional authorization for this program ended in September 2017. The lack of renewal required the federal share of amounts collected to be returned to the Department of Education as loans are repaid. In May 2019, the Department of Education announced that it will suspend the requirement to return funds from liquidated loans for one year.

(l) Asset Retirement Obligations

Asset retirement obligations (AROs) are legal obligations associated with the retirement of long-lived assets. The Colleges accrue for asset retirement obligations in the period in which they are incurred if sufficient information is available to reasonably estimate the fair value of the obligation. Over time, the liability is accreted to its settlement value. Upon settlement of the liability, the Colleges will recognize a gain or loss for any difference between the settlement amount and liability recorded. Accretion expense was approximately $126,000 in 2019.

(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 statement of financial position. 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 fair value of the swap agreement is based on an evaluation of quotes provided by a financial institution 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 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. The change in the fair value of the swap agreement is included in nonoperating activities in the statement of activities.

(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.

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(o) Revenue Recognition

Tuition and fees, and residence and dining service revenue is recognized over the academic year as services are provided. Funds received in advance of services provided are included in deferred revenue and deposits on the accompanying statement of financial position.

Revenue is recognized when control of the promised good or service is transferred in an amount that reflects the consideration to which the College expects to be entitled in exchange for those goods or services (i.e., the transaction price).

Students

Tuition and fees, and residence and dining service revenue is recognized in the fiscal year in which the academic programs are delivered and auxiliary services used. The amount of revenue per student varies based on the specific program or class in which the student enrolls as well as whether the student lives on campus. Such revenues are recognized at amounts determined based on standard published rates for the services less institutional scholarships awarded to qualifying students. Aid in excess of a student's tuition and fees is reflected as a reduction in residence and dining charges. Disbursements made directly to students for living costs or other purposes are reported as an expense.

In addition, students who adjust their course load, dining assignment, residence assignment or withdraw completely within the drop/add period published in the College's academic calendar may receive a full or partial refund in accordance with the College's refund policy. Refunds reduce the amount of revenue recognized. Payments are due the day before the start of the academic term.

Revenues received in advance of services provided are included in deferred revenue and deposits. The total deferred revenues were approximately $1,013,000 at May 31, 2019. The deferred revenue will be recognized as the related academic and auxiliary services are provided, all within the respective fiscal year following the most recent year-end.

Grants and contracts

Grants and contracts awarded by federal and other sponsors, which are generally considered non-exchange transactions restricted by sponsors for certain purposes, are recognized as revenue when qualifying expenditures are incurred and conditions under the agreement are met. Grants and contracts whose conditions are met in the same fiscal year as their receipt are reported as without donor restrictions revenue.

Payments received from sponsors in advance of conditions being met were approximately $232,000 for the year ended May 31, 2019. These payment are reported as deferred revenues and are expected to be recognized in the following fiscal year. In addition, the Colleges have recorded deferred revenue of approximately $3,300,000 under a vendor arrangement at May 31, 2019, which will be recognized annually in the amount of $472,000 through May 31, 2026.

(p) Operations

The statement of activities present expenses by functional classification and 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, including the

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allocation of certain expenses. Operation and maintenance of plant, depreciation and interest expense are allocated based on relative square footage of facilities used for such functions. Information technology is allocated using a blended historical rate based upon an annual service analysis. 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 as well as other net changes during 2019.

(q) Recent Accounting Pronouncements

In August 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit-Entities* (ASU 2016-14). The primary changes include simplifying and enhancing the presentation of net assets, requiring operating expenses to be reported by both natural and functional classifications in a single location, and expanding disclosures regarding liquidity and availability of resources. ASU 2016-14 has been adopted during 2019 and a summary of the net asset reclassification resulting from the adoption of ASU 2016-14 is presented below:

		ASU 2016-14 Classifications		
		Without donor restrictions	**With donor restrictions**	**Total net assets**
May 31, 2018 net assets, as previously presented:				
Unrestricted	$	123,130,055	—	123,130,055
Temporarily restricted		—	67,575,930	67,575,930
Permanently restricted		—	138,074,800	138,074,800
		123,130,055	205,650,730	328,780,785
Reclassifications to implement ASU 2016-14:				
Underwater endowments		74,893	(74,893)	—
June 1, 2018 net assets	$	123,204,948	205,575,837	328,780,785

