

**FINANCIAL
STATEMENTS**

May 31, 2015



VILLANOVA UNIVERSITY

FINANCIAL STATEMENTS May 31, 2015

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Independent Auditor's Report

To the Board of Trustees of Villanova University and Subsidiaries:

We have audited the accompanying consolidated financial statements of Villanova University and Subsidiaries (the "University"), which comprise the consolidated statements of financial position as of May 31, 2015 and 2014, and the related consolidated statements of activities, changes in net assets, and of cash flows for the years then ended.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; 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.

Auditor's Responsibility

Our responsibility is to express an opinion on the 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 our 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, we consider internal control relevant to the University'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 University'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 Villanova University and Subsidiaries at May 31, 2015 and 2014, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

PricewaterhouseCoopers LLP

August 26, 2015

VILLANOVA UNIVERSITY AND SUBSIDIARIES**Consolidated Statements of Financial Position at May 31, 2015 and 2014**

(in thousands)

	<u>2015</u>	<u>2014</u>
ASSETS		
Cash and cash equivalents	\$ 186,872	\$ 158,187
Short-term investments	1,989	1,227
Accounts receivable, less allowances of \$886 in 2015 and \$936 in 2014	12,106	10,718
Other assets	4,512	5,479
Assets whose use is limited	2,106	2,094
Pledges receivable, net	78,301	99,753
Student loans receivable, net	10,981	10,868
Investments	568,483	506,675
Land, buildings and equipment, net	<u>353,913</u>	<u>355,204</u>
Total assets	<u>\$ 1,219,263</u>	<u>\$ 1,150,205</u>
LIABILITIES		
Accounts payable	\$ 14,494	\$ 12,603
Accrued expenses	33,264	32,046
Deposits	3,761	3,737
Deferred revenues	16,468	14,349
Accrued postretirement benefits	14,586	13,671
Refundable government loan funds	9,445	8,870
Long-term debt	164,914	172,968
Accrued pension cost	<u>10,988</u>	<u>6,790</u>
Total liabilities	<u>267,920</u>	<u>265,034</u>
NET ASSETS		
Unrestricted	481,620	462,911
Temporarily restricted	195,684	173,383
Permanently restricted	<u>274,039</u>	<u>248,877</u>
Total net assets	<u>951,343</u>	<u>885,171</u>
Total liabilities and net assets	<u>\$ 1,219,263</u>	<u>\$ 1,150,205</u>

The accompanying notes are an integral part of the consolidated financial statements.

VILLANOVA UNIVERSITY AND SUBSIDIARIES
Consolidated Statement of Activities for the Year Ended May 31, 2015
(in thousands)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>	<u>2014 Total</u>
OPERATING REVENUES					
Student related revenue:					
Student tuition and fees, net of \$106,641 in student financial aid	\$ 270,616			\$ 270,616	\$ 266,580
Sales and services of auxiliary enterprises, net of \$2,561 in student financial aid	<u>64,612</u>			<u>64,612</u>	<u>64,776</u>
	335,228			335,228	331,356
Private gifts and grants	14,974	\$ 21,733		36,707	46,459
Government grants	6,822			6,822	6,355
Endowment resources	10,514	8,886		19,400	17,537
Investment income	148	2,484		2,632	183
Other sources	18,198	319		18,517	22,799
Net assets released from restrictions	<u>16,132</u>	<u>(16,225)</u>	<u>\$ 93</u>	<u>-</u>	<u>-</u>
Total operating revenues	<u>402,016</u>	<u>17,197</u>	<u>93</u>	<u>419,306</u>	<u>424,689</u>
OPERATING EXPENSES					
Salaries and fringe benefits	240,711			240,711	233,994
Supplies and services	46,864			46,864	43,775
Depreciation	18,983			18,983	18,861
Cost of goods sold	8,633			8,633	9,895
Interest on indebtedness	5,814			5,814	6,943
Travel and special events	14,508			14,508	17,693
Utilities	8,188			8,188	8,776
Other	<u>33,843</u>			<u>33,843</u>	<u>33,857</u>
Total operating expenses	<u>377,544</u>	<u>-</u>	<u>-</u>	<u>377,544</u>	<u>373,794</u>
Change in net assets from operating activities	<u>24,472</u>	<u>17,197</u>	<u>93</u>	<u>41,762</u>	<u>50,895</u>
NON-OPERATING					
Investment Income					
Interest and dividends	1,155	961	13	2,129	1,952
Realized gains	10,062	10,332	92	20,486	17,552
Other					
Rental property revenue	2,274			2,274	2,241
Rental property expenses	(1,239)			(1,239)	(1,312)
Change in fair value of investments	2,768	2,697	(24)	5,441	39,479
Endowment resources	<u>(10,514)</u>	<u>(8,886)</u>		<u>(19,400)</u>	<u>(17,537)</u>
	4,506	5,104	81	9,691	42,375
Endowment and other gifts	<u>10</u>		<u>24,988</u>	<u>24,998</u>	<u>59,279</u>
Change in net assets from non-operating activities	<u>4,516</u>	<u>5,104</u>	<u>25,069</u>	<u>34,689</u>	<u>101,654</u>
Change in net assets prior to gain on bond refinancing	28,988	22,301	25,162	76,451	152,549
(Loss)/Gain on bond refinancing	<u>(3,212)</u>	<u>-</u>	<u>-</u>	<u>(3,212)</u>	<u>-</u>
Change in net assets before other adjustments	<u>\$ 25,776</u>	<u>\$ 22,301</u>	<u>\$ 25,162</u>	<u>\$ 73,239</u>	<u>\$ 152,549</u>

