VASSAR COLLEGE

Financial Statements

June 30, 2016 and 2015

(With Independent Auditors' Report Thereon)

VASSAR COLLEGE

Table of Contents

KPMG LLP
515 Broadway
Albany, NY 12207-2974

Independent Auditors' Report

The Board of Trustees
Vassar College:

We have audited the accompanying financial statements of Vassar College, which comprise the statements of financial position as of June 30, 2016 and 2015, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Vassar College as of June 30, 2016 and 2015, and the changes in its net assets and its cash flows for the years then ended, in accordance with U.S. generally accepted accounting principles.

KPMG LLP

October 28, 2016

KPMG LLP is a Delaware limited liability partnership, the U.S. member firm of KPMG International Cooperative ("KPMG International"), a Swiss entity.

VASSAR COLLEGE

Statements of Financial Position

June 30, 2016 and 2015

(In thousands)

Assets		**2016**	**2015**
Cash and cash equivalents	$	7,126	13,299
Accounts receivable, net:			
Student accounts receivable		632	546
Student loans receivable		3,232	3,322
Grants receivable		581	1,106
Contributions receivable, net		15,814	23,594
Prepaid and other assets		5,322	6,467
Deposits held by bond trustee		13,640	26,613
Investments		948,580	1,015,819
Beneficial interests in outside trusts		8,184	8,863
Land, buildings, and equipment, net		485,796	472,327
Total assets	$	1,488,907	1,571,956
Liabilities and Net Assets			
Liabilities:			
Accounts payable and accrued expenses	$	23,023	26,934
Deferred revenue and students' deposits		3,310	3,959
Present value of beneficiary payments		12,596	12,402
Deposits held for others		1,846	4,109
Long-term debt		248,479	250,472
Accrued pension obligation		17,523	10,367
Asset retirement obligation		10,795	10,379
Accrued postretirement benefit obligation		26,530	26,438
Refundable government loan funds		2,367	2,514
Total liabilities		346,469	347,574
Net assets:			
Unrestricted		316,457	346,096
Temporarily restricted		477,898	535,607
Permanently restricted		348,083	342,679
Total net assets		1,142,438	1,224,382
Total liabilities and net assets	$	1,488,907	1,571,956

See accompanying notes to financial statements.

VASSAR COLLEGE

Statement of Activities

Year ended June 30, 2016
(with summarized comparative totals for 2015)

(In thousands)

	2016 Unrestricted	2016 Temporarily restricted	2016 Permanently restricted	2016 Total	2015 Total
Operating revenue:					
Tuition and fees	$ 129,187	—	—	129,187	126,268
Room and board	25,015	—	—	25,015	24,391
	154,202	—	—	154,202	150,659
Less scholarships	(61,939)	—	—	(61,939)	(58,697)
Net tuition, fees, room and board	92,263	—	—	92,263	91,962
Endowment return used in support of operations	13,402	37,707	—	51,109	51,500
Government grants	2,123	—	—	2,123	1,956
Private gifts and grants	9,689	555	—	10,244	15,275
Other revenue	4,237	—	—	4,237	3,962
Auxiliary enterprises	5,680	—	—	5,680	5,343
Net assets released from restrictions	42,641	(42,641)	—	—	—
Total operating revenue	170,035	(4,379)	—	165,656	169,998
Operating expenses:					
Instruction	73,804	—	—	73,804	73,500
Research	3,802	—	—	3,802	3,265
Academic support	20,247	—	—	20,247	20,884
Student services	18,520	—	—	18,520	17,432
Institutional support	38,887	—	—	38,887	34,551
Auxiliary enterprises	23,010	—	—	23,010	22,002
Total operating expenses before restructuring costs	178,270	—	—	178,270	171,634
Restructuring costs	—	—	—	—	6,304
Total operating expenses	178,270	—	—	178,270	177,938
Change in net assets from operations	(8,235)	(4,379)	—	(12,614)	(7,940)
Nonoperating activities:					
Private gifts and other additions	4,317	48	6,172	10,537	17,224
Net investment return	(2,861)	(15,054)	(465)	(18,380)	26,569
Appropriation of endowment for operations	(13,402)	(37,707)	—	(51,109)	(51,500)
(Loss) gain on disposal of fixed assets	(3,482)	—	—	(3,482)	34
Other nonoperating activity	634	(792)	(708)	(866)	(369)
Adjustment for pension liability	(5,607)	—	—	(5,607)	(590)
Postretirement benefits changes other than net periodic benefits cost	(423)	—	—	(423)	(360)
Net assets released from restrictions and other transfers	(580)	175	405	—	—
Change in net assets from nonoperating activities	(21,404)	(53,330)	5,404	(69,330)	(8,992)
Change in net assets	(29,639)	(57,709)	5,404	(81,944)	(16,932)
Net assets:					
Beginning of year	346,096	535,607	342,679	1,224,382	1,241,314
End of year	$ 316,457	477,898	348,083	1,142,438	1,224,382

See accompanying notes to financial statements.

VASSAR COLLEGE

Statement of Activities

Year ended June 30, 2015

(In thousands)