ASU 2014-09, *Revenue from Contracts with Customers,* was issued by the FASB in May 2014 and is intended to improve the financial reporting requirements for revenue from contracts with customers. ASU 2014-09 established a five-step model and application guidance for determining the timing and amount of revenue recognition. The related application guidance in the ASU replaces most existing revenue recognition guidance in GAAP. The ASU became effective for the Colleges for the year ended May 31, 2019. The Colleges' adoption of the ASU did not materially change the timing or amount of revenue recognized by the Colleges. However, the ASU requires that tuition, fees and auxiliary student revenues be presented in the statement of activities at the transaction price, i.e., net of any student aid. Previously, such revenues were presented gross, i.e. at published rates, followed by a reduction for student aid.

ASU 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made,* was issued by the FASB in June 2018. ASU 2018-18 is intended to assist entities in (1) evaluating whether transactions should be accounted for as contributions (nonexchange transactions) within the scope of *Topic 958*, *Not-for-Profit-Entities,* or as exchange transactions subject to other guidance and (2) determining whether a contribution is conditional. The ASU clarifies that a contribution is conditional if the agreement includes one or more barriers that must be overcome for recipient to be entitled to the assets transferred and a right of return for the transferred assets or a right of release of the promisor's obligation to transfer assets. The ASU became effective for the Colleges' for the fiscal year ended May 31, 2019. The Colleges' adoption of the ASU on a modified prospective basis did not have material effect on its financial statements.

(2) Financial Assets and Liquidity Resources

As of May 31, 2019, financial assets and liquidity resources available within one year for general expenditures, including operating expenses, scheduled principal payments on borrowings, and capital construction expenditures not financed with debt, include the following:

Total financial assets as of May 31, 2019	$	249,998,653
Less: amounts unavailable for general expenditures within one year:		
Board-designated and donor-restricted endowments		(209,690,878)
Donor-restricted gifts for capital projects		(3,072,585)
Donor-restricted gifts for operations		(10,501,973)
Notes receivable		(1,610,145)
Contributions receivable not available for general expenditures		(2,338,697)
Deferred giving assets		(3,211,000)
Add: fiscal year 2020 Board-approved endowment appropriation		11,612,000
Total financial assets available for general expenditure within one year	$	31,185,375

The Colleges' working capital and cash flows have seasonal variations during the year attributable to tuition, fees, and residence and dining service billing cycles. To manage liquidity, the Colleges operate with a balanced budget on a cash flow basis in accordance with policies approved by the Board of Trustees. In addition to the liquidity resources stated in the above table, the Colleges also have a line of credit available for working capital needs that is subject to annual renewal. The Colleges did not draw upon this line of credit during the year ended May 31, 2019. In addition, the board designated endowment of $22,097,162 can be made available for general expenditure with approval from the Colleges' Board of Trustees, subject to investment liquidity provisions further discussed in note 4.

(3) Contributions Receivable

Unconditional contributions receivable at May 31, 2019 are restricted by donors predominantly for scholarships and capital projects. They are expected to be realized within the following time periods:

Less than one year	$	2,941,057
One year to five years		863,232
		3,804,289
Less present value discount		(10,221)
Allowance for uncollectible receivables		(1,388,629)
	$	2,405,439

(4) 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 statement of financial position. As of May 31, 2019, 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, 2019 are summarized in the following table by their fair value hierarchy classification:

	Total May 31, 2019	Level 1	Level 2	Investments Measured at NAV	Redemption frequency	Days' notice
Investments:						
Cash and cash equivalents	$ 14,883,904	14,883,904	—	—	Daily	Same day
Fixed income and government securities	16,107,177	16,107,177	—	—	Daily – Monthly	Same day – 10 days
Common and preferred stocks	108,255,802	57,377,119	—	50,878,683	Daily – Annual	Same day – 90 days
Hedge (c)	65,948,124	—	—	65,948,124	Monthly – Illiquid	24 days – Illiquid
Private equity (b)	22,082,952	—	—	22,082,952	Illiquid	N/A
Real estate (a)	6,710,349	—	—	6,710,349	Illiquid	N/A
Other	2,083,521	—	2,083,521	—	Illiquid	N/A
Total investments	$ 236,071,829	88,368,200	2,083,521	145,620,108		

(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.

