KPMG

CLARKSON UNIVERSITY

Consolidated Financial Statements

June 30, 2014 and 2013

(With Independent Auditors' Report Thereon)

CLARKSON UNIVERSITY

Consolidated Financial Statements

June 30, 2014 and 2013

Table of Contents

KPMG LLP
Suite 400
356 Mountain View Drive
Colchester, VT 05446

Independent Auditors' Report

The Board of Trustees
Clarkson University:

We have audited the accompanying consolidated financial statements of Clarkson University (the University), which comprise the consolidated balance sheets as of June 30, 2014 and 2013, and the related consolidated statements of activities and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Clarkson University as of June 30, 2014 and 2013, and the results of its operations and its cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

KPMG LLP

October 15, 2014

CLARKSON UNIVERSITY

Consolidated Balance Sheets

June 30, 2014 and 2013

Assets		2014	2013
Cash and cash equivalents	$	4,724,149	13,019,270
Accounts receivable, net		11,612,208	7,557,524
Deposits with trustee		1,663,677	4,221,745
Pledges receivable, net		5,313,741	4,161,846
Notes receivable – students, net		7,218,404	6,638,288
Other assets		6,187,654	6,120,935
Investments		181,553,965	158,155,712
Property and equipment, net		183,220,451	171,612,112
Total assets	$	401,494,249	371,487,432
Liabilities and Net Assets			
Liabilities:			
Accounts payable and accrued expenses	$	5,844,468	5,769,975
Deposits and advances		9,187,123	10,736,845
Other liabilities		8,845,493	5,574,598
Accrued postretirement benefits		13,088,006	22,611,723
Long-term debt		65,462,596	66,776,319
Asset retirement obligations		5,170,771	5,216,603
Federal and other loan advances		7,629,674	7,522,259
Total liabilities		115,228,131	124,208,322
Net assets:			
Unrestricted		129,218,466	105,698,619
Temporarily restricted		41,611,284	29,528,147
Permanently restricted		115,436,368	112,052,344
Total net assets		286,266,118	247,279,110
Total liabilities and net assets	$	401,494,249	371,487,432

See accompanying notes to consolidated financial statements.

CLARKSON UNIVERSITY

Consolidated Statement of Activities

Year ended June 30, 2014
(with comparative totals for the year ended June 30, 2013)