	2015			
	Unrestricted	**Temporarily restricted**	**Permanently restricted**	**Total**
Operating revenue:				
Tuition and fees	$ 126,268	—	—	126,268
Room and board	24,391	—	—	24,391
	150,659	—	—	150,659
Less scholarships	(58,697)	—	—	(58,697)
Net tuition, fees, room and board	91,962	—	—	91,962
Endowment return used in support of operations	17,213	34,287	—	51,500
Government grants	1,956	—	—	1,956
Private gifts and grants	9,800	5,475	—	15,275
Other revenue	3,962	—	—	3,962
Auxiliary enterprises	5,343	—	—	5,343
Net assets released from restrictions	39,959	(39,959)	—	—
Total operating revenue	170,195	(197)	—	169,998
Operating expenses:				
Instruction	73,500	—	—	73,500
Research	3,265	—	—	3,265
Academic support	20,884	—	—	20,884
Student services	17,432	—	—	17,432
Institutional support	34,551	—	—	34,551
Auxiliary enterprises	22,002	—	—	22,002
Total operating expenses before restructuring costs	171,634	—	—	171,634
Restructuring costs	6,304	—	—	6,304
Total operating expenses	177,938	—	—	177,938
Change in net assets from operations	(7,743)	(197)	—	(7,940)
Nonoperating activities:				
Private gifts and other additions	5,096	815	11,313	17,224
Net investment return	4,581	22,253	(265)	26,569
Appropriation of endowment for operations	(17,213)	(34,287)	—	(51,500)
Gains on disposal of fixed assets	34	—	—	34
Other nonoperating activity	(98)	(443)	172	(369)
Adjustment for pension liability	(590)	—	—	(590)
Postretirement benefits changes other than net periodic benefits cost	(360)	—	—	(360)
Net assets released from restrictions and other transfers	8,183	(10,164)	1,981	—
Change in net assets from nonoperating activities	(367)	(21,826)	13,201	(8,992)
Change in net assets	(8,110)	(22,023)	13,201	(16,932)
Net assets:				
Beginning of year	354,206	557,630	329,478	1,241,314
End of year	$ 346,096	535,607	342,679	1,224,382

See accompanying notes to financial statements.

VASSAR COLLEGE

Statements of Cash Flows

Years ended June 30, 2016 and 2015

(In thousands)

		2016	2015
Cash flows from operating activities:			
Change in net assets	$	(81,944)	(16,932)
Adjustments to reconcile change in net assets to net cash used in operating activities:			
Depreciation and accretion		20,888	20,037
Loss (gain) on disposal of fixed assets		3,482	(34)
Investment income on life income and annuity agreements		(616)	(727)
Payments to beneficiaries		1,292	1,385
Nonoperating contributions		(11,523)	(16,114)
Gifts in kind		(1,006)	(1,840)
Realized and unrealized losses (gains) on investments		20,613	(21,487)
Changes in assets and liabilities that provide (use) cash:			
Accounts receivable		519	(558)
Contributions receivable		7,780	3,980
Prepaid and other assets		1,145	4,762
Accounts payable and accrued expenses		(10,734)	(10,501)
Deferred revenue and students’ deposits		(649)	226
Present value of beneficiary payments		194	(499)
Deposits held for others		(2,263)	11
Accrued pension obligation		7,156	1,377
Asset retirement obligation		(150)	1,219
Accrued postretirement benefit obligation		92	244
Net cash used in operating activities		(45,724)	(35,451)
Cash flows from investing activities:			
Purchases of land, buildings, and equipment		(29,934)	(52,354)
Use of deposits held by trustee		12,973	50,979
Proceeds from sale of fixed assets		502	34
Net loans granted (repaid) by students		10	(115)
Purchases of investments		(323,164)	(159,461)
Proceeds from sales and maturities of investments		370,469	172,514
Net cash provided by investing activities		30,856	11,597
Cash flows from financing activities:			
Proceeds from contributions for:			
Investment in endowment		10,388	13,649
Investment in long-lived assets		854	1,700
Investment subject to life income agreements		281	765
Investment income on life income and annuity agreements		616	727
Payments to beneficiaries		(1,292)	(1,385)
Change in refundable government loan funds		(147)	(92)
Payments on long-term debt		(2,005)	(1,905)
Debt issuance cost		—	(7)
Net cash provided by financing activities		8,695	13,452
Net decrease in cash and cash equivalents		(6,173)	(10,402)
Cash and cash equivalents:			
Beginning of year		13,299	23,701
End of year	$	7,126	13,299
Supplemental data:			
Interest paid	$	11,522	11,620
Noncash investing activities:			
Purchases of capital assets included in accounts payable	$	6,823	6,234

See accompanying notes to financial statements.

(1) Organization

Vassar College (Vassar or the College) was founded in 1861 and is a coeducational, independent, liberal arts college located in Poughkeepsie, New York.

(2) Summary of Significant Accounting Policies

(a) Basis of Presentation

The accompanying financial statements, which are presented on the accrual basis of accounting in accordance with principles generally accepted in the United States of America (U.S. GAAP), have been prepared to focus on the College as a whole and to present balances and transactions according to the existence or absence of donor-imposed restrictions.

(b) Classification of Net Assets

Resources are reported for accounting purposes in the following classes of net assets based on the existence or absence of donor-imposed restrictions:

Unrestricted – Net assets that are not subject to donor-imposed stipulations. Unrestricted net assets may be designated for specific purposes by action of the Board of Trustees or may otherwise be limited by contractual agreements with outside parties.

Temporarily Restricted – Net assets whose use by the College is subject to donor-imposed stipulations that can be fulfilled by actions of the College pursuant to those stipulations or that expire by the passage of time.

Permanently Restricted – Net assets subject to donor-imposed stipulations that they be maintained in perpetuity by the College. Generally, the donors of these assets permit the College to use all or part of the investment return on these assets. Such assets primarily include the College's donor-restricted endowment funds.

(c) Statements of Activities

The statements of activities report the change in net assets from operating and non-operating activities. Operating revenue consist of those items attributable to the College's education programs, grants for research conducted by academic departments, private gifts, and other revenue, as well as auxiliary enterprise activities.

Non-operating activities includes investment return on short- and long-term investments, contributions received other than for current operations, pension and postretirement benefit liability adjustments other than net periodic benefit cost, changes in deferred gifts as well as investment income on deferred gifts, and miscellaneous items not related to the College's academic or research activities. To the extent non-operating contributions, investment income and gains are used for operations, they are reclassified as appropriation of endowment for operations on the statements of activities.