The accompanying notes are an integral part of the consolidated financial statements.

VILLANOVA UNIVERSITY AND SUBSIDIARIES
Consolidated Statement of Activities for the Year Ended May 31, 2014
(in thousands)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>	<u>2013 Total</u>
OPERATING REVENUES					
Student related revenue:					
Student tuition and fees, net of \$101,058 in student financial aid	\$ 266,580			\$ 266,580	\$ 261,516
Sales and services of auxiliary enterprises, net of \$2,429 in student financial aid	<u>64,776</u>			<u>64,776</u>	<u>67,272</u>
	331,356			331,356	328,788
Private gifts and grants	15,844	\$ 30,615		46,459	32,628
Government grants	6,355			6,355	6,567
Endowment resources	9,207	8,330		17,537	15,908
Investment income	183			183	181
Other sources	22,561	238		22,799	17,443
Net assets released from restrictions	<u>13,076</u>	<u>(13,090)</u>	<u>\$ 14</u>	<u>-</u>	<u>-</u>
Total operating revenues	<u>398,582</u>	<u>26,093</u>	<u>14</u>	<u>424,689</u>	<u>401,515</u>
OPERATING EXPENSES					
Salaries and fringe benefits	233,994			233,994	231,527
Supplies and services	43,775			43,775	42,990
Depreciation	18,861			18,861	18,246
Cost of goods sold	9,895			9,895	12,803
Interest on indebtedness	6,943			6,943	7,226
Travel and special events	17,693			17,693	12,869
Utilities	8,776			8,776	7,843
Other	<u>33,857</u>			<u>33,857</u>	<u>34,449</u>
Total operating expenses	<u>373,794</u>	<u>-</u>	<u>-</u>	<u>373,794</u>	<u>367,953</u>
Change in net assets from operating activities	<u>24,788</u>	<u>26,093</u>	<u>14</u>	<u>50,895</u>	<u>33,562</u>
NON-OPERATING					
Investment Income					
Interest and dividends	1,155	619	178	1,952	2,628
Realized gains	8,495	8,927	130	17,552	10,413
Other					
Rental property revenue	2,241			2,241	2,222
Rental property expenses	(1,312)			(1,312)	(1,347)
Change in fair value of investments	19,798	19,701	(20)	39,479	45,443
Endowment resources	<u>(9,207)</u>	<u>(8,330)</u>		<u>(17,537)</u>	<u>(15,908)</u>
	21,170	20,917	288	42,375	43,451
Endowment and other gifts	10		59,269	59,279	24,938
Change in net assets from non-operating activities	<u>21,180</u>	<u>20,917</u>	<u>59,557</u>	<u>101,654</u>	<u>68,389</u>
Change in net assets prior to gain on bond refinancing	45,968	47,010	59,571	152,549	101,951
Gain on bond refinancing	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>39</u>
Change in net assets before other adjustments	<u>\$ 45,968</u>	<u>\$ 47,010</u>	<u>\$ 59,571</u>	<u>\$ 152,549</u>	<u>\$ 101,990</u>

The accompanying notes are an integral part of the consolidated financial statements.