	2014				
	Unrestricted	Temporarily restricted	Permanently restricted	Total	Total 2013
Operating revenues:					
Tuition and fees	$ 136,062,940	—	—	136,062,940	126,988,740
Housing, dining, and other auxiliary services	28,243,878	—	—	28,243,878	26,552,284
Less:					
University funded scholarships	(82,871,443)	—	—	(82,871,443)	(77,229,946)
Government funded student aid	(456,400)	—	—	(456,400)	(491,227)
Net tuition and fees	80,978,975	—	—	80,978,975	75,819,851
State appropriations	260,828	—	—	260,828	251,327
Government contracts and grants	10,994,685	—	—	10,994,685	11,941,483
Private gifts and grants	10,326,490	1,575,233	—	11,901,723	9,610,155
Sales and services of educational and general departments	797,873	—	—	797,873	454,427
Related entities	2,744,491	—	—	2,744,491	2,370,419
Other sources	3,288,863	—	—	3,288,863	2,956,022
Allocation of endowment return for spending	7,821,792	—	—	7,821,792	7,525,613
Net assets released from restrictions	1,341,504	(1,341,504)	—	—	—
Total operating revenues	118,555,501	233,729	—	118,789,230	110,929,297
Operating expenses:					
Instruction	48,358,732	—	—	48,358,732	46,765,261
Research	11,206,680	—	—	11,206,680	11,256,054
Academic support	11,039,579	—	—	11,039,579	11,103,689
Student services	14,587,326	—	—	14,587,326	14,159,882
Institutional support	15,121,657	—	—	15,121,657	14,608,657
Housing, dining and other auxiliary services	15,129,201	—	—	15,129,201	15,061,269
Related entities	4,737,246	—	—	4,737,246	4,521,848
Total operating expenses	120,180,421	—	—	120,180,421	117,476,660
Decrease from operating activity	(1,624,920)	233,729	—	(1,391,191)	(6,547,363)
Nonoperating activity:					
State grants and contributions for long-term investment	6,549,978	1,201,706	3,578,693	11,330,377	5,491,488
Change in pledges receivable	—	1,300,138	(148,243)	1,151,895	(4,007,629)
Total endowment investment return	7,485,640	18,687,926	—	26,173,566	14,346,087
Endowment return distributed for operations	(1,844,268)	(6,055,405)	77,881	(7,821,792)	(7,525,613)
Loss on disposal of assets	(104,676)	—	—	(104,676)	(423,769)
Other changes and reclassifications	3,215,994	(3,215,994)	—	—	—
Net assets released from restrictions	234,119	25,000	(259,119)	—	—
Postretirement related adjustments other than net periodic benefit costs	10,122,225	—	—	10,122,225	4,783,377
Other nonoperating income (expenses)	(514,245)	(93,963)	134,812	(473,396)	1,843,562
Increase from nonoperating activity	25,144,767	11,849,408	3,384,024	40,378,199	14,507,503
Change in net assets	23,519,847	12,083,137	3,384,024	38,987,008	7,960,140
Net assets:					
Beginning of year	105,698,619	29,528,147	112,052,344	247,279,110	239,318,970
End of year	$ 129,218,466	41,611,284	115,436,368	286,266,118	247,279,110

See accompanying notes to consolidated financial statements.

CLARKSON UNIVERSITY

Consolidated Statement of Activities

Year ended June 30, 2013

	2013			
	Unrestricted	Temporarily restricted	Permanently restricted	Total
Operating revenues:				
Tuition and fees	$ 126,988,740	—	—	126,988,740
Housing, dining, and other auxiliary services	26,552,284	—	—	26,552,284
Less:				
University funded scholarships	(77,229,946)	—	—	(77,229,946)
Government funded student aid	(491,227)	—	—	(491,227)
Net tuition and fees	75,819,851	—	—	75,819,851
State appropriations	251,327	—	—	251,327
Government contracts and grants	11,941,483	—	—	11,941,483
Private gifts and grants	7,522,384	2,087,771	—	9,610,155
Sales and services of educational and general departments	454,427	—	—	454,427
Related entities	2,370,419	—	—	2,370,419
Other sources	2,956,022	—	—	2,956,022
Allocation of endowment return for spending	7,525,613	—	—	7,525,613
Net assets released from restrictions	2,888,810	(2,888,810)	—	—
Total operating revenues	111,730,336	(801,039)	—	110,929,297
Operating expenses:				
Instruction	46,765,261	—	—	46,765,261
Research	11,256,054	—	—	11,256,054
Academic support	11,103,689	—	—	11,103,689
Student services	14,159,882	—	—	14,159,882
Institutional support	14,608,657	—	—	14,608,657
Housing, dining and other auxiliary services	15,061,269	—	—	15,061,269
Related entities	4,521,848	—	—	4,521,848
Total operating expenses	117,476,660	—	—	117,476,660
Decrease from operating activity	(5,746,324)	(801,039)	—	(6,547,363)
Nonoperating activity:				
State grants and contributions for long-term investment	—	1,162,094	4,329,394	5,491,488
Change in pledges receivable	—	(2,950,657)	(1,056,972)	(4,007,629)
Total endowment investment return	4,974,826	9,371,261	—	14,346,087
Endowment return distributed for operations	(2,633,034)	(5,003,133)	110,554	(7,525,613)
Loss on disposal of assets	(423,769)	—	—	(423,769)
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
Other nonoperating income	1,335,132	451,302	57,128	1,843,562
Increase from nonoperating activity	10,684,364	420,780	3,402,359	14,507,503
Change in net assets	4,938,040	(380,259)	3,402,359	7,960,140
Net assets:				
Beginning of year	100,760,579	29,908,406	108,649,985	239,318,970
End of year	$ 105,698,619	29,528,147	112,052,344	247,279,110

See accompanying notes to consolidated financial statements.