Revenue are reported as increases in unrestricted net assets unless their use is limited by donor-imposed restrictions as follows:

- Student tuition and fees are recorded at established rates, net of financial aid and scholarships provided directly to students.
- Contributions, including unconditional promises to give reported as contributions receivable, are recognized as revenue in the period received. Contributions of assets other than cash are recorded at their estimated fair value. Contributions to be received after one year are discounted at the appropriate rate commensurate with the risks involved. Amortization of the discount is recorded as additional contribution revenue in accordance with the donor-imposed restrictions, if any, on the contributions. Expirations of temporary restrictions on net assets, that is, the donor-imposed stipulated purpose that has been accomplished and/or the stipulated time period has elapsed, are reported as net assets released from restrictions on the statements of activities. Temporary restricted contributions and investment return received and expended for the restricted purpose in the same fiscal year are recorded as unrestricted net assets. Conditional promises to give are not recognized until they become unconditional, that is when the conditions on which they depend are substantially met.
- Contributions of land, buildings, or equipment are reported as unrestricted non-operating support unless the donor places restrictions on their use. Contributions of cash or other assets that must be used to acquire long-lived assets are reported as increases in temporarily restricted net assets until the assets are acquired and placed into service.
- Auxiliary enterprises include a variety of services that enhance the quality of student life on campus. Revenue are displayed in two sections. Fees for housing and dining services are displayed along with tuition and fees net of scholarship aid to arrive at net tuition, fees, room, and board. Other auxiliary service enterprise revenue, which include college retail operations, cash dining, catering, intercollegiate athletics, and graphic arts, are displayed separately. Expenses associated with auxiliary enterprise activities are reported as a single total and include an allocated portion of the cost of operating and maintaining College plant assets, interest, and depreciation expense.

Expenses are reported as decreases in unrestricted net assets. Expenses associated with the operation and maintenance of the College's plant assets, including interest and depreciation expense are allocated on the basis of square footage utilized by the functional categories. Expenses associated with fundraising activities of the College were approximately $7,267 and $6,368 in 2016 and 2015, respectively, and are included in institutional support in the statements of activities.

(d) Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Estimates also affect the reported amounts of revenue and expenses during the reporting period. The College's significant estimates include the valuation of certain investments, valuation of contributions receivable, valuation of asset retirement obligations, and valuation of its pension and postretirement benefit obligations. Actual results could differ from those estimates.

(e) Risks and Uncertainties

Investment securities are exposed to various risks, such as interest rate, market, and credit. Due to the level of risk associated with certain investment securities and the level of uncertainty related to changes in the value of investments securities, it is at least reasonably possible that changes in risk in the near term could materially affect the amounts reported in the statements of financial position and the statements of activities.

Contributions and the actuarial present value of accumulated plan benefits for the pension and postretirement obligations are estimated based on certain assumptions pertaining to interest rates, inflation rates, and employee demographics, all of which are subject to change. Due to uncertainties inherent in the estimation process, it is at least reasonably possible that changes in these estimates and assumptions in the near term could be material to the financial statements.

(f) Cash and Cash Equivalents

Cash and cash equivalents include operating funds that are short-term, highly liquid investments with a maturity of three months or less at the time of purchase. Cash and cash equivalents are reported at cost, which approximates fair value.

(g) Receivables

The College extends credit to students in the form of accounts receivable and loans for educational purposes.

It is not practicable to determine the fair value of student loan receivables because they are primarily federally sponsored student loans with U.S. government mandated interest rates and repayment terms, and are subject to significant restrictions as to their transfer or disposition.

The College records an allowance for doubtful accounts (credit losses) for long-term receivables including Perkins loans and other student loans. Management regularly assesses the adequacy of the allowance for credit losses by performing ongoing evaluations of the student loan portfolio, including differing economic risks associated with each loan category, the financial condition of specific borrowers, the economic environment, the level of delinquent loans, review of the default rate by category in comparison to prior years, the value of any collateral and, where applicable, the existence of any guarantees or indemnifications. The level of the allowance is adjusted based on actual results. The College's Perkins Loan receivable represents the amounts due from current and former students under the federal Perkins Loan Program. Loans disbursed under the Federal Perkins Loan program are able to be assigned to the Federal Government in certain non-repayment situations. In these situations, the federal portion of the loan balance is guaranteed. Management believes that the allowance for credit losses at the end of the fiscal year is adequate to absorb credit risk inherent in the portfolio.

(h) Fair Value Measurements

U.S. GAAP defines fair value, establishes a framework for measuring fair value and requires certain disclosures about fair value measurements. Fair value is defined as the exchange price that would be received for an asset, or paid to transfer a liability (an exit price), in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. The College uses a three-tiered hierarchy to categorize those assets and liabilities based on the valuation methodologies employed. The hierarchy is defined as follows:

Level 1 – Valuation is based upon quoted prices in active markets that the College has the ability to access for identical assets and liabilities. Market price data is generally obtained from exchange or dealer markets.

Level 2 – Valuation is based on inputs other than quoted prices that are observable for the asset or liability, either directly or indirectly.

Level 3 – Valuation is based on unobservable inputs.

The fair value hierarchy gives the highest priority to Level 1 inputs and the lowest priority to Level 3 inputs. Transfers between categories occur when there is an event that changes the inputs used to measure the fair value of an asset or liability.

In June 2015, the FASB issued ASU 2015-10, Technical Corrections and Improvements, that clarified one aspect of the definition of readily determinable fair value (RDFV) thereby affecting the measurement of and disclosure about certain equity investments. During 2016, based on this technical correction, the College re-evaluated its investments historically measured using net asset value (NAV) as a practical expedient in structures with characteristics similar to a mutual fund as to whether they have a RDFV. Based on this re-evaluation, NAV disclosures have been amended, and certain pension assets aggregating $11,682 previously accounted for using NAV as a practical expedient as of June 30, 2015 and previously excluded from the fair value hierarchy were determined to have a RDFV and have been included as Level 1 investments at that date.

(i) Investments

Investments are reported at fair value with realized and unrealized gains and losses included in the statements of activities. Certain alternative investments are recognized at the net asset value (NAV) as a practical expedient to estimate fair value. Realized gains and losses on the sale of the College's investments are based upon the average cost of the investment. All investment transactions are recorded on a trade-date basis.