VILLANOVA UNIVERSITY AND SUBSIDIARIES
Consolidated Statements of Changes in Net Assets
For the Years Ended May 31, 2015 and 2014
(in thousands)

	<u>2015</u>	<u>2014</u>
Unrestricted Net Assets:		
Change in net assets before other adjustments	\$ 25,776	\$ 45,968
Adjustment for retirement plan obligations	<u>(7,067)</u>	<u>1,006</u>
Increase in unrestricted net assets	<u>18,709</u>	<u>46,974</u>
Temporarily Restricted Net Assets:		
Change in net assets	<u>22,301</u>	<u>47,010</u>
Increase in temporarily restricted net assets	<u>22,301</u>	<u>47,010</u>
Permanently Restricted Net Assets:		
Change in net assets	<u>25,162</u>	<u>59,571</u>
Increase in permanently restricted net assets	<u>25,162</u>	<u>59,571</u>
Increase in net assets	66,172	153,555
Net assets:		
Beginning of Year	<u>885,171</u>	<u>731,616</u>
End of Year	<u>\$ 951,343</u>	<u>\$ 885,171</u>

The accompanying notes are an integral part of the consolidated financial statements.

VILLANOVA UNIVERSITY AND SUBSIDIARIES

Consolidated Statements of Cash Flows

For the years ended May 31, 2015 and 2014

(in thousands)

	<u>2015</u>	<u>2014</u>
CASH FLOW FROM OPERATING ACTIVITIES		
Increase/(Decrease) in net assets	\$ 66,172	\$ 153,555
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	18,983	18,861
Contributions restricted for long-term investment	(41,745)	(15,824)
Realized gains on sales of investments	(20,486)	(17,552)
Change in market value of investments	(5,441)	(39,479)
Pension and other postretirement benefit plan adjustments	7,067	(1,006)
Receipt of contributed securities	(25,548)	(7,402)
Amortization of debt (premium)/discount	5,791	(777)
Changes in operating assets and liabilities:		
Accounts receivable	(1,787)	880
Pledges receivable	23,584	(62,946)
Provision for doubtful accounts	(2,357)	7,424
Accounts payable and accrued expenses	5,238	3,615
Other changes	1,156	(2,945)
Net cash provided by operating activities	<u>30,627</u>	<u>36,404</u>
CASH FLOW FROM INVESTING ACTIVITIES		
Proceeds from sales of investments	187,173	131,838
Purchases of investments	(197,506)	(143,491)
Student loans receivable	511	524
Purchase of land, buildings and equipment	(19,821)	(18,817)
Short-term investments, net	(762)	(261)
Increase in assets whose use is limited	(12)	-
Net cash used by investing activities	<u>(30,417)</u>	<u>(30,207)</u>
CASH FLOW FROM FINANCING ACTIVITIES		
Contributions restricted for long-term investment	41,745	15,824
Repayment of debt principal	(9,730)	(9,288)
Debt refinancing	(4,115)	-
Government loan funds	575	53
Net cash provided by financing activities	<u>28,475</u>	<u>6,589</u>
Net increase in cash and cash equivalents	28,685	12,786
Cash and cash equivalents at beginning of year	<u>158,187</u>	<u>145,401</u>
Cash and cash equivalents at end of year	<u>\$ 186,872</u>	<u>\$ 158,187</u>
SUPPLEMENTAL DISCLOSURES		
Purchases of property, plant, and equipment in accounts payable	\$ 795	\$ 2,924
Cash paid for interest	7,404	8,126
Tax payments	915	527
Contributed securities	25,548	7,402

The accompanying notes are an integral part of the consolidated financial statements.