CLARKSON UNIVERSITY

Consolidated Statements of Cash Flows

Years ended June 30, 2014 and 2013

	2014	2013
Cash flows from operating activities:		
Change in net assets	$ 38,987,008	7,960,140
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	8,787,322	7,781,944
Loss on disposal of assets	104,676	423,769
Contributions received for long-term investment	(4,787,985)	(5,366,143)
Contributions received for investment in annuity agreements	(732,645)	(161,049)
Net realized and unrealized gain on investments	(24,270,738)	(12,464,091)
Adjustment on loans receivable	(233,400)	71,755
Asset retirement obligation	374,582	790,646
Forgiveness of debt	(333,340)	(333,340)
Changes in assets and liabilities that effect operating cash flows:		
Accounts receivable	(4,030,733)	5,270,375
Pledges receivable	(1,151,895)	4,007,629
Other assets	(308,383)	(259,440)
Accounts payable and accrued expenses	260,361	32,855
Asset retirement obligation	(373,474)	(2,501,587)
Deposits and advances	(1,549,722)	3,072,319
Other liabilities	3,430,019	43,076
Postretirement benefits	(9,523,717)	(3,596,293)
Net cash provided by operating activities	4,647,936	4,772,565
Cash flows from investing activities:		
Proceeds from maturity/sale of investments	14,956,148	21,303,898
Purchase of investments	(12,891,560)	(16,791,356)
Increase in short-term investments	(1,425)	(8,373)
Decrease increase in deposits with trustee	2,558,068	4,867,721
Student loans collected, net	(604,067)	591,189
Other assets collected	244,400	184,934
Purchase of property and equipment	(20,621,991)	(17,648,894)
Net cash used in investing activities	(16,360,427)	(7,500,881)
Cash flows from financing activities:		
Contributions received for long-term investment	3,557,693	3,260,901
Contributions received for investment in annuity agreements	732,645	161,049
Payment of debt principal	(980,383)	(1,666,514)
Other changes in government loan funds	107,415	147,066
Net cash provided by financing activities	3,417,370	1,902,502
Net decrease in cash and cash equivalents	(8,295,121)	(825,814)
Cash and cash equivalents:		
Beginning of year	13,019,270	13,845,084
End of year	$ 4,724,149	13,019,270
Supplemental disclosures:		
Interest paid	$ 2,854,859	2,079,950
Noncash transactions:		
Securities contributions	1,192,103	2,100,992
Decrease in construction-related payables	(185,868)	(1,092,558)

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. 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) 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.

(d) 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.

(Continued)

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.”

(e) 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.

(f) Deposits with Trustee

Deposits with trustee include debt service and certain reserve funds required by the trustee. There were unexpended bond proceeds of $0 and $2,557,721 at June 30, 2014 and 2013, respectively.

(g) 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.

(h) 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.

(Continued)

(i) 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 a financial instrument, which is the price that would be received to sell an asset or settle a liability in an orderly transaction between market participants at the measurement date, incorporating a hierarchy of valuation inputs based on the extent to which the inputs are observable in the marketplace. Observable inputs reflect market data obtained from sources independent of the reporting entity and unobservable inputs reflect the reporting entity's own assumptions about how market participants would value a financial instrument 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 following describes the hierarchy of inputs used to measure fair value and the primary valuation methodologies used by the University for financial instruments measured at fair value on a recurring basis. A financial 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, in determining fair values management of the University uses net asset value (NAV) reported by fund managers, which are based on appraisals or other estimates that require varying degrees of judgment, 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 within 90 days of the date of the balance sheet, the investment is classified in Level 2, if not it is classified as Level 3.

