KPMG

CLARKSON UNIVERSITY

Auditors' Reports as Required by
Office of Management and Budget Circular A-133
and *Government Auditing Standards* and Related Information

Year Ended June 30, 2013

CLARKSON UNIVERSITY

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Year Ended June 30, 2013

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KPMG LLP
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Independent Auditors' Report

The Board of Trustees
Clarkson University:

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Clarkson University (the University), which comprise the consolidated balance sheet as of June 30, 2013, and the related consolidated statements of activities and cash flows for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Clarkson University as of June 30, 2013, and the changes in its net assets and its cash flows for the year then ended in accordance with U.S. generally accepted accounting principles.

Other Matters

Predecessor Auditors' Opinion

The accompanying consolidated financial statements of the University as of and for the year ended June 30, 2012 were audited by other auditors whose report, dated November 15, 2012, on the financial statements was unmodified and included an emphasis of matter paragraph that described that the University acquired The Beacon Institute, Inc., effective October 3, 2011, and accounted for the acquisition in accordance with ASC 958, *Not-for-Profit Entities*. Additionally, the report described that the financial statements of The Beacon Institute, Inc. as of and for the year ended June 30, 2012 were audited by other auditors.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis, as required by Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 4, 2013 on our consideration of the University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the University's internal control over financial reporting and compliance.

KPMG LLP

October 4, 2013, except for Supplementary Schedule of Expenditures of
Federal Awards, which is as of February 4, 2014

CLARKSON UNIVERSITY

Consolidated Balance Sheets

June 30, 2013 and 2012

Assets		**2013**	**2012**
Cash and cash equivalents	$	13,019,270	13,845,084
Accounts receivable, net		7,557,524	12,787,987
Deposits with trustee		4,221,745	9,089,466
Pledges receivable, net		4,161,846	8,169,475
Notes receivable – students, net		6,638,288	7,269,389
Other assets		6,120,935	6,121,627
Investments		158,155,712	148,103,174
Property and equipment, net		171,612,112	163,518,644
Total assets	$	371,487,432	368,904,846
Liabilities and Net Assets			
Liabilities:			
Accounts payable and accrued expenses	$	5,769,975	6,829,678
Deposits and advances		10,736,845	7,664,526
Other liabilities		5,574,598	5,470,375
Accrued postretirement benefits		22,611,723	26,208,016
Long-term debt		66,776,319	68,776,174
Conditional asset retirement obligations		5,216,603	7,261,914
Federal and other loan advances		7,522,259	7,375,193
Total liabilities		124,208,322	129,585,876
Net assets:			
Unrestricted		105,698,619	100,760,579
Temporarily restricted		29,528,147	29,908,406
Permanently restricted		112,052,344	108,649,985
Total net assets		247,279,110	239,318,970
Total liabilities and net assets	$	371,487,432	368,904,846

See accompanying notes to consolidated financial statements.

CLARKSON UNIVERSITY

Consolidated Statement of Activities

Year ended June 30, 2013
(with comparative totals for the year ended June 30, 2012)

	2013				
	Unrestricted	Temporarily restricted	Permanently restricted	Total	Total 2012
Operating revenues:					
Tuition and fees	$ 126,988,740	—	—	126,988,740	118,567,995
Housing, dining, and other auxiliary services	26,552,284	—	—	26,552,284	24,862,610
Less:					
University funded scholarships	(77,229,946)	—	—	(77,229,946)	(69,982,870)
Government funded student aid	(491,227)	—	—	(491,227)	(912,359)
Net tuition and fees	75,819,851	—	—	75,819,851	72,535,376
State appropriations	251,327	—	—	251,327	253,837
Government contracts and grants	11,941,483	—	—	11,941,483	14,662,451
Private gifts and grants	7,522,384	2,087,771	—	9,610,155	11,995,512
Sales and services of educational and general departments	454,427	—	—	454,427	797,895
Related entities	2,370,419	—	—	2,370,419	4,405,676
Other sources	2,956,022	—	—	2,956,022	2,980,455
Allocation of endowment return for spending	7,525,613	—	—	7,525,613	7,455,059
Net assets released from restrictions	2,888,810	(2,888,810)	—	—	—
Total operating revenues	111,730,336	(801,039)	—	110,929,297	115,086,261
Operating expenses:					
Instruction	46,765,261	—	—	46,765,261	43,691,290
Research	11,256,054	—	—	11,256,054	14,263,772
Academic support	11,103,689	—	—	11,103,689	9,731,166
Student services	14,159,882	—	—	14,159,882	13,053,999
Institutional support	14,608,657	—	—	14,608,657	13,665,229
Housing, dining and other auxiliary services	15,061,269	—	—	15,061,269	15,456,643
Related entities	4,521,848	—	—	4,521,848	3,474,052
Total operating expenses	117,476,660	—	—	117,476,660	113,336,151
(Decrease) increase from operating activity	(5,746,324)	(801,039)	—	(6,547,363)	1,750,110
Nonoperating activity:					
Contributions for long-term investment	—	1,162,094	4,329,394	5,491,488	4,053,368
Change in pledges receivable	—	(2,950,657)	(1,056,972)	(4,007,629)	(1,173,038)
Total endowment investment return	4,974,826	9,371,261	—	14,346,087	(3,030,589)
Endowment return distributed for operations	(2,633,034)	(5,003,133)	110,554	(7,525,613)	(7,453,360)
Loss on disposal of assets	(423,769)	—	—	(423,769)	(517,439)
Other changes and reclassifications	2,646,737	(2,646,737)	—	—	—
Net assets released from permanent restrictions	1,095	36,650	(37,745)	—	—
Postretirement related adjustments other than net periodic benefit costs	4,783,377	—	—	4,783,377	(7,080,903)
Other nonoperating income (expenses)	1,335,132	451,302	57,128	1,843,562	(1,309,813)
Increase (decrease) from nonoperating activity	10,684,364	420,780	3,402,359	14,507,503	(16,511,774)
Change in net assets before acquisition	4,938,040	(380,259)	3,402,359	7,960,140	(14,761,664)
Contribution received through acquisition	—	—	—	—	6,717,970
Change in net assets	4,938,040	(380,259)	3,402,359	7,960,140	(8,043,694)
Net assets:					
Beginning of year	100,760,579	29,908,406	108,649,985	239,318,970	247,362,664
End of year	$ 105,698,619	29,528,147	112,052,344	247,279,110	239,318,970

See accompanying notes to consolidated financial statements.