(j) Endowment Funds and Spending Policy

Included in investments are assets of the College's endowment and similar funds. These institutional funds are invested in long-term vehicles and strategies to produce investment return to support the operations of the College. Investment guidelines are set under the direction of the Investments Committee with the objective to enhance the real market value of the portfolio while providing a relatively predictable and growing stream of revenue to the College's operating budget. The majority of the endowment and similar funds are unitized and invested in a consolidated pool. Nonconsolidated endowed funds are invested separately. Funds are added to or withdrawn from the pool at the unit fair value of the fund at the beginning of the quarter in which the transaction occurred.

The College utilizes a "total return" policy for endowment spending. This approach considers current yield (primarily interest and dividends), as well as the net appreciation in the fair value of investments when determining a spending amount. Under this policy, the Board of Trustees establishes a spending rate, which is then applied to the average fair value of investments.

Annually, as part of the College's operating and capital budget plans, the Board approves a spending rate for endowment units. The guideline is to increase per unit spending annually based on the one-year change in the Higher Education Price Index, lagged one year, provided that the resulting rate does not exceed 5.5% nor fall below 4.5% for the trailing 12-quarter average market value of the fund, lagged one year. For fiscal year 2015-2016, the Board approved a total draw on financial assets of up to $53,404. For the year ended June 30, 2016, $51,109 was spent from gross financial assets, of which $5,818 represents a supplemental draw from board-designated quasi endowment above per unit spending. For the year ended June 30, 2015, $51,500 was spent from gross financial assets, of which $8,284 represents a supplemental draw from board-designated quasi endowment above per unit spending.

(k) Beneficial Interest in Outside Trusts

The College is the beneficiary of various trusts created by donors, the assets of which are not in the possession of Vassar. The College has legally enforceable rights or claims to such assets, including the right to income generated. The fair value of these interests is recorded in the permanently restricted net asset class and the net realized and unrealized gains or losses are recorded in the permanently or temporarily restricted net asset categories as designated by the donors.

(l) Land, Buildings and Equipment

Land, buildings, and equipment are recorded at cost, or if donated, at estimated fair value at the date of donation. Depreciation is computed on a straight-line basis over the estimated useful lives of the assets.

Works of art, historical treasures, and similar assets have been recognized at their estimated fair value based upon appraisals or similar valuations at the date of acquisition or donation. Proceeds from sales of collection items not previously provided financial statement recognition are reflected on the statements of activities as changes in the appropriate net asset classes, depending on the existence and type of donor-imposed restrictions.

When an asset retirement obligation is identified, the College records the fair value of the obligation as a liability. Over time, the liability is accreted to its estimated settlement value. Upon settlement of the liability, the College will recognize a gain or loss for any difference between the settlement amount and the liability recorded. The fair value of the obligation is also capitalized as part of land, buildings, and equipment and then amortized over the estimated remaining useful life of the associated asset.

(m) Deferred Gift Arrangements

The College's deferred gift arrangements with donors consist of irrevocable charitable remainder trusts, charitable gift annuities, and pooled income funds for which the College is the remainder beneficiary. Assets held in these trusts are included in investments and recorded at fair value. The fair value of these assets included in investments at June 30, 2016 and 2015 was approximately $23,925 and $26,956, respectively. Contribution revenue are recognized at the dates the trusts are established, net of the liabilities recorded for the present value of beneficiary payments to be made to the donors and/or other beneficiaries. The liabilities are adjusted during the term of the trusts for changes in the value of the assets, accretion of the discount, and other changes in the estimates of future benefits. The liability for the present value of deferred gifts is based upon actuarial estimates and assumptions regarding the duration of the arrangements and the assumed discount rate. Discount rates range from 1.8% to 2.2% and are established as of the date of the gift. Circumstances affecting these assumptions can change the estimate of this liability in future periods.

(n) Workers' Compensation

The College recognizes a worker's compensation liability for future payments for current and prior years' claims. The liability is based on estimated claims payable and claims incurred but not reported discounted to present value at 4%. As of June 30, 2016 and 2015, the workers' compensation liability is $2,759 and $2,715, respectively, and is recorded in accounts payable and accrued expenses on the accompanying statements of financial position.

(o) Tax Status

The College generally does not provide for income taxes since it is a tax-exempt organization under Section 501(c) (3) of the Internal Revenue Code. U.S. GAAP permits an organization to recognize the benefit and requires accrual of an uncertain tax position only when the position is "more likely than not" to be sustained in the event of examination by tax authorities. Tax positions deemed to meet the "more likely than not" threshold are recorded as a tax expense in the current year. The College has analyzed all open tax years and believes it has no significant uncertain tax positions.

(Dollars in thousands)

(3) Contributions Receivable

Contributions receivable consist of the following at June 30:

		2016	2015
Unconditional promises expected to be collected in:			
Less than one year	$	9,256	5,323
One to five years		7,337	17,958
Thereafter		707	1,239
		17,300	24,520
Less present value discounts (rates between 0.39% and 6.00%)		(317)	(577)
Allowance for uncollectible pledges		(1,169)	(349)
	$	15,814	23,594

Conditional pledges and bequest intentions totaling approximately $124,700 have been excluded from these amounts and are not recorded in the financial statements.

(4) Investments

The College's investment objective is to earn average annual returns sufficient to support regular spending appropriations and compensate for the impact of inflation over time. The asset allocation for the endowment, which employs multiple managers organized into several asset classes, is designed to achieve this return objective on average over the long-term at an appropriate level of risk. Short-term investments are intended to provide liquidity for operating and non-operating activities. Fixed-income investments are intended to provide income, liquidity, and diversification benefits. Equity investments, real estate, oil and gas partnerships, venture capital/private placements, institutional mutual funds, and balanced funds are intended to provide growth, income, and diversification benefits.