VILLANOVA UNIVERSITY AND SUBSIDIARIES
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED MAY 31, 2015

NOTE 1 - SUMMARY OF NATURE OF OPERATIONS, SIGNIFICANT ACCOUNTING POLICIES AND REPORTING PRACTICES:

Nature of Operations

Villanova University and Subsidiaries (the “University”) is an independent, coeducational institution offering undergraduate and graduate instruction, located in Radnor Township, Delaware County, Pennsylvania. The campus presently covers approximately 270 acres and comprises 78 buildings. The University also has a Conference Center approximately one-half mile from the campus which encompasses 33 acres. The University has approximately 10,550 students, of whom approximately 6,300 are full-time undergraduates. Refer to Note 16 for a description of the University’s subsidiaries.

Significant Accounting Policies and Reporting Practices

Principles of Consolidation

The consolidated financial statements include the accounts of the University and its subsidiaries. All intercompany balances and transactions have been eliminated in consolidation.

Financial Statement Presentation

The accompanying consolidated financial statements have been prepared on the accrual basis of accounting.

Resources are categorized for accounting purposes into separate classes of net assets based on the existence or absence of donor-imposed restrictions. In the accompanying consolidated financial statements, net assets that have similar characteristics have been combined into similar categories.

- **Unrestricted Net Assets** - Unrestricted net assets generally result from revenues derived from providing services, receiving unrestricted contributions, receiving dividends and interest from investing in income-producing assets, and unrestricted gains and losses, less expenses incurred in providing services, raising contributions, and performing administrative functions. Unrestricted net assets may be designated for specific purposes by action of the Board of Trustees.
- **Temporarily Restricted Net Assets** – Temporarily restricted net assets generally result from contributions and other inflows of assets whose use by the University is limited by donor-imposed stipulations that either expire by passage of time or can be fulfilled and removed by actions of the University pursuant to those stipulations or by law. Gifts of cash and other non-capital assets are reported as temporarily restricted operating revenue if the gifts 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 for restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the consolidated statement of activities as net assets released from restrictions. Contributions related to the construction or acquisition of fixed assets are also classified as temporarily restricted. When the associated assets are placed in service, the assets are released from restriction over the life of the asset commensurate with the depreciation expense incurred in the consolidated statement of activities.
- **Permanently Restricted Net Assets** – Permanently restricted net assets generally represent the corpus of contributions and other inflows of assets whose use by the University is limited by donor-imposed stipulations that neither expire by the passage of time nor can be fulfilled or otherwise removed by the University.

NOTE 1 - SUMMARY OF NATURE OF OPERATIONS, SIGNIFICANT ACCOUNTING POLICIES AND REPORTING PRACTICES: (Continued)

Fair Value

The University utilizes the provisions of the fair value measurements standard, which defines the term “fair value,” establishes a framework for measuring it within generally accepted accounting principles, and expands disclosure about fair value measurements.

The standard established a three-level valuation hierarchy for disclosure of fair value measurements. The valuation hierarchy is based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. The three levels are defined as follows:

- *Level 1* – Observable inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets;
- *Level 2* – Inputs to the valuation methodology include quoted prices for similar assets or liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the same term of the financial instrument; and
- *Level 3* – Unobservable inputs to the valuation methodology in which there is little or no market data and which are significant to the fair value measurement.

A financial instrument’s categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

The University’s investments consist of separate accounts, daily traded mutual funds, split-interest agreements, commingled funds, private partnership interests, and limited partnership interests.

Investments in domestic equities consist of separate accounts and one limited partnership investment. Securities in the separate accounts are traded daily and are valued based on quoted market prices and categorized as Level 1. The limited partnership interest invests in securities that are traded daily and a small number of investments that do not have a readily determinable market value. The limited partnership interest is categorized as Level 3 in the fair value hierarchy.

Investments in domestic corporate and other bonds consist of a commingled fund and a separate account. Securities in the separate account are traded daily and are valued based on quoted market prices and categorized as Level 1. The commingled bond fund is valued at net asset value (NAV) and is categorized as Level 2 in the fair value hierarchy.

Investments in foreign equities consist of commingled funds and daily traded mutual funds. Securities held in daily traded mutual funds are generally valued based on quoted market prices in active markets obtained from exchange or dealer markets for identical assets, and are accordingly categorized as Level 1 in the fair value hierarchy, with no valuation adjustments applied. Commingled funds are valued at NAV and are categorized as Level 2 in the fair value hierarchy.