CLARKSON UNIVERSITY

Consolidated Statement of Activities

Year ended June 30, 2012

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Operating revenues:				
Tuition and fees	$ 118,567,995	—	—	118,567,995
Housing, dining and other auxiliary services	24,862,610	—	—	24,862,610
Less:				
University funded scholarships	(69,982,870)	—	—	(69,982,870)
Government funded student aid	(912,359)	—	—	(912,359)
Net tuition and fees	72,535,376	—	—	72,535,376
State appropriations	253,837	—	—	253,837
Government contracts and grants	14,662,451	—	—	14,662,451
Private gifts and grants	9,737,983	2,257,529	—	11,995,512
Sales and services of educational and general departments	797,895	—	—	797,895
Related entities	4,405,676	—	—	4,405,676
Other sources	2,980,455	—	—	2,980,455
Allocation of endowment return for spending	4,755,426	2,633,631	66,002	7,455,059
Net assets released from restrictions	4,573,907	(4,572,905)	(1,002)	—
Total operating revenues	114,703,006	318,255	65,000	115,086,261
Operating expenses:				
Educational and general:				
Instruction	43,691,290	—	—	43,691,290
Research	14,263,772	—	—	14,263,772
Academic support	9,731,166	—	—	9,731,166
Student services	13,053,999	—	—	13,053,999
Institutional support	13,665,229	—	—	13,665,229
Housing, dining and other auxiliary services	15,456,643	—	—	15,456,643
Related entities	3,474,052	—	—	3,474,052
Total operating expenses	113,336,151	—	—	113,336,151
Increase from operating activities	1,366,855	318,255	65,000	1,750,110
Nonoperating activity:				
Contributions for long-term investments	—	50,467	4,002,901	4,053,368
Change to pledges receivable	—	432,081	(1,605,119)	(1,173,038)
Total endowment investment return	1,292,917	(4,323,506)	—	(3,030,589)
Endowment return distributed for operations	(7,370,983)	(82,377)	—	(7,453,360)
Loss on disposal of assets	(517,439)	—	—	(517,439)
Postretirement related adjustments other than net periodic benefit costs	(7,080,903)	—	—	(7,080,903)
Other nonoperating expenses	(704,220)	(445,951)	(159,642)	(1,309,813)
(Decrease) increase from nonoperating activity	(14,380,628)	(4,369,286)	2,238,140	(16,511,774)
Change in net assets before acquisition	(13,013,773)	(4,051,031)	2,303,140	(14,761,664)
Contribution received through acquisition	6,645,658	67,312	5,000	6,717,970
Change in net assets	(6,368,115)	(3,983,719)	2,308,140	(8,043,694)
Net assets:				
Beginning of year	107,128,694	33,892,125	106,341,845	247,362,664
End of year	$ 100,760,579	29,908,406	108,649,985	239,318,970

See accompanying notes to consolidated financial statements.

CLARKSON UNIVERSITY

Consolidated Statements of Cash Flows

Years ended June 30, 2013 and 2012

	2013	2012
Cash flows from operating activities:		
Change in net assets	$ 7,960,140	(8,043,694)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Contribution received through acquisition	—	(6,717,970)
Premiums on long-term debt issuances	—	1,085,823
Depreciation and amortization	7,781,944	7,663,717
Loss on disposal of assets	423,769	503,180
Contributions received for long-term investment	(5,366,143)	(2,545,999)
Contributions received for investment in annuity agreements	(161,049)	(284,755)
Net realized and unrealized (gain) loss on investments	(12,464,091)	5,295,156
Adjustment on loans receivable	71,755	343,761
Conditional asset retirement obligation	790,646	443,638
Forgiveness of debt	(333,340)	(333,340)
Changes in assets and liabilities:		
Accounts receivable	5,270,375	1,490,524
Pledges receivable	4,007,629	1,173,038
Other assets	(259,440)	232,596
Accounts payable and accrued expenses	32,855	(4,046,373)
Conditional asset retirement obligation	(2,501,587)	(69,294)
Deposits and advances	3,072,319	357,552
Other liabilities	336,823	(674,690)
Postretirement benefits	(3,596,293)	7,689,390
Annuities payable	(293,747)	(180,743)
Net cash provided by operating activities	4,772,565	3,381,517
Cash flows from investing activities:		
Proceeds from maturity/sale of investments	21,303,898	28,135,575
Purchase of investments	(16,791,356)	(18,631,135)
Increase in short-term investments	(8,373)	(8,533)
Decrease (increase) in deposits with trustee	4,867,721	(5,427,120)
Student loans collected, net	591,189	982,718
Other assets collected	184,934	125,611
Cash acquired in acquisition of Beacon, net of consideration paid	—	190,434
Purchase of property and equipment	(17,648,894)	(20,172,423)
Net cash used in investing activities	(7,500,881)	(14,804,873)
Cash flows from financing activities:		
Deferred financing costs	—	(1,059,537)
Contributions received for long-term investment	3,260,901	1,507,617
Contributions received for investment in annuity agreements	161,049	284,755
Proceeds from borrowing	—	35,800,000
Payment of debt principal	(1,666,514)	(12,826,617)
Other changes in government loan funds	147,066	325,910
Net cash provided by financing activities	1,902,502	24,032,128
Net (decrease) increase in cash and cash equivalents	(825,814)	12,608,772
Cash and cash equivalents:		
Beginning of year	13,845,084	1,236,312
End of year	$ 13,019,270	13,845,084
Supplemental disclosures:		
Interest paid	$ 2,079,950	2,219,171
Noncash transactions:		
Securities contributions	2,100,992	1,414,168
In-kind contributions	4,250	204,774
(Decrease) increase in construction-related payables	(1,092,558)	1,310,376
Asset retirement cost	(334,370)	(10,331)

See accompanying notes to consolidated financial statements.

(1) Summary of Significant Accounting Policies

(a) Organization

Clarkson University (the University) is an independent, co-educational, not-for-profit, nonsectarian institution of higher education located in Potsdam, New York. The University, founded in 1896, operates as an education corporation under the New York State Not-for-Profit Corporation Law under the direction of an independent Board of Trustees. The University has a total enrollment of over 3,000 undergraduate students and 500 graduate students in more than 50 comprehensive programs in business, engineering, science, liberal arts, health sciences, and environmental studies.

J.R. Weston, Inc. (Weston, included within Related Entities on the Statements of Activities) is a for-profit, wholly owned subsidiary of the University. Weston operations consist of real estate rentals and a hotel operation. The Beacon Institute, Inc. (Beacon, included within Related Entities on the Statements of Activities) is a not-for-profit organization of which the University is the sole member. Beacon owns and operates a global center for scientific technological innovation that advances research, education and public policy regarding rivers and estuaries. On October 3, 2011, the University and Beacon entered into an agreement pursuant to which the University became the sole member of Beacon. For further information regarding the acquisition, see note 1(c). All significant inter-entity accounts and transactions are eliminated in consolidation.

(b) Basis of Accounting

The consolidated financial statements are prepared in accordance with U.S. generally accepted accounting principles (GAAP).

(c) Acquisition of Beacon

The change in control of Beacon, for which no consideration was exchanged, was accounted for as an acquisition and resulted in the University recording approximately $6,718,000 of contribution revenue in the 2012 consolidated statement of operations. This amount represented the excess of the fair value of assets acquired over the fair value of liabilities assumed at October 3, 2011. Total assets acquired, representing primarily property and equipment and grants and other receivables, was approximately $9,665,000 while total liabilities assumed, representing primarily accounts payable and accrued expenses and amounts owed by Beacon under a line of credit, was approximately $2,947,000.

(d) Use of Estimates

The preparation of financial statements in conformity with GAAP 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 and reported amounts of revenues and expenses during the reporting periods. Management’s most significant use of estimates related to allowances for receivables, investment valuations, accrued postretirement benefits and asset retirement obligations. Actual results could differ from those estimates.

(Continued)

(e) Net Assets

The accompanying consolidated financial statements present information in three classes of net assets: unrestricted, temporarily restricted, and permanently restricted. The three classes are differentiated by the presence or absence of donor-imposed restrictions. Net assets having similar characteristics have been classified as follows:

Unrestricted net assets may be designated for specific purposes by the University or may be limited by contractual agreements with outside parties. Unrestricted net assets include operating, plant, and internally designated plant and funds functioning as endowment funds.