(j) 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.

(k) 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 activity associated with asset retirement obligations during the years ended June 30, 2014 and 2013:

		2014	**2013**
Change in asset retirement obligations:			
Asset retirement obligations at beginning of year	$	5,216,603	7,261,914
Asbestos remediated during the year		(316,149)	(2,501,586)
Accretion expense		327,642	456,275
Asset cost revisions		(57,325)	—
Asset retirement obligations at end of year	$	5,170,771	5,216,603

(l) Retirement Plans

The University participates in defined contribution retirement plans. Total expense under these plans, representing the University’s contributions to these plans, was $3,661,243 and $3,498,156 for 2014 and 2013, respectively. The plan document was amended to allow employees of the Beacon Institute to participate in the plan as of July 1, 2013.

(m) 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.

(n) 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.

(o) Reclassifications

Certain 2013 amounts have been reclassified to conform to the 2014 presentation.

(Continued)

(2) Investments and Fair Value

(a) Fair Value

The following table presents the financial instruments carried at fair value as of June 30, 2014, by balance sheet caption, based on the valuation hierarchy defined in note 1(i):

	Level 1	Level 2	Level 3	Total fair value	Redemption or liquidation	Days' notice
Other assets:						
Short-term investments	$ —	680,701	—	680,701	Daily	1
GATE receivable	—	—	1,161,065	1,161,065	Illiquid	N/A
Deposits with trustee	1,663,677	—	—	1,663,677	Daily	1
Investments:						
Money market and similar	520,704	—	—	520,704	Daily	1
Fixed income securities:						
U.S. government securities	12,017,460	—	—	12,017,460	Daily	1
Other	3,278,316	—	—	3,278,316	Daily	1
Corporate stocks:						
Domestic	22,905,621	10,635,378	—	33,540,999	Daily	1
International	38,431,804	—	—	38,431,804	Daily	1
Hedge funds:						
Multistrategy funds	—	2,104,764	38,170,591	40,275,355	Quarterly/Annual	90
Private equity	—	—	7,639,589	7,639,589	Illiquid	N/A
Venture capital	—	—	5,441,478	5,441,478	Illiquid	N/A
Real assets	3,229,388	12,008,143	16,000	15,253,531	Monthly	1–30
International equity	—	18,501,730	—	18,501,730	Monthly	30
Annuity and life income funds	—	6,335,376	—	6,335,376	N/A	—
Life insurance policies	—	317,623	—	317,623	Daily	1
Investments	80,383,293	49,903,014	51,267,658	181,553,965		
Total assets at fair value	$ 82,046,970	50,583,715	52,428,723	185,059,408		
Liabilities:						
GATE liability	$ —	—	446,292	446,292		
Total liabilities at fair value	$ —	—	446,292	446,292		

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
Other assets:						
Short-term investments	$ —	679,276	—	679,276	Daily	1
GATE receivable	—	—	1,376,343	1,376,343	Illiquid	N/A
Deposits with trustee	4,221,745	—	—	4,221,745	Daily	1
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	Annual	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	Monthly	1–30
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		

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 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 $1,161,065 and

$1,376,343 as of June 30, 2014 and 2013, respectively. This amount is recorded at estimated fair value in other assets on the accompanying consolidated balance sheets. Also under this program, the University has pledged approximately $5,816,346 and $6,038,928 as of June 30, 2014 and 2013 to a third party administrator to guaranty the loans. The discounted estimated pledge contribution liability is $446,292 and $650,570 as of June 30, 2014 and 2013, respectively. This amount has been recorded at fair value in other liabilities in the accompanying consolidated balance sheets.