Investments in inflation hedging, non-marketable alternative investments, and opportunistic strategies consist of daily traded mutual funds, commingled funds, private partnership interest, and limited partnership interests. Securities held in daily traded mutual funds are categorized as Level 1. Securities in commingled funds are valued at NAV and categorized as Level 2. Private partnership and limited partnership interests are valued at NAV and are categorized in accordance with the *Fair Value Measurement* standard. As the University does not have the ability to redeem from the private or limited partnerships at the measurement date or is restricted from redeeming for an uncertain or extended period of time from the measurement date, the investment is classified as a Level 3 in the fair value hierarchy.

Investments in hedge funds are valued at NAV and are categorized in accordance with the *Fair Value Measurement* standard. The liquidity terms for the hedge funds vary by individual investment, from monthly liquidity to illiquid. Due to the redemption periods, all of these investments are classified as Level 3 in the fair value hierarchy.

NOTE 1 - SUMMARY OF NATURE OF OPERATIONS, SIGNIFICANT ACCOUNTING POLICIES AND REPORTING PRACTICES: (Continued)

Fair Value (Continued)

Investments in split-interest agreements consist of irrevocable charitable remainder trusts, charitable gift annuities, and pooled income funds where the University serves as trustee. The assets, invested in equity or debt securities, are measured at fair value on a recurring basis at quoted market prices and are thus categorized as Level 1. Liabilities represent the present value of the estimated future distributions to beneficiaries over the terms of the agreements. Investment gains and losses, and gains and losses associated with changes in the estimates of future distributions to beneficiaries, are included in net realized and unrealized gains and losses.

The University's pension assets consist of common collective trusts, an open-end real estate fund, and a temporary investment fund.

Investments in common collective trusts consist of equity securities and fixed income options traded in an active exchange market, as well as investments in mutual funds. The assets are valued at the net asset value of units held at year-end. When available, quoted market prices are used to value the underlying investments held by the collective trusts. For underlying investments consisting of fixed maturities, valuations are generally obtained from third-party pricing services for identical or comparable assets or liabilities, non-binding broker quotes (when pricing service information is not available) or through the use of valuation methodologies using observable inputs. For underlying investments where vendor pricing is not available, internally developed valuations using one or more unobservable inputs or non-binding quotes are used to determine fair value. These investments are categorized as Level 2 in the fair value hierarchy.

The assets of the open-end real estate fund are valued based on a net asset value. The net asset value is derived from the underlying value of the property and other assets held. Fair value is estimated based upon property appraisal reports prepared by independent real estate appraisers within a reasonable amount of time following acquisition of the real estate and no less frequently than annually thereafter. This real estate fund is categorized as Level 3 in the fair value hierarchy.

Investments in the temporary investment fund consist of temporary cash investments carried at cost, which approximated fair value, and are categorized as Level 1 in the fair value hierarchy.

Cash and Cash Equivalents

Cash and cash equivalents represent demand deposits and other investments with an original maturity date not exceeding 90 days, while short-term investments reflect liquid investments with a maturity date in excess of 90 days, but less than one year.

Investments

The University records investments at fair value. Gains or losses on investments are recognized as increases or decreases in unrestricted net assets unless their use is temporarily or permanently restricted by explicit donor stipulations or by law.

Accounts Receivable

Accounts Receivable are primarily amounts related to student receivable balances, grant receivable balances, and other miscellaneous receivables net of an allowance for doubtful accounts.

Investment Income

Investment income related to long-term investments is recorded as non-operating income, and the portion of investment income that is utilized in operating revenues under the University's endowment spending formula (see description in Note 3) is shown as a reduction in non-operating income ("Endowment resources"). Investment income related to the endowment is classified as unrestricted or temporarily restricted, depending on donor specifications and applicable law. Investment income related to cash and cash equivalents and short-term investments is recorded as operating income.

NOTE 1 - SUMMARY OF NATURE OF OPERATIONS, SIGNIFICANT ACCOUNTING POLICIES AND REPORTING PRACTICES: (Continued)

Student Loans Receivable

Student loans receivable are stated net of allowances for doubtful accounts. Student loans receivable are principally amounts due from students under U.S. Government-sponsored loan programs, which are subject to significant restrictions.