Temporarily restricted net assets are subject to donor-imposed or legal stipulations that can be fulfilled by actions of the University pursuant to those stipulations or that expire with the passage of time. Total return on permanently and temporarily restricted assets are reported as temporarily restricted net assets until appropriated by board of trustees in accordance with New York State laws.

Permanently restricted net assets are subject to donor-imposed stipulations that they be maintained permanently and neither expire with the passage of time nor can be fulfilled or otherwise removed by the actions of the University. Generally, the donors of these assets permit the University to use all or part of the investment return on these assets to support program activities, principally financial aid and instruction.

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 as “net assets released from restrictions.”

(f) Cash Equivalents

Cash equivalents represent highly liquid debt instruments with original maturities of three months or less that are not part of long-term investment pools.

(g) Deposits with Trustee

Deposits with trustee include debt service and certain reserve funds required by the trustee. There were unexpended bond proceeds of $2,557,721 and $7,426,345 at June 30, 2013 and 2012, respectively.

(h) Contributions

Contributions, including unconditional pledges, are recognized as revenues when donors’ commitments are received. Conditional pledges are recognized as revenues when the conditions are substantially met. Unconditional promises to give cash and other assets are reported at fair value at the date the promise is received except unconditional pledges to be received in future years which are discounted, as of the date of the contribution, at rates commensurate with the period of time until the pledge is scheduled to be paid and reflecting an allowance for potential collection risk, and are classified as either permanently restricted or temporarily restricted. Gifts are reported as either temporarily or permanently restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified as unrestricted net assets. Contributions specified for the acquisition or construction of long-lived assets are reported as unrestricted net assets when the assets are placed in service. In the absence of donor stipulations, income and gains on contributions are reported as revenue of unrestricted net assets.

(i) Investments

Investments are reported at estimated fair value. The values of publicly traded fixed income and equity securities are based on quoted market prices and exchange rates. Nonmarketable securities include alternative investments in hedge, private equity, and other similar funds, which are valued using current estimates of fair value in the absence of readily determinable market values. The University utilizes net asset value (NAV) reported by the fund managers as a practical expedient to fair value. The estimates, because of the inherent uncertainty of valuations for these investments, may differ from the values that would have been used had ready markets existed.

(j) Fair Value

GAAP defines fair value and establishes a framework for measuring fair value. The GAAP definition of fair value focuses on the exit price of an investment, which is the price that would be received to sell an asset in an orderly transaction between market participants at the measurement date, incorporating a hierarchy of valuation inputs based on the extent to which the inputs are observable in the marketplace. Observable inputs reflect market data obtained from sources independent of the reporting entity and unobservable inputs reflect the reporting entity's own assumptions about how market participants would value an asset based on the best information available. Valuation techniques used to measure fair value must maximize the use of observable inputs and minimize the use of unobservable inputs. The fair value hierarchy uses three levels of inputs.

The following describes the hierarchy of inputs used to measure fair value and the primary valuation methodologies used by the University for financial instrument's measured at fair value on a recurring basis. A financial instruments' categorization within the valuation hierarchy is based on the lowest level of input that is significant to the fair value measurement.

- Level l – quoted prices (unadjusted) in active markets that are accessible at the measurement date for assets or liabilities;
- Level 2 – observable prices that are based on inputs not quoted in active markets, but corroborated by market data. In addition, Level 2 includes investments reported using net asset value (NAV) as a practical expedient to estimate fair value that are redeemable in the near term.
- Level 3 – unobservable inputs that are used when little or no market data is available. In addition, Level 3 includes investments reported at NAV that are not redeemable in the near term.

As discussed above, the University uses net asset value (NAV) reported by fund managers as a practical expedient to estimate fair value of alternative investments that (a) do not have a readily determinable fair value and (b) either have the attributes of an investment company or prepare their financial statements consistent with the measurement principles of an investment company, unless it is probable that all or a portion of the investment will be sold for an amount different from NAV. With respect to those investments reported at NAV as a practical expedient, classification in Level 2 or 3 is based on the University's ability to redeem its interest at or near the date of the balance sheet. If the interest can be redeemed with 90 days of the date of the balance sheet, the investment is classified in Level 2, if not it is classified as Level 3.

(k) Property and Equipment

Buildings, grounds, equipment, and construction in progress are stated at cost, or, in the case of gifts, at fair value at date of donation, less accumulated depreciation. Expenditures for maintenance, repairs and renewals of relatively minor items are not capitalized. The cost of assets disposed of and related accumulated depreciation are eliminated from the accounts.

The University assesses its long-lived assets for impairment whenever events or changes in circumstances indicate potential impairment. The University has determined that no impairment losses need be recognized in the periods presented. Depreciation is computed on a straight-line basis over the estimated useful lives of the related assets. Such assets and lives are generally as follows:

Buildings	20 – 50 years
Equipment	3 – 20 years

Gifts of long-lived assets such as land, buildings, or equipment are reported as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as temporarily restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, expirations of donor restrictions are reported when the donated or acquired long-lived assets are placed in service.

(l) Asset Retirement Obligations

The University accrues for asset retirement obligations in the period in which they are incurred. Beginning with the date identified and through the estimated time of settlement of the obligation, the liability is accreted to its estimated settlement value. Upon settlement of the liability, the University will recognize a gain or loss for any difference between the settlement amount and liability recorded.

The following is a summary of the components of asset retirement obligations:

		2013	2012
Change in asset retirement obligations:			
Asset retirement obligations at beginning of year	$	7,261,914	6,897,901
Asbestos remediated during the year		(2,046,484)	(69,292)
Accretion expense		1,173	433,305
Asset cost revisions		—	—
Asset retirement obligations at end of year	$	5,216,603	7,261,914

(m) Retirement Plans

The University participates in defined contribution retirement plans. Total expense under these plans, representing the University's contributions to these plans, was $3,498,156 and $3,227,923 for 2013 and 2012, respectively.

(n) Income Taxes

The consolidated financial statements include the University and Beacon, which are generally exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code. Weston is a taxable subsidiary of the University. The income tax attributable to Weston is reflected in these consolidated financial statements but is not material.

The University recognizes the effect of income tax positions only if those positions are more likely than not of being sustained by a taxing authority and believes it has taken no significant uncertain tax positions.

(o) Allocation of Certain Expenses

The statements of activities present expenses by functional classification. Operation and maintenance of plant and depreciation are allocated based on square footage. Interest expense is allocated to functional expenses according to the original purpose of the bond proceeds.

(p) Reclassifications

Certain 2012 amounts have been reclassified to conform to the 2013 presentation. The significant items that have reclassified include certain items in the fair value hierarchy in note 2, summarization of certain line items in the balance sheet, and reclassification of certain gifts and endowment return to nonoperating on the statement of activities.