Total investment return is as follows for the years ended June 30:

		2016	2015
Dividends and interest	$	2,233	5,082
Realized and unrealized gains and losses, net		(20,613)	21,487
Total return, net of fees	$	(18,380)	26,569

The fair value of the College's investments has been determined in the following manner:

Investments	Investments Fair value
Short-term investments consisting principally of money market instruments, commercial paper, and cash management funds	At quoted market value which approximates cost
Equity securities, debt securities, mutual funds, shares in real estate investment trusts, and other publicly traded securities	At quoted market value
Privately held partnerships, including alternative investments such as private equity and hedge fund limited partnerships	Net asset value as determined by the general partner

The values of publicly traded fixed-income and equity securities are based upon quoted market prices at the close of business on the last day of the fiscal year. Investments in units of non- publicly traded pooled funds are valued at the unit value determined by the fund's administrator based on quoted market values of the underlying securities. Alternative investments, which consist of hedge funds, real estate, oil and gas partnerships, venture capital and private partnerships, are valued using current estimates of fair value based upon the net asset value (NAV) of the funds determined by the general partner or investment manager for the respective funds. These valuations consider variables such as financial performance of investments, including comparison of comparable companies' earnings multiples, cash flow analysis, recent sale prices of investments, and other pertinent information. NAV is used as a practical expedient to estimate the fair value of the College's interest in these funds, unless it is probable that all or a portion of the investment will be sold for an amount different than NAV. The College has assessed the NAV provided by the external managers and believes the amounts reported represent a reasonable estimate of fair value.

(Dollars in thousands)

The following tables summarize the valuation of the College's investment portfolio by asset class under the fair value hierarchy levels as of June 30:

	2016			
	Investments measured at NAV	**Level 1**	**Level 3**	**Total**
Short-term investments	$ —	169,535	—	169,535
Fixed-income	—	49,215	—	49,215
Marketable real estate	—	3,116	233	3,349
Equity investments:				
U.S. stocks	61,721	88,546	—	150,267
International stocks	76,394	30,128	—	106,522
Hedge funds	280,328	—	—	280,328
Real estate, oil, and gas partnerships	78,514	—	—	78,514
Venture capital/private partnerships	95,681	—	—	95,681
Institutional mutual fund	14,999	—	—	14,999
Balanced accounts	—	170	—	170
	$ 607,637	340,710	233	948,580

Certain fund redemptions were in process at June 30, 2016 resulting in short-term investments that were higher than those normally held by the College. Proceeds from these redemptions were reinvested subsequently consistent with the College's strategic investment allocation.

(Dollars in thousands)

	2015			
	Investments measured at NAV	**Level 1**	**Level 3**	**Total**
Short-term investments	$ —	19,935	—	19,935
Fixed-income	—	97,247	—	97,247
Marketable real estate	—	3,200	233	3,433
Equity investments:				
U.S. stocks	61,040	148,191	—	209,231
International stocks	155,907	12,623	—	168,530
Hedge funds	314,668	—	—	314,668
Real estate, oil, and gas partnerships	87,602	—	—	87,602
Venture capital/private partnerships	97,689	—	—	97,689
Institutional mutual fund	17,243	—	—	17,243
Balanced accounts	—	241	—	241
	$ 734,149	281,437	233	1,015,819

There were no transfers between levels of the fair value hierarchy during the years ended June 30, 2016 and 2015.

The following tables summarize the change in value of investments within Level 3 as defined in the fair value hierarchy for the years ended June 30:

	2016	**2015**
Marketable real estate, fair value at beginning of year	$ 233	233
Purchases	—	—
Settlements	—	—
Net realized gains	—	—
Net unrealized gains (loss)	—	—
Marketable real estate, fair value at end of year	$ 233	233

Liquidity

Hedge funds and certain equity investments are redeemable with the funds or limited partnerships at NAV under the terms of the subscription agreement and/or partnership agreements. Investments with daily liquidity generally do not require any notice prior to withdrawal. Investments with monthly, quarterly, or annual redemption frequency typically require notice periods ranging from 15 to 90 days. Investment fair values are broken out below by their redemption frequency as of June 30, 2016.

(Dollars in thousands)

	Daily	Monthly	Quarterly	Annual	Illiquid	Total
Short-term investments	$ 169,535	—	—	—	—	169,535
Fixed-income	49,215	—	—	—	—	49,215
Marketable real estate	3,116	—	—	—	233	3,349
Equity investments:						
U.S. stocks	88,546	—	61,721	—	—	150,267
International stocks	27,128	62,831	16,563	—	—	106,522
Hedge funds	—	38,651	116,895	124,782	—	280,328
Real estate, oil and gas partnerships	—	—	—	—	78,514	78,514
Venture capital/private placement	—	—	—	—	95,681	95,681
Institutional mutual fund	—	14,999	—	—	—	14,999
Balanced accounts	170	—	—	—	—	170
	$ 337,710	116,481	195,179	124,782	174,428	948,580

Investments with a redemption frequency of illiquid includes lock-ups with expiration dates, restricted shares, side pockets, gates or funds in liquidation which have suspended normal liquidity terms, as well as private equity and real asset funds where the College has no liquidity terms until the investments are sold by the fund manager. The estimated life of the real assets and venture capital/private placement funds range from 7 to 15 years. At June 30, 2016, the College's remaining outstanding commitments on investments totaled $92,122 and are expected to be funded from existing investments included within the endowment.

(5) Endowment

The College endowment consists of approximately 900 individual donor-restricted endowment funds and 100 board-designated quasi endowment funds for a variety of purposes. Pledges receivable and deferred gift arrangements that have been designated for endowment are not considered to be part of the endowment until the funds are received. The net assets associated with endowment funds, including funds designated by the Board of Trustees to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

The New York Prudent Management of Institutional Funds Act (NYPMIFA) governs the management and investment of donor-restricted endowment 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. The Board of Trustees has interpreted its fiduciary responsibilities for donor-restricted endowment funds under New York State's Not-for-Profit Corporation Law, including NYPMIFA, to include the preservation of intergenerational equity to the extent possible by prudently managing, investing, and spending from the endowment funds.

As a result of this interpretation, the College classifies as permanently restricted net assets the (a) the original value of gifts donated to a true endowment fund, (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 earnings related to donor-restricted endowment funds are classified as temporarily restricted net assets until the amounts are expended by the College in a manner consistent with the donor's intent and appropriated for expenditure by the Board of Trustees. The remaining portion of the endowment fund that is not classified in permanently restricted or temporarily restricted net assets is classified as unrestricted net assets.