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, 2013	Payments received	Pledge payments	Present value adjustment	Realized and unrealized gains (losses)	Sales and settlements	Purchases	Fair value June 30, 2014
Assets:									
GATE receivable	$	1,376,343	(244,400)	—	29,122	—	—	—	1,161,065
Real estate		16,000	—	—	—	—	—	—	16,000
Hedge funds		34,386,571	—	—	—	3,784,020	—	—	38,170,591
Private equity		7,371,457	—	—	—	519,569	(676,437)	425,000	7,639,589
Venture capital		4,651,797	—	—	—	709,374	(154,943)	235,250	5,441,478
Total assets at fair value	$	47,802,168	(244,400)	—	29,122	5,012,963	(831,380)	660,250	52,428,723
Liabilities:									
GATE liability	$	650,570	—	(304,339)	100,061	—	—	—	446,292
Total liabilities at fair value	$	650,570	—	(304,339)	100,061	—	—	—	446,292

		Fair value July 1, 2012	Payments received	Pledge payments	Present value adjustment	Realized and 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

(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:

		2014	2013
Investments in pooled funds, at fair value	$	176,820,294	154,309,230
Total number of units		707,957	685,250
Market value per unit		249.76	225.19

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

		2014	2013
Investment earnings, net of fees	$	1,902,828	1,881,996
Realized and unrealized gain, net		24,270,738	12,464,091
Total return on investment		26,173,566	14,346,087
Allocation for endowment spending policy		(7,821,792)	(7,525,613)
Nonoperating investment return	$	18,351,774	6,820,474

Investment fees were $502,032 and $331,618 for the years ended June 30, 2014 and 2013, respectively. The University has annuity and life income investments with a gross value of $6,620,545 and $5,645,622 as of June 30, 2014 and 2013, 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, which is included in other liabilities on the accompanying consolidated balance sheets, is $3,464,446 and $3,039,224 as of June 30, 2014 and 2013, respectively.

(c) Liquidity

Level 3 investments include illiquid private equity and venture capital 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 University is able to withdraw money from the funds on January 1st of each year.

Under the terms of certain limited partnership agreements, the University is obligated periodically to advance additional funding. At June 30, 2014 and 2013, the University had commitments of approximately $1,880,000 and $2,540,000, respectively, for which capital calls had not been exercised. Such commitments generally have fixed expiration dates or other termination clauses.

(3) Endowment Funds

The University is subject to the New York Prudent Management of Institutional Funds Act (NYPMIFA), which 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 Topic 958, *Not-for-Profit Entities,* in its 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 are approximately $193,000,000, with approximately $175,000,000 in endowed investments, $12,500,000 of internal borrowings for the student center and academic investment programs, $2,500,000 in assets less liabilities of Weston, and $3,000,000 due to the endowment.

Endowment net assets consisted of the following as of June 30, 2014:

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Donor-restricted	$ (1,100,593)	28,815,949	109,960,155	137,675,511
Board-designated	55,242,350	—	—	55,242,350
Total endowment net assets	$ 54,141,757	28,815,949	109,960,155	192,917,861

Changes in endowment net assets for the year ended June 30, 2014 were as follows:

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Net assets at June 30, 2013	$ 43,548,092	19,399,422	106,490,354	169,437,868
Interest and dividends, net of fees	544,209	1,358,619	—	1,902,828
Net appreciation	6,941,431	17,329,307	—	24,270,738
Total investment return	7,485,640	18,687,926	—	26,173,566
Contributions	1,600,000	—	3,557,143	5,157,143
Amounts appropriated for expenditure	(1,271,654)	(6,055,405)	77,102	(7,249,957)
Amounts appropriated for debt service	(670,434)	—	—	(670,434)
Other changes and reclassification	3,450,113	(3,215,994)	(164,444)	69,675
Net assets at June 30, 2014	$ 54,141,757	28,815,949	109,960,155	192,917,861

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

(Continued)

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

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Net assets at June 30, 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	(2,059,450)	(5,003,133)	109,786	(6,952,797)
Amounts appropriated for debt service	(677,061)	—	—	(677,061)
Other changes and reclassification	2,696,738	(2,646,738)	13,350	63,350
Net assets at June 30, 2013	$ 43,548,092	19,399,422	106,490,354	169,437,868