(Continued)

(2) Investments and Fair Value

(a) Fair Value

The following table presents the financial instruments carried at fair value as of June 30, 2013, by caption on the balance sheet by the valuation hierarchy defined above:

		Level 1	Level 2	Level 3	Total fair value	Redemption or liquidation	Days' notice
Assets:							
Short term investments	$	—	679,276	—	679,276	Daily	1
Deposits with trustee		4,221,745	—	—	4,221,745	Daily	1
GATE receivable		—	—	1,376,343	1,376,343	Illiquid	N/A
Investments:							
Money market and similar		313,196	—	—	313,196	Daily	1
Fixed income securities:							
U.S. government securities		11,773,957	—	—	11,773,957	Daily	1
Other		3,196,575	—	—	3,196,575	Daily	1
Corporate stocks:							
Domestic		18,656,915	12,248,147	—	30,905,062	Daily	1
International		34,958,634	—	—	34,958,634	Daily	1
Hedge funds:							
Multistrategy funds		—	—	34,386,571	34,386,571	Subject to lock-up	90
Private equity		—	—	7,371,454	7,371,454	Illiquid	N/A
Venture capital		—	—	4,651,798	4,651,798	Illiquid	N/A
Real assets		2,956,735	10,468,919	16,000	13,441,654	Daily	1
International equity		—	11,250,936	—	11,250,936	Monthly	30
Annuity and life income funds		—	5,617,713	—	5,617,713	N/A	—
Life insurance policies		—	288,162	—	288,162	Daily	1
Investments		71,856,012	39,873,877	46,425,823	158,155,712		
Total assets at fair value	$	76,077,757	40,553,153	47,802,166	164,433,076		
Liabilities:							
GATE liability	$	—	—	650,570	650,570		
Total liabilities at fair value	$	—	—	650,570	650,570		

The following table presents the financial instruments carried at fair value as of June 30, 2012, by caption on the balance sheet by the valuation hierarchy defined above:

	Level 1	Level 2	Level 3	Total fair value	Redemption or liquidation	Days' notice
Assets:						
Short term investments	$ —	670,903	—	670,903	Daily	1
Deposits with trustee	9,089,466	—	—	9,089,466	Daily	1
GATE receivable	—	—	1,563,785	1,563,785	Illiquid	N/A
Investments:						
Money market and similar	375,054	—	—	375,054	Daily	1
Fixed income securities:						
U.S. government securities	16,983,132	—	—	16,983,132	Daily	1
Other	3,217,653	—	—	3,217,653	Daily	1
Corporate stocks:						
Domestic	15,951,730	15,289,471	—	31,241,201	Daily	1
International	26,120,308	—	—	26,120,308	Daily	1
Small cap emerging market funds	—	1,934,348	—	1,934,348	Daily	1
Hedge funds:						
Multistrategy funds	—	—	25,813,359	25,813,359	Subject to lock-up	90
Private equity	—	—	7,727,008	7,727,008	Illiquid	N/A
Venture capital	—	—	4,988,532	4,988,532	Illiquid	N/A
Real assets	2,892,245	11,097,075	16,000	14,005,320	Daily	1
International equity	—	8,505,053	—	8,505,053	Monthly	30
Annuity and life income funds	—	6,928,152	—	6,928,152	N/A	—
Life insurance policies	—	264,054	—	264,054	Daily	1
Investments	65,540,122	44,018,153	38,544,899	148,103,174		
Total assets at fair value	$ 74,629,588	44,689,056	40,108,684	159,427,328		
Liabilities:						
GATE liability	$ —	—	581,322	581,322		
Total liabilities at fair value	$ —	—	581,322	581,322		

Investments included in Level 3 primarily consist of the University's ownership in alternative investments; principally limited partnership interests in hedge, private equity, real estate, and other similar funds. The estimated fair value of certain alternative investments represents the ownership interest in the net asset value (NAV) of the respective partnership. The fair values (NAV) of the securities held by limited partnerships that do not have readily determinable fair values are determined by management based on information provided by the general partner and are based on appraisals, or other estimates that require varying degrees of judgment. If no public market exists for the investment securities, the fair value is determined by management based on information provided by the general partner taking into consideration, among other things, the cost of the securities, prices of recent significant placements of securities of the same issuer, and subsequent developments concerning the companies to which the securities relate. The University has performed significant due diligence around these investments to ensure NAV is an appropriate measure of fair value as of June 30.

The University was involved in the Guaranteed Access to Education (GATE) loan program from 1994 to 2005. Under this program, the University recognizes future residual cash flows as an asset. Based on historical default rates and other assumptions, the residual receivables are approximately $1,376,343 and $1,563,785 as of June 30, 2013 and 2012, respectively. This amount is recorded at fair value in the consolidated financial statements in other assets. Also under this program, the University has pledged approximately $6,038,928 and $6,247,274 as of June 30, 2013 and 2012 to a third party administrator to guaranty the loans. The discounted estimated pledge contribution liability is $650,570 and $581,322 as of June 30, 2013 and 2012, respectively. This amount has been recorded at fair value in the consolidated financial statements in other liabilities.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the University believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date.

The following table is a roll forward of the balance sheet amounts for financial instruments classified by the University within Level 3 of the fair value hierarchy defined above:

	Fair value July 1, 2012	Payments received	Pledge payments	Present value adjustment	Realized gains (losses)	Unrealized gains (losses)	Sales and settlements	Purchases	Fair value June 30, 2013
Assets:									
GATE receivable	$ 1,563,784	(184,934)	—	(2,507)	—	—	—	—	1,376,343
Real estate	16,000	—	—	—	—	—	—	—	16,000
Hedge funds	25,813,359	—	—	—	—	3,573,212	—	5,000,000	34,386,571
Private equity	7,727,010	—	—	—	—	(476,141)	(618,162)	738,750	7,371,457
Venture capital	4,988,531	—	—	—	—	(600,164)	(111,070)	374,500	4,651,797
Total assets at fair value	$ 40,108,684	(184,934)	—	(2,507)	—	2,496,907	(729,232)	6,113,250	47,802,168
Liabilities:									
GATE liability	$ 581,322	—	(296,737)	365,985	—	—	—	—	650,570
Total liabilities at fair value	$ 581,322	—	(296,737)	365,985	—	—	—	—	650,570

	Fair value July 1, 2011	Payments received	Pledge payments	Present value adjustment	Realized gains (losses)	Unrealized gains (losses)	Sales and settlements	Purchases	Fair value June 30, 2012
Assets:									
GATE receivable	$ 2,037,660	(125,611)	—	(348,265)	—	—	—	—	1,563,784
Real estate	16,000	—	—	—	—	—	—	—	16,000
Hedge funds	23,948,295	—	—	—	—	(134,936)	—	2,000,000	25,813,359
Private equity	6,852,934	—	—	—	547,378	(191,112)	(514,690)	1,032,500	7,727,010
Venture capital	3,858,487	—	—	—	359,330	406,734	(154,020)	518,000	4,988,531
Total assets at fair value	$ 36,713,376	(125,611)	—	(348,265)	906,708	80,686	(668,710)	3,550,500	40,108,684
Liabilities:									
GATE liability	$ 791,547	—	(205,721)	(4,504)	—	—	—	—	581,322
Total liabilities at fair value	$ 791,547	—	(205,721)	(4,504)	—	—	—	—	581,322

(b) Investment Return

A majority of endowment assets are pooled on a fair value basis, and the University utilizes a total return approach to investments in the endowment pool. This approach considers income yield (primarily interest and dividends) as well as the net appreciation (depreciation) in the fair value of pooled investments when determining the spending amount. The unit fair value is used to account for income distributed and pool transactions. Pooled funds were as follows as of June 30:

	2013	2012
Investments in pooled funds, at fair value	$ 154,309,230	140,808,941
Total number of units	685,250	665,215
Market value per unit	225.19	211.67

The University's return on endowment investments was as follows for the years ended June 30:

	2013	2012
Investment earnings, net of fees	$ 1,881,996	2,266,265
Realized and unrealized gain (loss), net	12,464,091	(5,295,156)
Total return on investment	14,346,087	(3,028,891)
Allocation for endowment spending policy	(7,525,613)	(7,455,058)
Nonoperating investment return	$ 6,820,474	(10,483,949)

Investment fees were $331,618 and $339,070 for the years ended June 30, 2013 and 2012, respectively. The University has annuity and life income investments with a gross value of $5,645,622 and $6,782,249 as of June 30, 2013 and 2012, respectively. These funds pass to the University upon the death of the beneficiaries and, in some cases, survivors. As a result, a liability is recorded to reflect the present value of the annuity and life income obligations. The amount of this liability is $3,039,224 and $3,332,971 as of June 30, 2013 and 2012, respectively.