(Dollars in thousands)

The College considers the following factors in making a determination to appropriate or accumulate endowment funds:

- The duration and preservation of the fund
- The purposes of the College and the donor-restricted endowment fund
- General economic conditions
- The possible effect of inflation and deflation
- The expected total return from income and the appreciation of investments
- Other resources of the College
- The investment policies of the College.

The following tables provide (1) the net asset class composition of the endowment as of June 30 and (2) a roll forward of the net endowment assets.

	2016			
	Unrestricted	**Temporarily restricted**	**Permanently restricted**	**Total**
Donor-restricted endowment funds	$ (1,550)	457,545	328,962	784,957
Board-designated quasi endowment	143,860	—	—	143,860
Total endowment funds at June 30, 2016	$ 142,310	457,545	328,962	928,817

	2015			
	Unrestricted	**Temporarily restricted**	**Permanently restricted**	**Total**
Donor-restricted endowment funds	$ (7)	508,480	318,020	826,493
Board-designated quasi endowment	156,481	—	—	156,481
Total endowment funds at June 30, 2015	$ 156,474	508,480	318,020	982,974

(Dollars in thousands)

	2016			
	Unrestricted	**Temporarily restricted**	**Permanently restricted**	**Total**
Net endowment assets at June 30, 2015	$ 156,474	508,480	318,020	982,974
Gifts received	23	—	10,365	10,388
Transfers and gifts further designated	1,594	1,543	519	3,656
Investment return, net	(2,379)	(14,771)	58	(17,092)
Appropriation of endowment assets for expenditure	(13,402)	(37,707)	—	(51,109)
Net endowment assets at June 30, 2016	$ 142,310	457,545	328,962	928,817

	2015			
	Unrestricted	**Temporarily restricted**	**Permanently restricted**	**Total**
Net endowment assets at June 30, 2014	$ 159,529	520,653	302,029	982,211
Gifts received	8	—	13,641	13,649
Transfers and gifts further designated	7,622	7	2,350	9,979
Investment return, net	6,528	22,107	—	28,635
Appropriation of endowment assets for expenditure	(17,213)	(34,287)	—	(51,500)
Net endowment assets at June 30, 2015	$ 156,474	508,480	318,020	982,974

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. When donor endowment deficits exist, they are classified as a reduction of unrestricted net assets. Deficits of this nature reported in unrestricted net assets were $1,550 and $7 as of June 30, 2016 and 2015, respectively. These deficits resulted from unfavorable market fluctuations that occurred shortly after the investment of newly established endowments, and authorized appropriation that was deemed prudent.

(Continued)

(Dollars in thousands)

(6) Land, Buildings, and Equipment

The following is a summary of the College's property and equipment as of June 30:

	Estimated lives	2016	2015
Land	—	$ 2,126	2,126
Land improvements	50 years	33,348	29,128
Buildings and improvements	10 to 50 years	568,563	441,289
Equipment (including computers)	4–7 years	93,022	85,483
Library books	4 years	57,613	54,884
Art works and collectibles	—	55,285	53,573
Construction in progress	—	12,809	127,622
		822,766	794,105
Less accumulated depreciation		(336,970)	(321,778)
		$ 485,796	472,327

Depreciation expense for the years ended June 30, 2016 and 2015 was $20,310 and $19,170, respectively.

Interest costs on debt borrowed for capital improvements that are incurred during construction are capitalized, net of interest earned on construction funds. Capitalized interest during fiscal years 2016 and 2015 was $1,914 and $3,828, respectively.

The College's Board of Trustees approved a capital budget of $3,500 for construction projects in fiscal year 2017. This figure includes project completion costs and retainage that will be paid in the 2016-17 fiscal year.

(Dollars in thousands)

(7) Long-Term Debt

Long-term debt consists of the following as of June 30:

		2016	2015
Dormitory Authority of the State of New York Revenue Bonds, Series 2007, maturing in 2046, with interest ranging from 4% to 5%. The bonds are general obligations of the College. (a)	$	111,805	113,810
Dormitory Authority of the State of New York Revenue Bonds, Series 2010, maturing in 2049, with interest of 5%. The bonds are general obligations of the College. (b)		50,000	50,000
Dutchess County Local Development Corporation Revenue Bonds, Series 2013A, maturing in 2049, with interest ranging from 4% to 5%. The bonds are general obligations of the College. (c)		87,085	87,085
		248,890	250,895
Less unamortized bond issuance costs		(411)	(423)
	$	248,479	250,472

(a) On April 18, 2007, the College entered into an agreement with the Dormitory Authority of the State of New York, which provided for the issuance of $125,455 Vassar College Revenue Bonds, Series 2007. A portion of the proceeds were deposited into bond trustee escrow accounts to extinguish the Vassar College Revenue Series 1995 and 2001 Bonds. A portion was received by the College to pay certain costs associated with the issuance and the remaining amount was deposited into a bond trustee escrow account to be used for capital renovations and improvements to various facilities throughout the College's campus.

(b) On March 31, 2010, the College entered into an agreement with the Dormitory Authority of the State of New York, which provided for the issuance of $50,000 Vassar College Revenue Bonds, Series 2010. A portion of the proceeds was received by the College to pay certain costs associated with the issuance and the remaining amount was deposited into a bond trustee escrow account to be used for capital renovations and improvements to various facilities throughout the College's campus.

(c) On June 6, 2013, the College entered into an agreement with the Dutchess County Local Development Corporation, which provided for the issuance of $87,085 Vassar College Revenue Bonds, Series 2013A. A portion of the proceeds was received by the College to pay certain costs associated with the issuance and the remaining amount was deposited into a bond trustee escrow account to be used for capital renovations and improvements to various facilities throughout the College's campus.

(Dollars in thousands)

Maturities of bonds for the fiscal years after June 30, 2016 are as follows:

2017	$	735
2018		755
2019		785
2020		815
2021		850
Thereafter		244,950
	$	248,890

Interest expense for the years ended June 30, 2016 and 2015 was $9,558 and $7,744, respectively.