(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 $1,100,593 and $4,316,587 as of June 30, 2014 and 2013, respectively. These deficits were related to endowment funds with an original fair value of $24,245,819 and $44,395,251 as of June 30, 2014 and 2013, 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, 2014 and 2013, temporarily and permanently restricted net assets were comprised as follows:

		2014		2013	
		Temporarily restricted	**Permanently restricted**	**Temporarily restricted**	**Permanently restricted**
Pledges and bequests receivable	$	3,391,935	1,921,806	2,091,796	2,070,050
Other		5,268,086	5,000	4,845,518	—
Restricted for facilities		1,738,777	—	1,285,594	—
Restricted for student loans		—	2,789,845	—	2,782,365
Life income, annuity, and similar funds		2,396,537	759,562	1,905,817	704,575
Endowment funds		28,815,949	109,960,155	19,399,422	106,495,354
Total net assets	$	41,611,284	115,436,368	29,528,147	112,052,344

(5) Receivables

Accounts receivable consisted of the following at June 30:

		2014	2013
Students, net	$	1,848,624	1,156,037
Research contracts and grants		6,673,268	4,375,914
Other		3,090,316	2,025,573
	$	11,612,208	7,557,524

The University maintains an allowance for uncollectible student and grant accounts. These allowances were approximately $368,910 and $287,019 for student and grant receivables, at June 30, 2014 and 2013, respectively.

Notes receivable consisted of the following at June 30:

	2014	2013
Federal and other external student	$ 5,495,883	4,927,304
Unrestricted student loans	233,088	215,775
Permanently restricted student loans	1,489,433	1,495,209
	$ 7,218,404	6,638,288

The University maintains an allowance for uncollectible notes receivable, which was $1,022,294 and $954,265 at June 30, 2014 and 2013, respectively.

Pledges receivable at June 30 are as follows:

	2014	2013
In less than one year	$ 3,103,350	1,354,651
In one to five years	2,494,581	2,182,900
Greater than five years	10,000	910,000
Gross receivable	5,607,931	4,447,551
Present value discount and reserve	294,190	285,705
Net receivable	$ 5,313,741	4,161,846

(6) Property and Equipment

Property and equipment consisted of the following at June 30:

	2014	2013
Buildings and grounds	$ 245,512,391	226,428,622
Equipment	38,361,879	36,968,359
Construction in progress	18,983,358	20,833,511
Total property and equipment	302,857,628	284,230,492
Less accumulated depreciation	(119,637,177)	(112,618,380)
	$ 183,220,451	171,612,112

Construction in progress is made up of certain projects started but not completed at June 30, 2014. The estimated costs to complete these projects, most of which represent costs to be incurred under contracts with vendors, are approximately $12,063,000. These projects consist of dormitory expansion, engineering lab additions, and others.

Capitalized interest costs were $216,097 and $241,306 for the years ended June 30, 2014 and 2013 respectively.

(Continued)

(7) Long-term Debt

Outstanding debt consisted of the following at June 30:

		2014	2013
Clarkson University:			
St. Lawrence County Industrial Development Authority (IDA):			
St. Lawrence County IDA Bonds – 2003 (a)	$	3,170,000	3,265,000
St. Lawrence County IDA Bonds – 2007 (b)		22,896,586	23,483,768
St. Lawrence County IDA Bonds – 2011 (c)		14,744,806	14,748,618
St. Lawrence County IDA Bonds – 2012A (d)		18,999,653	19,030,185
St. Lawrence County IDA Bonds – 2012B (e)		3,066,129	3,068,450
Empire State Development Corporation (f)		2,333,180	2,666,520
First American Equipment Leases (g)		252,242	513,778
Total long-term debt	$	65,462,596	66,776,319

(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, 2014 and 2013 were forgiven by New York State.