(c) Liquidity

Level 3 investments include illiquid private equity funds. Those investments are illiquid because distributions from them are made upon the liquidation of underlying investments. Also, certain of the University's hedge fund investments classified as Level 3 investments are subject to restrictions impacting their liquidity. Those restrictions include contractual lock up provisions, redemption notification requirements, and other restrictions. The lock up provisions related to the University's hedge fund investments as of June 30, 2013 have expired or will expire during 2014.

Under the terms of certain limited partnership agreements, the University is obligated periodically to advance additional funding. At June 30, 2013 and 2012, the University had commitments of approximately $2,540,000 and $3,650,000, respectively, for which capital call's had not been exercised. Such commitments generally have fixed expiration dates or other termination clauses.

(3) Endowment Funds

The New York Prudent Management of Institutional Funds Act (NYPMIFA) became effective on September 17, 2010 and governs the management and investment of funds held by not-for-profit corporations and other institutions. Absent donor stipulations to the contrary, the statutory guidelines contained in NYPMIFA relate to the prudent management, investment and expenditure of donor-restricted endowment funds without regard to the original value of the gifts. However, NYPMIFA contains specific factors that must be considered prior to making investment decisions or appropriating funds for expenditure. For accounting purposes, the University applies the concepts included in NYPMIFA and ASC 958, *Not-for-Profit Entities*, regarding classification of unspent accumulated total return as temporarily restricted net assets.

The Board of Trustees' interpretation of its fiduciary responsibilities for donor-restricted endowment funds under New York State's Not-for-Profit Corporation Law, including NYPMIFA, is to preserve intergenerational equity to the extent possible by prudently managing, investing, and spending from the endowment funds. This principle holds that future endowment beneficiaries should receive at least the same level of economic support that the current generation receives. As a result of this interpretation, the University classifies as permanently restricted net assets (a) the original value of gifts donated to a true endowment, (b) the original value of subsequent gifts to a true endowment fund, and (c) accumulations to a true endowment fund made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. Unspent appropriations related to donor-restricted endowment funds are classified as temporarily restricted net assets until the amounts are able to be expended by the University in a manner consistent with the donor's intent.

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

Endowment net assets consisted of the following as of June 30, 2013:

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Donor-restricted	$ (4,316,587)	19,399,422	106,490,354	121,573,189
Board-designated	47,864,679	—	—	47,864,679
Total endowment net assets	$ 43,548,092	19,399,422	106,490,354	169,437,868

Changes in endowment net assets for the year ended June 30, 2013 were as follows:

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Net assets at July 1, 2012	$ 38,613,039	17,678,032	102,049,845	158,340,916
Interest and dividends, net of fees	548,791	1,333,207	—	1,881,998
Net appreciation	4,426,035	8,038,054	—	12,464,089
Total investment return	4,974,826	9,371,261	—	14,346,087
Contributions	—	—	4,317,373	4,317,373
Amounts appropriated for expenditure	(2,059,449)	(5,003,134)	109,786	(6,952,797)
Amounts appropriated for debt service	(677,061)	—	—	(677,061)
Other changes and reclassification	2,696,737	(2,646,737)	13,350	63,350
Net assets at June 30, 2013	$ 43,548,092	19,399,422	106,490,354	169,437,868

Endowment net assets consisted of the following as of June 30, 2012:

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Donor-restricted	$ (5,747,888)	17,678,032	102,049,845	113,979,989
Board-designated	44,360,927	—	—	44,360,927
Total endowment net assets	$ 38,613,039	17,678,032	102,049,845	158,340,916

(Continued)

Changes in endowment net assets for the year ended June 30, 2012 were as follows:

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Net assets at July 1, 2011	$ 44,881,531	22,074,907	98,187,635	165,144,073
Interest and dividends, net of fees	2,266,265	—	—	2,266,265
Net depreciation	(962,180)	(4,323,506)	—	(5,285,686)
Total investment return	1,304,085	(4,323,506)	—	(3,019,421)
Contributions	—	—	3,759,894	3,759,894
Amounts appropriated for expenditure	(4,335,773)	(2,633,630)	65,220	(6,904,183)
Amounts appropriated for debt service	(676,543)	—	—	(676,543)
Other changes and reclassification	(2,560,261)	2,560,261	37,096	37,096
Net assets at June 30, 2012	$ 38,613,039	17,678,032	102,049,845	158,340,916

(a) Endowment Funds with Deficits

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the value of the initial and subsequent donor gift amounts (deficit). These deficits result from unfavorable market fluctuations that occur after the investment of endowment funds or from spending deemed prudent.

When donor-restricted endowment deficits exist, they are classified as a reduction of unrestricted net assets. Deficits of this nature were approximately $4,316,587 and $5,747,888 as of June 30, 2013 and 2012, respectively. These deficits were related to endowment funds with an original fair value of $44,395,251 and $45,998,719 as of June 30, 2013 and 2012, respectively.

(b) Return Objectives and Risk Parameters

The University has adopted endowment investment and spending policies that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of endowment assets. Under this policy, the return objective for the endowment assets, measured over a full market cycle, shall be to maximize the return against a blended index, based on the endowment's target allocation applied to the appropriate individual benchmarks. The University expects its endowment funds over time, to provide an average rate of return of approximately 8.0% annually. Actual returns in any given year may vary from this amount.

(c) Strategies Employed for Achieving Investment Objectives

To achieve its long-term rate of return objectives, the University relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized gains) and current yield (interest and dividends). The University targets a diversified asset allocation that places greater emphasis on equity-based investments to achieve its long-term objectives within prudent risk constraints.

(d) Endowment Spending Allocation and Relationship of Spending Policy to Investment Objectives

The Board of Trustees determines the appropriate amount to withdraw from endowment and similar funds on an annual basis to provide support for operations with prudent concern for the long-term growth in the underlying assets as well as the specific factors detailed in NYPMIFA. The Board of Trustees of the University determines the method to be used to appropriate endowment funds for expenditure. The annual spending rate of 4.5% is based on a trailing 12-quarter average market value of restricted and unrestricted pooled assets. An additional annual spending of 1% based on the trailing 12-quarter average market value of unrestricted pooled assets is appropriated for Board approved debt service expenses or capital expenditures. Furthermore, the Board has authorized additional annual spending for certain debt service. Distributions of earnings from the fund to support expenditures are expected to be equal to or less than actual returns, therefore achieving the financial objective of preserving the value of the fund assets and related revenue stream over time.