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, 2019.

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Liquidity

The following presents the fair value of the Colleges' investments as of May 31, 2019 by redemption period:

Investments redemption period:		
Daily	$	88,368,199
Monthly		43,346,728
Quarterly		23,912,450
Annual		35,607,183
Illiquid (locked-up)		44,837,269
Total	$	236,071,829

Investments that are in the Illiquid (locked-up) category are primarily related to certain 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 $20,794,000 as of May 31, 2019. The Colleges maintain sufficient liquidity in the investment portfolio to cover such commitments.

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

Dividends and interest income	$	3,499,355
Net realized and unrealized gains		99,031
Total return on investments		3,598,386
Investment return designated for current operations (endowment spending and other investment income)		(9,977,441)
Investment return, net of amounts designated for current operations	$	(6,379,055)

(5) 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 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 net assets with donor restrictions (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 net assets with donor restrictions until the amounts are expended by the Colleges in a manner consistent with the donor's intent.

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 5% of a multi-year moving average of the unit value of pooled investments. 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.

(Continued)

The following tables provide the net asset composition of the endowment as of May 31, 2019 and a rollforward of the net assets from June 1, 2018 to May 31, 2019.

	Without donor restrictions	With donor restrictions: Original gift	With donor restrictions: Accumulated returns	Total
Board-designated	$ 22,097,162	—	—	22,097,162
Donor restricted:				
Other	—	138,376,145	49,217,571	187,593,716
	$ 22,097,162	138,376,145	49,217,571	209,690,878

	Without donor restrictions	With donor restrictions	Total
Endowment net assets at beginning of year	$ 23,185,842	190,892,659	214,078,501
Reclassifications to implement ASU 2016-14	74,893	(74,893)	—
Endowment net assets at beginning of year, after reclassifications	23,260,735	190,817,766	214,078,501
Investment return	590,941	2,908,934	3,499,875
Private gifts	20,000	2,515,610	2,535,610
Other changes	56,000	(130,101)	(74,101)
Appropriated for spending	(1,830,514)	(8,518,493)	(10,349,007)
Endowment net assets at end of year	$ 22,097,162	187,593,716	209,690,878

(6) Land, Buildings and Equipment

The components of land, buildings and equipment as of May 31, 2019 were as follows:

Grounds	$ 3,566,190
Site improvements	14,758,055
Buildings	208,117,428
Equipment	56,126,830
Library books	21,743,206
Construction in progress	19,431
	304,331,140
Accumulated depreciation	(148,264,486)
Land, buildings and equipment, net	$ 156,066,654

Depreciation expense amounted to $7,130,342 in 2019.

(Continued)

(7) Bonds and Note Payable

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

	Maturity date	Interest rate	Original issue	2019
City of Geneva Industrial Development Agency Revenue Bonds:				
Series 2007 (a)	2037	Variable	$ 31,250,000	24,000,000
City of Geneva Development Corporation Refunding Bonds:				
Series 2012 (b)	2032	1.0–5.0%	26,695,000	19,800,000
Revenue Bonds:				
Series 2014 (c)	2044	3.0–5.25%	14,295,000	13,350,000
				57,150,000
Net bond premium				3,007,966
Bond issuance costs				(925,506)
				59,232,460
Manufacturers and Traders Trust Company:				
Term note (d)	2023	Variable		1,167,000
				$ 60,399,460

(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, 2019 ranged from 0.99% to 2.35%. 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 letter of credit in effect at May 31, 2019 was scheduled to expire on September 3, 2019 subsequent to year end. The letter of credit was extended through September 3, 2021.

(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.

(c) In March 2014, the Colleges issued $14,295,000 of Series 2014 City of Geneva Development Corporation Revenue Bonds. The proceeds were used to 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, 2019 ranged from 3.907% to 4.5198%.

The Colleges' bonds require compliance with certain covenants, including liquidity and debt service coverage ratios. The Colleges were in compliance with these covenants at May 31, 2019.