The Dormitory Authority of the State of New York and the Dutchess County Local Development Corporation require the College to establish certain reserve funds which are, included in the caption "deposits held by bond trustee" on the accompanying statements of financial position. These funds are invested in cash and cash equivalents and fixed-income securities where the fair value is based on quoted market prices and are considered to be Level 1 in the fair value hierarchy.

In addition, the Dormitory Authority of the State of New York requires the College to maintain certain liquidity ratios. The College is in compliance with all debt covenants.

Line of Credit

The College maintains a revolving line of credit for $10,000 of which $8,500 is available for working capital and $1,500 can be used for the issuance of letters of credit. As of June 30, 2016, the College had a letter of credit issued on its behalf in the amount of $1,324. As of June 30, 2016 and 2015, the College had not drawn on the designated working capital portion of the revolving line of credit.

(8) Employee Benefits – Retirement Plans

Retirement benefits for substantially all full-time employees are provided under a defined contribution plan with Teachers Insurance and Annuity Association (TIAA) and Fidelity Investments (Fidelity). In accordance with current plan documents, all employees who have completed one year of service at the College are eligible to participate in the Plan. The College makes contributions to TIAA and Fidelity based on eligible employees' earnings and age. Contributions for the years ended June 30, 2016 and 2015 totaled approximately $6,629 and $6,463, respectively.

(Dollars in thousands)

Retirement benefits for nonacademic employees, excluding secretarial, clerical, technical and supervisory staff, are provided under the Vassar College Defined Benefit Pension Plan.

The following tables and associated disclosures sets forth information related to the Vassar College Defined Benefit Pension Plan:

		2016	2015
Change in projected benefit obligation:			
Benefit obligation at beginning of year	$	41,700	40,310
Service cost		1,095	1,214
Interest cost		1,716	1,619
Benefits paid		(1,715)	(1,573)
Actuarial loss		5,052	130
Benefit obligation at end of year		47,848	41,700
Change in plan assets:			
Fair value of plan assets at beginning of year	$	31,333	31,162
Actual return on plan assets		707	1,072
Employer contribution		—	672
Benefits paid		(1,715)	(1,573)
Fair value of plan assets at end of year		30,325	31,333
Funded status at June 30 – amount recognized in statement of financial position	$	(17,523)	(10,367)
Amounts recognized in unrestricted net assets:			
Net prior service cost	$	2,816	3,287
Net actuarial loss		17,356	11,278

The estimated net prior service cost and net actuarial loss for the defined-benefit pension plan that will be amortized from unrestricted net assets into net periodic benefit cost over the next fiscal year are $471 and $554, respectively.

Based on the current funding level, the College anticipates making a contribution for 2017 in the amount of $88.

(Dollars in thousands)

Components of net periodic benefit cost for the years ended June 30 are as follows:

		2016	2015
Service cost	$	1,095	1,214
Interest cost		1,716	1,619
Expected return on plan assets		(2,287)	(2,475)
Amortization of:			
Prior service cost		471	471
Actuarial net loss		554	472
Net defined-benefit pension cost	$	1,549	1,301

Other changes in plan assets and benefit obligations recognized in unrestricted net assets for the years ended June 30 are as follows

		2016	2015
Net actuarial gain	$	(6,632)	(1,533)
Amortization of:			
Prior service cost		471	471
Actuarial net loss		554	472
Total recognized in nonoperating activities	$	(5,607)	(590)

The weighted average rates forming the basis of net periodic benefit cost and amounts recognized in the College's statements of financial position at June 30 are as follows:

	2016	2015
Year-end benefit obligation:		
Discount rate	3.40%	4.20%
Rate of compensation increase	4.00	4.00
Net periodic benefit cost:		
Discount rate	4.20	4.10
Expected return on plan assets	7.50	8.10
Rate of compensation increase	4.00	4.00

The expected long-term rate of return assumption represents the expected average rate of return or earnings on funds invested or to be invested to provide for the benefits included in the benefit obligations. This assumption is based on a number of factors, including historical market index returns, the anticipated long-term asset allocation of the plan, historical plan return data, plan expenses, and the potential to out-perform market index returns.

(Dollars in thousands)

The estimated future benefit payments from the defined benefit pension plan are as follows:

2017	$	1,895
2018		1,942
2019		2,028
2020		2,100
2021		2,167
2022–2026		12,323
	$	22,455

Defined-Benefit Plan Investment Policy

The Committee on Investments of the Board of Trustees directs the investment of the assets within the defined-benefit pension plan (the Plan). The committee has established a formal investment policy for the Plan, the goal of which is to generate a long-term real rate of return of 5.5%–6.0%, while sustaining moderate levels of risk. Target weightings for asset classes in the investment policy have been established based upon long-term expected real rates of return and correlation of returns as developed by the Plan’s investment manager. These target weightings, bounded by allowable ranges, are expected to allow the Plan assets to meet its objectives over the long-term with respect to investment return, volatility, and liquidity.

Target weightings for Plan assets are 60% equities, 30% fixed income, and 10% real estate. As of June 30, 2016 and 2015, actual weightings approximated the targets.

The Plan’s assets are shown below at fair value by investment class and hierarchy, for the years ended June 30, 2016 and 2015:

		2016		
		Investments measured at NAV	**Level 1**	**Total**
Common/collective trusts	$	—	11,443	11,443
Mutual funds		—	18,842	18,842
Other		40	—	40
	$	40	30,285	30,325

(Continued)

(Dollars in thousands)

		2015		
		Investments measured at NAV	**Level 1**	**Total**
Common/collective trusts	$	—	11,682	11,682
Mutual funds		—	19,592	19,592
Other		59	—	59
	$	59	31,274	31,333

(9) Employee Benefits – Postretirement Health Insurance

The College provides postretirement medical benefits for certain retirees and employees. The cost of postretirement benefits is accrued as earned during an employee's service with the College.

The following table presents the postretirement medical plan's funded status and amounts recognized in the financial statements. The calculations were based upon data as of June 30, 2016 and 2015.