(4) Temporarily and Permanently Restricted Net Assets

At June 30, 2013 and June 30, 2012, temporarily and permanently restricted net assets were comprised as follows (in thousands of dollars):

	2013		2012	
	Temporarily restricted	**Permanently restricted**	**Temporarily restricted**	**Permanently restricted**
Pledges and bequests receivable	$ 2,091,797	2,070,050	5,042,453	3,127,022
Other	4,845,518	—	3,615,751	—
Restricted for facilities	1,285,593	—	755,228	—
Restricted for student loans	—	2,782,365	—	2,777,073
Life income, annuity, and similar funds	1,905,817	704,575	2,758,233	691,045
Endowment funds	19,399,422	106,495,354	17,736,741	102,054,845
Total net assets	$ 29,528,147	112,052,344	29,908,406	108,649,985

(5) Receivables

Accounts receivable consisted of the following at June 30:

	2013	2012
Students, net	$ 1,094,239	1,271,558
Research contracts and grants	4,375,914	9,894,516
Other	2,087,371	1,621,913
	$ 7,557,524	12,787,987

The University maintains an allowance for uncollectible student and grant accounts. These allowances were approximately $282,019 and $262,292 for student and grant receivables, at June 30, 2013 and 2012, respectively.

(Continued)

Notes receivable consisted of the following at June 30:

	2013	2012
Federal and other external student	$ 4,927,304	5,446,720
Unrestricted student loans	215,775	217,648
Permanently restricted student loans	1,495,209	1,605,021
	$ 6,638,288	7,269,389

The University maintains an allowance for uncollectible notes receivable, which was $954,265 and $914,379 at June 30, 2013 and 2012, respectively.

Pledges receivable at June 30 are as follows:

	2013	2012
In less than one year	$ 1,354,651	2,933,725
In one to five years	2,182,900	4,415,883
Greater than five years	910,000	1,710,000
Gross receivable	4,447,551	9,059,608
Present value discount and reserve	285,705	890,133
Net receivable	$ 4,161,846	8,169,475

(6) Property and Equipment

Property and equipment consisted of the following at June 30:

	2013	2012
Buildings and grounds	$ 226,428,622	199,433,217
Equipment	36,968,359	35,151,676
Construction in progress	20,833,511	34,822,103
Total property and equipment	284,230,492	269,406,996
Less accumulated depreciation	(112,618,380)	(105,888,352)
	$ 171,612,112	163,518,644

Construction in progress is made up of certain projects started but not completed at June 30, 2013. The estimated costs to complete these projects, most of which represent costs to be incurred under contracts with vendors, are approximately $9,978,000. These projects consist of dormitory expansion, engineering lab additions, and others.

Capitalized interest costs were $241,306 and $357,984 for the years ended June 30, 2013 and 2012 respectively.

(7) Long-term Debt

The fair value of the University's outstanding debt is estimated based on current rates offered for similar issues. At June 30, 2013 and 2012 the fair value of the outstanding debt was approximately $67,167,000 and $71,477,000, respectively. The fair value of outstanding debt has been determined using significant observable inputs that would be categorized as Level 2 in the fair value hierarchy.

Outstanding debt consisted of the following at June 30:

		2013	2012
Clarkson University:			
St. Lawrence County Industrial Development Authority (IDA):			
St. Lawrence County IDA Bonds – 2003 (a)	$	3,265,000	3,355,000
St. Lawrence County IDA Bonds – 2007 (b)		23,483,768	24,050,951
St. Lawrence County IDA Bonds – 2011 (c)		14,748,618	14,752,429
St. Lawrence County IDA Bonds – 2012A (d)		19,030,185	19,060,719
St. Lawrence County IDA Bonds – 2012B (e)		3,068,450	3,070,770
Empire State Development Corporation (f)		2,666,520	2,999,860
First American Equipment Leases (g)		513,778	761,445
Line of Credit (Beacon) (h)		—	725,000
Total long-term debt	$	66,776,319	68,776,174

(a) These bonds, bear interest at rates ranging from 2.50% to 5.00% and require annual principal payments ranging from $75,000 to $765,000 through July 2033.

(b) These bonds, bear interest at rates ranging from 4.0% to 5.0% and require annual principal payments ranging from $95,000 to $2,300,000 through July 2032.

(c) These bonds, bear interest at rates ranging from 3.0% to 6.0% and requiring annual principal payments through September 2041.

(d) These bonds, bear interest at rates ranging from 4.0% to 5.25% and require annual principal payments through September 2041.

(e) These bonds, assume initial coupon interest at a rate 2.5% until March 1, 2016 and then an estimated coupon of 3.36% to maturity. The principal payment of $3,000,000 is due September 2042.

(f) This is an interest-free mortgage related to the Center for Advanced Materials Process (CAMP facility). The mortgage requires annual principal payments of $333,340 through January 2020. The principal payments that were due for fiscal years ended June 30, 2013 and 2012 were forgiven by New York State.

(g) Represents two capital lease agreements, with payments annually through January 1, 2015.

(h) The Institute has a revolving line of credit with a bank which provides for a variable interest rate which, at June 30, 2013 and 2012, was 0.75% above the prime rate with a minimum of 4%. The maximum authorized amount available is $750,000. Borrowings under the line are collateralized by the Institute's property and equipment and payable on demand.

At June 30, 2013, the aggregate amounts of principal and sinking-fund requirements for long-term debt over the next five fiscal years and thereafter are as follows:

		Amount
Fiscal year:		
2014	$	1,313,723
2015		1,332,624
2016		1,148,576
2017		1,278,576
2018		1,368,576
Thereafter		60,334,244
	$	66,776,319

The St. Lawrence County IDA bond agreements include provisions requiring the maintenance of a minimum annual debt service coverage ratio. As of June 30, 2013 and 2012, the University is in compliance with these provisions.

The University has a $5,000,000 line of credit at a bank with an interest rate that is the greater of 1.75% above the one month LIBOR with an interest period duration of one day or 2.25%. There is no expiration date associated with this line of credit. There was no outstanding balance at June 30, 2013.

The University has a $960,000 revolving line of credit with a bank related to its procurement card program of which there was an outstanding balance of $413,957 and $291,141 as of June 30, 2013 and 2012, respectively. It is interest free if full payment is received within the monthly billing cycle. The credit line will terminate on December 31, 2013, unless renewed.

Weston has a $500,000 line of credit at a bank's prime rate (3.25% at June 30, 2013) on which there was no outstanding balance at June 30, 2013. There is no expiration date associated with this line of credit.

(8) Postretirement Benefits

The University provides certain health care and sick leave benefits for retired employees. The University's employees may become eligible for those benefits if they reach retirement age while working for the University and meet certain minimum service requirements. The following table sets forth the status of the plan, which is unfunded, as of June 30:

	2013	2012
Change in benefit obligation:		
Benefit obligation at beginning of year	$ 26,208,016	18,518,626
Service cost	1,183,084	815,181
Interest cost	1,088,575	1,000,313
Plan participants' contributions	534,266	554,638
Medicare Part D subsidy	48,569	84,218
Actuarial (gain) loss	(5,561,193)	6,198,291
Benefits paid	(889,594)	(963,251)
Benefit obligation at end of year	22,611,723	26,208,016
Change in plan assets:		
Fair value of plan assets at end of prior year	—	—
Employer contributions	306,759	324,395
Plan participants' contributions	534,266	554,638
Benefits paid	(889,594)	(963,251)
Medicare Part D subsidy	48,569	84,218
Fair value of plan assets at end of year	—	—
Funded status at end of year	$ (22,611,723)	(26,208,016)
Discount rates:		
Year end benefit obligation	4.90%	4.20%
Net periodic benefit cost	4.20	5.50
Components of net periodic benefit cost:		
Service cost	$ 1,183,084	815,181
Interest cost	1,088,575	1,000,313
Amortization of loss	467,085	128,112
Amortization of prior service credit	(756,699)	(756,699)
Net periodic benefit cost	$ 1,982,045	1,186,907

(Continued)

Estimated Future Contributions and Benefit Payments

The following estimated benefit payments, net of participant contributions, are expected:

	Contributions/ benefit payments	Medicare subsidy
2014	$ 466,305	(44,761)
2015	514,339	—
2016	540,937	—
2017	572,489	—
2018	651,472	—
2019-2024	4,205,967	—

For measurement purposes, an 8.1% and a 5.0% annual rate of increase in the per capita cost of covered health care and dental benefits, respectively, was assumed as of June 30, 2013. The health care rate was assumed to decrease each year through 2023 to 5.0% and remain at that level thereafter while the dental rate trend remains constant for all years. Assumed health care cost trend rates have a significant effect on the amounts reported for the health care plans. The University's plan is designed such that the healthcare cost trend rates do not impact the postretirement benefit obligation or the service and interest cost.