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

(Continued)

At June 30, 2014, 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:		
2015	$	1,332,624
2016		1,148,576
2017		1,278,576
2018		1,368,576
2019		1,408,576
Thereafter		58,925,668
	$	65,462,596

The St. Lawrence County IDA bond agreements include provisions requiring the maintenance of a minimum annual debt service coverage ratio. As of June 30, 2014 and 2013, 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. The outstanding balance at June 30, 2014 is $2,000,000.

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 ($16,246) and $413,957 as of June 30, 2014 and 2013, 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.

The Institute has a revolving line of credit with a bank which provides for a variable interest rate which, at June 30, 2014 and 2013, 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.

Weston has a $500,000 line of credit at a bank's prime rate (3.25% at June 30, 2014) on which there was no outstanding balance at June 30, 2014. There is no expiration date associated with this line of credit.

The fair value of the University's outstanding debt is estimated based on current rates offered for similar issues. At June 30, 2014 and 2013 the fair value of the outstanding debt was approximately $68,955,361 and $67,167,000, 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.

(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:

		2014	2013
Change in benefit obligation:			
Benefit obligation at beginning of year	$	22,611,723	26,208,016
Service cost		736,571	1,183,084
Interest cost		1,097,647	1,088,575
Plan participants' contributions		627,805	534,266
Medicare Part D subsidy		24,790	48,569
Actuarial gain		(11,134,763)	(5,561,193)
Benefits paid		(875,767)	(889,594)
Benefit obligation at end of year		13,088,006	22,611,723
Change in plan assets:			
Fair value of plan assets at beginning of year		—	—
Employer contributions		223,172	306,759
Plan participants' contributions		627,805	534,266
Benefits paid		(875,767)	(889,594)
Medicare Part D subsidy		24,790	48,569
Fair value of plan assets at end of year		—	—
Funded status at end of year	$	(13,088,006)	(22,611,723)
Discount rates:			
Year end benefit obligation		4.30%	4.90%
Net periodic benefit cost		4.90	4.20
Components of net periodic benefit cost:			
Service cost	$	736,571	1,183,084
Interest cost		1,097,647	1,088,575
Amortization of loss		123,902	467,085
Amortization of prior service credit		(756,699)	(756,699)
Net periodic benefit cost	$	1,201,421	1,982,045

During the year ended June 30, 2014, the University engaged an actuary to perform an experience study to review demographic assumptions. Changes in the following assumptions were made as a result of the study and were key factors in the decrease in the postretirement obligation: plan participation rates, medical claims experience, and contribution rates. The changes in these assumptions resulted in a 42% net reduction in the postretirement benefit obligation, which also represented approximately 25% of the change in the University's net asset increase for the fiscal year ended June 30, 2014.

Estimated Future Contributions and Benefit Payments

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

	Contributions benefit payments
2015	$ 387,585
2016	387,549
2017	386,666
2018	430,047
2019	458,275
2020–2024	2,923,753

For measurement purposes, an 8.0% 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, 2014. The health care rate was assumed to decrease each year through 2045 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 2015 are $756,699 and $544,356, 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 $8,482,597 and $8,088,325 in 2014 and 2013, 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 $771,777 and $778,360 as of June 30, 2014 and 2013 and is recorded within other liabilities on the balance sheets.

(10) Subsequent Events

The University has evaluated subsequent events through October 15, 2014, the date on which the consolidated financial statements were issued.

Effective July 1, 2014, Beacon's operations and fixed assets were incorporated into the University. Beacon staff became University employees and was added to the University payroll, and Beacon fixed assets were transferred to the University. Beacon has a University operating budget which includes all operating expenses and revenue. Beacon will maintain a general ledger and bank accounts only to accommodate grants from the University expenses related to the Old Main Building and REON projects. Beacon will remain an incorporated not-for-profit corporation under New York State law, and will retain its Federal ID number and its 501(c)(3) standing with the IRS.