		2016	**2015**
Change in benefit obligation:			
Benefit obligation at beginning of year	$	26,438	26,194
Service cost		1,462	1,539
Interest cost		1,087	1,026
Plan participants' contributions		42	58
Benefits paid		(847)	(792)
Actuarial gain		(1,652)	(1,587)
Benefit obligation at end of year		26,530	26,438
Change in plan asset:			
Fair value of plan assets at beginning of year		—	—
Retiree drug subsidy receipts		—	—
Employer contributions		806	734
Plan participants' contributions		41	58
Benefits paid		(847)	(792)
Fair value of plan assets at end of year		—	—
Funded status at June 30 – amount recognized in statement of financial position	$	(26,530)	(26,438)
Amounts recognized in unrestricted net assets:			
Net prior service credit	$	206	2,281
Net actuarial loss		(188)	(1,840)

(Dollars in thousands)

The estimated net prior service credit and net actuarial loss for the postretirement plan that will be amortized into net periodic benefit cost over the next fiscal year are $206 and $2,075, respectively.

The College funds its postretirement medical benefits on a cash basis. The College's contributions in the next fiscal year are anticipated to be approximately $1,166.

		2016	2015
Components of net periodic benefit cost:			
Service cost	$	1,463	1,539
Interest cost		1,087	1,026
Amortization of:			
Prior service credit		(2,075)	(2,075)
Actuarial net loss		—	128
Net postretirement benefit cost	$	475	618

Other changes in benefit obligations recognized in unrestricted net assets for the years ended June 30 are as follows:

		2016	2015
Net actuarial gain	$	1,652	1,587
Amortization of:			
Prior service credit		(2,075)	(2,075)
Actuarial net loss		—	128
Total recognized in nonoperating activities	$	(423)	(360)

The weighted average rates forming the basis of net periodic benefit cost and amounts recognized in the College's statements of financial position were as follows:

	2016	2015
Year end benefit obligation:		
Discount rate	3.30%	4.20%
Net periodic benefit cost:		
Discount rate	4.20	4.00

The estimated future benefit payments range from $1,100 to $1,500 annually through fiscal year 2026.

Assumed healthcare cost trend rates have a significant effect on the amounts reported for the postretirement benefit plan. Assumed health care cost trends are 6.83% and 7.08% for the years ended June 30, 2016 and 2015, respectively, decreasing annually to an ultimate trend rate of 4.50% by 2019.

(Dollars in thousands)

A one-percentage-point change in the assumed healthcare cost trend rates would have the following effects at June 30:

		2016	2015
Effect of 1% increase in healthcare cost trend rate:			
Change in aggregate of current service cost and interest cost	$	517	533
Change in accumulated postretirement benefit obligation		4,114	3,762
Effect of 1% decrease in healthcare cost trend rate:			
Change in aggregate of current service cost and interest cost		(412)	(425)
Change in accumulated postretirement benefit obligation		(3,383)	(3,123)

(10) Restricted Net Assets and Net Assets Released from Restrictions

The College's donor-restricted net assets consist of the following at June 30:

		2016		2015	
		Temporarily restricted	Permanently restricted	Temporarily restricted	Permanently restricted
Instruction	$	73	99,289	86	97,400
Scholarships		81	137,516	62	131,659
Student services		33	9,250	51	9,052
Academic support		33	26,919	37	26,351
Institutional support		10	47,919	—	47,311
Other		858	2,388	3,141	567
Endowment earnings		457,545	—	508,480	—
Building renovations		6,326	5,438	6,814	5,438
Annuities and trusts		2,912	12,396	4,406	13,826
Pledges		10,027	6,968	12,530	11,075
Total net assets	$	477,898	348,083	535,607	342,679

(Dollars in thousands)

Net assets released from restrictions by incurring expenses satisfying the restricted purposes or by the occurrence of events specified by the donors are as follows for the years ended June 30:

		2016	2015
Purpose restrictions:			
Instruction	$	16,999	14,646
Scholarships		17,435	16,330
Student services		1,029	1,754
Academic support		3,859	4,148
Institutional support		748	1,707
Other		2,989	929
Building renovations		950	10,609
	$	44,009	50,123

(11) Commitments and Contingencies

Operating Leases

At June 30, 2016, minimum annual commitments under operating leases are as follows:

Fiscal year ended June 30:		
2017	$	190
2018		193
2019		205
2020		217
2021		230
	$	1,035

(Dollars in thousands)

(12) Natural Classification of Expenses

Operating expenses presented by natural classification are as follows for the fiscal years ended June 30:

		2016	2015
Salaries	$	77,646	74,613
Fringe benefits		31,611	30,818
Depreciation and accretion		20,888	20,037
Interest		9,558	7,744
Utilities		4,598	4,109
Other operating		33,969	34,313
Restructuring		—	6,304
	$	178,270	177,938

(13) Restructuring

The Non-Faculty Employee Early Retirement Program (the Program) offered eligible non-faculty employees a financial incentive to voluntarily retire or resign from the College during the first six months of the 2014/15 fiscal year. The purpose of the Program was to reengineer and reduce staffing for certain functions, reassign positions to more strategic priorities of the College, provide promotional opportunities to certain early and middle career employees, and to allow the hiring of replacement staff at lower overall cost. The Program was intended to reduce the aggregate size of the non-faculty employee pool by at least 30 FTEs, resulting in better alignment of staffing to our peers and cost reductions in the annual operating budget of the College.

All non-faculty employees with a minimum of five years of service whose combined age and service years equaled or exceeded 75 were eligible and offered the retirement incentive. The incentive consisted of a one-time payout based on current salary or wages, with a longevity bonus for those with service in excess of ten years and a bridge payment for certain employees not yet eligible for Vassar's postretirement medical benefits. Of the approximately 225 employees eligible for the Program, 69 participated. Incentive payments were made in the next pay period after the final separation date, with most payments occurring in January 2015.

(14) Subsequent Events

For purposes of determining the effects of subsequent events on these financial statements, management has evaluated events subsequent to June 30, 2016 and through October 28, 2016, the date on which the financial statements were issued.