The prior service credit and actuarial loss for the postretirement benefits plan that will be amortized from unrestricted net assets into net periodic benefit cost in fiscal 2014 are $756,699 and $123,902, respectively.

(9) Commitments and Contingencies

The University is subject to various claims and lawsuits. In management's opinion, the resolution of these matters will not have a significant adverse effect on the University's financial position, operations, or cash flows.

The University partially retains the risk for medical insurance. The University carries stop/loss insurance that covers medical and prescription drug claims that exceed the annual aggregate attachment point of approximately $8,088,325 and $8,030,387 in 2013 and 2012, respectively. The attachment point for any individual claim is $150,000. The University's estimated liability for its retained risk under these policies amounted to approximately $778,360 and $626,287 as of June 30, 2013 and 2012 and is recorded within other liabilities on the balance sheets.

(10) Subsequent Events

The University has evaluated subsequent events through October 4, 2013, the date on which the consolidated financial statements were issued.

CLARKSON UNIVERSITY

Supplementary Schedule of Expenditures of Federal Awards

Year ended June 30, 2013

Federal grantor/pass-through grantor/program or cluster title	Federal CFDA number	Pass-through entity identifying number	Federal expenditures
Research and Development Cluster:			
U.S. National Aeronautics and Space Administration:			
Direct Programs:			
Science	43.001		$ 135,906
Pass-Through Assistance:			
Cornell University	43.001	61420-9282	14,204
Total U.S. National Aeronautics and Space Administration			150,110
U.S. Department of Agriculture:			
Direct Programs:			
National Institute of Food and Agriculture:			
Agriculture and Food Research Initiative	10.310		83,533
Pass-Through Assistance:			
DOA/NYS Department of Agriculture and Markets	10.250	58-6000-2-0091	7,955
Total U.S. Department of Agriculture			91,488
U.S. Department of Commerce:			
Direct Programs:			
Measurement and Engineering Research and Standards	11,609		15,661
Total U.S. Department of Commerce			15,661
U.S. Department of Defense:			
Direct Programs:			
U.S. Department of the Army:			
Aquatic Plant Control	12.100		17,388
U.S. Department of the Air Force:			
Air Force Defense Research Sciences Program	12.800		38,596
U.S. Department of the Navy:			
Basic and Applied Scientific Research	12.300		302,072
National Security Agency:			
Mathematical Sciences Grants Program	12.901		21,971
U.S. Army Material Command:			
Basic Scientific Research	12.431		147,610
Central Intelligence Agency:			
National Security Education Program	12.552		91,811
Pass-Through Assistance:			
Infotronics Technology Center, Inc.	12.420	W8/XWH-10-1-0395	706
Nanoscience Solutions, Inc.	12.800	FA8650-12-M-5128	45,261
Department of the Navy:			
University of California at San Diego	12.300	PO#10290945	100,702
SUNY Binghamton	12.300	RF5856211097283	29,758
Total U.S. Department of Defense			795,875
U.S. Department of Energy:			
Direct Programs:			
Office of Science Financial Assistance Program	81.049		64,953
Pass-Through Assistance:			
American Recovery and Reinvestment Act:			
Texas A&M University	81.087	#570687	17,115
University of Minnesota	81.122	A000211516	9,647
Syracuse University	81.122	SU#24294-02619-S03	149,951
Indiana University	81.087	BL-4344500-CU	21,377
Syracuse University	81.117	25734-02953-01	14,473
Total U.S. Department of Energy			277,516
U.S. Department of Health and Human Services:			
Direct Programs:			
National Institute of Health:			
Cancer Cause and Prevention Research	93.393		65,836
Diabetes, Digestive and Kidney Diseases Extramural Research	93.847		118,545
Child Health and Human Development Extramural Research	93.865		(1,992)

(Continued)

Extramural Research Programs in the Neurosciences and Neurological Disorders	93.853		$ 221,520
Pass-Through Assistance:			
National Institute of Health:			
University of Michigan	93.113	#3000978229	28,820
University of Alaska	93.286	UA-12-001	30,591
Total U.S. Department of Health and Human Services			463,320
U.S. Department of Homeland Security:			
Direct Programs:			
Cybersecurity Education and Training Assistance Program	97.127		41,817
Pass-Through Assistance:			
Cornell University	15.805	#64038-9614	6,272
Total U.S. Department of Homeland Security			48,089
U.S. Department of Transportation:			
Pass-Through Assistance:			
DOT/Research Foundation, New York City	20.701	#49997-31-24	23,829
DOT/Research Foundation, New York City	20.701	#49111-25-22	53,540
Total U.S. Department Transportation			77,369
U.S. Environmental Protection Agency:			
Direct Programs:			
Office of Water:			
Great Lakes Program	66.469		1,122,396
Office of Research and Development:			
Greater Research Opportunities Fellowships for Undergraduate Environmental Study	66.513		24,140
Science To Achieve Results (STAR) Research Program	66.509		99,190
Pass-Through Assistance:			
University of Medicine and Dentistry New Jersey	66.034	SR09-005/PO#444481	8,964
Total U.S. Environmental Protection Agency			1,254,690
National Science Foundation:			
Direct Programs:			
Engineering Grants	47.041		1,702,256
Mathematical and Physical Sciences	47.049		92,146
Geosciences	47.050		362,950
Computer and Information Science and Engineering	47.070		199,099
Biological Sciences	47.074		71,024
Education and Human Resources	47.076		352,805
International Science and Engineering	47.079		26,340
ARRA – Trans Recovery Act Research Support	47.082		196,223
Pass-Through Assistance:			
NEXID Biometrics	47.041	not available	16,564
University of West Virginia	47.041	PO #50068941	9,597
University of West Virginia	47.041	01-589L-CU	(2)
University of West Virginia	47.041	PO#50063680	12,075
Nanoscience Solutions, LLC	47.041	C1IIP-1214705	43,498
Clemson University	47.049	1616-206-2008988	5,796
Clemson University	47.049	155-206-2008582	34,324
Syracuse University	47.076	25901-03200-S06	26,949
Stevens Institute of Technology	47.076	not available	169
Syracuse University	47.076	22258-01624-S05.1	5,485
Syracuse University	47.076	25901-03200-S06	11,725
Syracuse University	47.076	22258-01624-S05	18,320
Total National Science Foundation			3,187,343