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

		Amount
Fiscal year:		
2020	$	2,563,500
2021		2,688,500
2022		2,843,500
2023		2,990,500
2024		2,460,000
Thereafter		44,771,000
		58,317,000
Net bond premium		3,007,966
Bond issuance costs		(925,506)
	$	60,399,460

(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, 2019, the notional amount of the swap was $24,000,000. Under the agreement, the Colleges will pay the counterparty interest at a fixed rate of 4% 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, 2019, the Colleges have recognized $594,372 in nonoperating net realized losses 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. During the year ended May 31, 2019, the Colleges recognized a decrease in net assets without donor restrictions of $1,030,290 as a result of the increase in fair value of the swap liability.

(b) Line of Credit

The Colleges maintain a line of credit for $1 million which was unused during 2019. The line of credit is renewed on an annual basis and was increased to $5 million subsequent to year end. The annual renewal of the line of audit has been extended by the financial institution until March 31, 2020.

(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 $146,000 in 2019.

(8) Net Assets

Net assets at May 31, 2019 are available for the following purposes:

	Without donor restrictions	With donor restrictions	Total
Undesignated	$ 678,058	—	678,058
Restricted for capital projects	—	3,072,585	3,072,585
Restricted for operations	—	10,501,973	10,501,973
Endowment funds	22,097,162	187,593,716	209,690,878
Land, buildings and equipment	95,667,194	—	95,667,194
Deferred giving arrangements	—	2,008,947	2,008,947
Contributions receivable, net	—	2,405,439	2,405,439
	$ 118,442,414	205,582,660	324,025,074

(9) Natural Classification of Expenses

The Colleges' primary program activity is instruction. Expenses reported as academic support, student services, institutional support, and auxiliaries operations are incurred in support of this primary program activity. Expenses presented by natural classification and function are as follows for the fiscal year ended May 31, 2019.

	Salaries and benefits	Supplies and services	Occupancy and related expenses	Depreciation and interest	Other expenses	Total
Instruction	$ 26,063,865	4,789,698	2,425,839	1,601,296	174,460	35,055,158
Academic support	6,778,481	2,615,074	412,485	2,182,696	781,366	12,770,102
Student services	13,758,289	2,678,410	4,771,816	2,082,785	2,857,781	26,149,081
Institutional support	12,089,447	1,718,488	2,737,962	450,288	2,268,997	19,265,182
Auxiliaries operations	1,240,146	7,870,035	3,881,311	2,901,011	447,968	16,340,471
	$ 59,930,228	19,671,705	14,229,413	9,218,076	6,530,572	109,579,994

(10) Retirement Plan

The Colleges participate in contributory retirement plans administered by the Teachers Insurance Annuity Association of America (TIAA) through December 31, 2018. Effective January 1, 2019, Transamerica administers the contributory retirement plan for the College's full-time employees. Total expense charged to operations relating to these plans was approximately $3,707,000 for 2019.

(11) Related Parties

From time to time, members of the Colleges' Board of Trustees and the senior management team may be directly or indirectly associated with companies conducting business with the Colleges. Among other things, the Colleges' conflict of interest policy does not permit members of the Board of Trustees or its committees to participate in any decision in which a member (or any of their immediate family members) has a material financial interest. The Colleges require members of the Board of Trustees and the senior management team to complete an annual disclosure of significant financial interests in, or employment or consulting relationships with, entities who conduct business with the Colleges. When such financial interests or relationships are disclosed, procedures are taken to assess and address the actual or perceived conflict in order to protect the best interests of the Colleges and to ensure compliance with relevant conflict of interest laws or policy.

(12) Subsequent Events

The Colleges have performed an evaluation of subsequent events through March 2, 2020, the date on which the financial statements were issued. There were no subsequent events having a material effect on the financial statements as of May 31, 2019.

The Colleges announced a Retirement/Separation Voluntary Program ("RSVP") to faculty and staff in September 2019 and October 2019, respectively. The RSVP, under which the Colleges are authorized to provide up to $5 million to eligible employees that elect to participate, is part of an overall strategic plan being developed by the Colleges' new president. The RSVP's initial goals are to reduce future compensation expense and the total number of staff and faculty employed by the Colleges. Through March 2, 2020, the RSVP and other actions taken by the Colleges will result in a net reduction of 50 full-time equivalent positions.