CLARKSON UNIVERSITY

Supplementary Schedule of Expenditures of Federal Awards

Year ended June 30, 2013

Federal grantor/pass-through grantor/program or cluster title	Federal CFDA number	Pass-through entity identifying number	Federal expenditures
U.S. Office of Personnel Management:			
Pass-Through Assistance:			
Personnel Decisions Research Institutes, Inc.	27.013	1010E	$ 1,500
Total U.S. Office of Personnel Management			1,500
Total Research and Development Cluster			6,362,961
Student Financial Aid Cluster:			
U.S. Department of Education:			
Direct Programs:			
Supplemental Educational Opportunity Grant Program	84.007		328,827
Federal Direct Loan Program	84.268		29,133,259
Federal Work-Study Program	84.033		377,299
Federal Perkins Loan Program (note 2)	84.038		380,850
Federal Perkins Administrative Allowance	84.038		19,043
Pell Grant Program	84.063		3,472,885
Total U.S. Department of Education			33,712,163
Total Student Financial Assistance Cluster			33,712,163
TRIO Cluster:			
U.S. Department of Education:			
Direct Programs:			
CU Student Support Services	84.042		255,473
McNair Program	84.217		195,911
Total U.S. Department of Education			451,384
Total TRIO Cluster			451,384
Total Expenditures of Federal Awards			$ 40,526,508

See accompanying notes to supplementary schedule of expenditures of federal awards.

(1) Basis of Presentation

The accompanying supplementary schedule of expenditures of federal awards (the Schedule) includes the federal grant transactions of Clarkson University (the University) recorded on the accrual basis of accounting in accordance with U.S. generally accepted accounting principles. Because the Schedule presents only a selected portion of the operations of the University, it is not intended to and does not present the financial position, changes in net assets or cash flows of the University. Negative amounts represent current-year adjustments of amounts reported in prior years. CFDA and pass-through entity numbers are included when available. The information in this Schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*.

(2) Loan Programs

The University has the following loan balance outstanding at June 30, 2013. This balance is not included in the federal expenditures presented on the schedule.

Loan program title	CFDA number	Outstanding loan balance at June 30, 2013
Federal Perkins Loan Program	84.038	$ 5,047,152

The loan program noted above is administered directly by the University and the balance and transactions related to this program are included in the University's basic consolidated financial statements. The Schedule includes loan expenditures and disbursements to students and administrative cost allowance, which was $19,043. Loan cancellations, under CFDA Number 84.037, for the year ended June 30, 2013 were $36,530.

(3) Subrecipients

Of the federal expenditures presented in the Schedule, the University provided federal awards to subrecipients under its Research and Development Cluster as follows:

Agency title	CFDA number		Amount provided to subrecipients
U.S. Department of Defense	12.100	$	2,996
U.S. Department of Health and Human Services	93.865		2,479
U.S. Department of Health and Human Services	93.853		97,596
U.S. National Aeronautics and Space Administration	43.001		2,561
National Science Foundation	47.041		114,575
National Science Foundation	47.076		58,675
National Science Foundation	47.082		120,000
U.S. Environmental Protection Agency	66.469		450,788
		$	849,670

(4) Facilities and Administrative Costs

For research and development awards, the University has obtained predetermined facilities and administrative cost rates for fiscal years 2011 – 2013, which have been reviewed and approved by the Department of Health and Human Services, the University's federal oversight agency. The base rate for on-campus research is 49.5% for fiscal year 2013. The base rate for off-campus research is 18% for fiscal year 2013. Both rates use modified total direct cost as a base.

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Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

Board of Trustees
Clarkson University:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the consolidated financial statements of Clarkson University (the University), which comprise the consolidated balance sheet as of June 30, 2013, the related consolidated statements of activities and cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated October 4, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the consolidated financial statements, we considered the University's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of the University's internal control. Accordingly, we do not express an opinion on the effectiveness of the University's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify a deficiency in internal control, described below, that we consider to be a significant deficiency – Finding 2013-1.

Finding 2013 – 1

Endowment Reporting

During our testing of the 2013 endowment footnote and supporting schedules, it was determined that the University had not properly allocated the investment return and related endowment spending between unrestricted and temporarily restricted net assets. The University uses several spreadsheets in its endowment and investment accounting. These spreadsheets are large, complex, and manually populated, and, while management performs certain reviews of the resulting amounts used in its financial reporting, they are not ideally designed to allow detailed and summary level reviews. Upon noting the issue, management performed detailed analysis of the endowment and the underlying investment reconciliations to determine the impact to the current and prior fiscal year. The allocation was corrected in the 2013 statements based on the recalculations performed.

Recommendation

We recommend that management review the spreadsheets utilized to track and allocate endowment earnings and spending. This review should include a review of the design of the spreadsheets to determine if simplifications can be implemented as well as the potential utilization of the automated and data analysis tools available in excel, such as data checks, linking of tabs, etc. We also recommend that management implement a detailed review of the spreadsheets utilized in the calculations incorporating its updated understanding obtained during the 2013 audit.

Management's Response

Management will compile a comprehensive listing of spreadsheets that are essential to financial statement preparation, including the above mentioned workpapers for endowment returns and spending, and will assess those with the highest risk for material financial statement error. Spreadsheets will be consolidated and simplified when possible. Edit checks will be added. In addition, management will include enhanced procedures for review and approval of such spreadsheets.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the University's consolidated financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain other matters that we reported to management of the University in a letter issued on October 22, 2013.

Clarkson University's Response to Findings

The University's response to the finding identified in our audit is described above. The University's response was not subjected to the auditing procedures applied in the audit of the consolidated financial statements and, accordingly, we express no opinion on the response.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the University's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the University's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

KPMG LLP

October 4, 2013

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Independent Auditors' Report on Compliance for Each Major Program and on Internal Control over Compliance Required by OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*

The Board of Trustees
Clarkson University:

Report on Compliance for Each Major Federal Program

We have audited Clarkson University's (the University's) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the University's major federal programs for the year ended June 30, 2013. The University's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of current year findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the University's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the University's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the University's compliance.

Opinion on Each Major Federal Program

In our opinion, the University complied, in all material respects, with the requirements referred to in the first paragraph above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2013.

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KPMG

Report on Internal Control over Compliance

Management of the University is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the University's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the University's major program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the University's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

KPMG LLP

February 4, 2014

Vt. Reg. No. 92-0000241

CLARKSON UNIVERSITY

Schedule of Findings and Questioned Costs

Year ended June 30, 2013

Section I – Summary of Auditors' Results

Financial Statements

Type of auditors' report issued:	Unmodified			
Internal control over financial reporting:				
• Material weakness(es) identified?	______	yes	X	no
• Significant deficiency (ies) identified that are not considered to be material weakness (es)?	X	yes	______	none reported
Noncompliance material to the financial statements noted?	______	yes	X	no

Federal Awards

Internal control over major programs:				
• Material weakness (es) identified?	______	yes	X	no
• Significant deficiency (ies) identified that are not considered to be material weakness (es)?	______	yes	X	none reported
Type of auditors' report issued on compliance for major programs:	Unmodified			
Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133?	______	Yes	X	No

Identification of Major Programs

Name of federal program or cluster	CFDA number(s)
Student Financial Assistance Cluster	Various
TRIO cluster	Various

Dollar threshold used to distinguish between Type A and Type B programs:	$300,000			
Auditee qualified as low-risk auditee?	X	yes	______	no

Section II – Financial Statement Findings

Refer to **finding 2013-1** in the Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards* on page 30.

Section III – Federal Awards - Findings and Questioned Costs

No matters are reported.