Land, Building, and Equipment

Land, buildings and equipment are carried at cost or fair value on the date of gift. Depreciation is computed on a straight-line basis over the estimated useful lives of land improvements (10-25 years), buildings (10-55 years) and equipment (4-10 years). All gifts of land, buildings and equipment are recorded as unrestricted non-operating activity unless explicit donor stipulations specify how the donated assets must be used.

Capitalized Software Costs

Capitalized software costs included in property, plant and equipment relate to purchased software, which is capitalized and depreciated on a straight-line basis over a five-year period.

Early Retirement Benefits

The University offers an early retirement program to full-time faculty members who meet certain eligibility criteria. The University accrues the present value of all future benefit payments for individuals who accept the University's early retirement offer at the time of acceptance.

Deferred Revenue

All revenues received and expenditures incurred prior to the end of the fiscal year which relate to the following fiscal year are recorded as deferred revenues or other assets, respectively.

Noncash Gifts

Noncash gifts are recorded at fair value on the date of donation.

Employee Health Insurance

The University is self-insured for employee health insurance and pays the actual cost of claims. As the University is not fully insured, it bears full risk related to these claims. There are risk-mitigation strategies in place such as stop loss insurance to counter catastrophic claims.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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(s) of the financial statements and the reported amounts of revenues and expenses during the reporting period(s). Actual results could differ from those estimates.

NOTE 1 - SUMMARY OF NATURE OF OPERATIONS, SIGNIFICANT ACCOUNTING POLICIES AND REPORTING PRACTICES: (Continued)

Statement of Activities

Operating revenues reflect all transactions increasing unrestricted and temporarily restricted net assets except those of a capital or long-term nature, such as gifts for long-term investments and endowments. Operating revenues include realized gains appropriated in accordance with the University's endowment spending policy (see description in Note 3).

Operation and maintenance of plant, depreciation and interest expenses have been allocated to the functional operating expense categories in Note 12. In addition, student tuition and fees as well as sales and services of auxiliary enterprises are shown net of student financial aid.

NOTE 2 - DISCLOSURES ABOUT FAIR VALUE OF FINANCIAL INSTRUMENTS:

At May 31, 2015 and 2014, the fair value of cash and cash equivalents, short-term investments, and deposits with bond trustees approximate their respective carrying amounts. The fair value of short-term investments, investments and deposits with bond trustees are based on the quoted market price of the underlying securities; the fair value of long-term debt is based on the market prices at which the bonds most recently traded (and would be considered Level 1).

The aggregate carrying amount and fair value of the University's outstanding bonds at May 31, 2015 and 2014 are as follows:

	<u>2015</u>		<u>2014</u>	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	\$ 143,775,000	\$ 160,714,000	\$ 156,760,000	\$ 171,149,000

Determination of the fair value of student loans receivable, which are primarily federally sponsored student loans with U.S. government mandated interest rates and repayment terms and subject to significant restrictions as to their transfer or disposition, is not practicable.

The following tables present the financial instruments carried at fair value on a recurring basis as of May 31, 2015 and May 31, 2014, respectively, and indicates the fair value hierarchy of the valuation techniques that were utilized to determine such fair value.

	Fair Value Measurements at May 31, 2015			
	Fair Value	Level 1	Level 2	Level 3
Cash and cash equivalents	\$ 29,271	\$ 29,271	\$ -	\$ -
Domestic equities	142,790	88,213	-	54,577
Domestic corporate and other bonds	34,876	7,003	27,873	-
Foreign equities	144,320	89,269	55,051	-
Hedge funds	108,548	-	-	108,548
Inflation hedging	36,374	19,097	7,207	10,070
Private equities	19,207	-	-	19,207
Venture capital	30,663	-	-	30,663
Real estate fund	2,106	-	-	2,106
Opportunistic managers	14,945	14,945	-	-
Split-interest agreements	4,227	4,227	-	-
Other investments	1,156	1,156	-	-
Total investments at fair value	<u>\$ 568,483</u>	<u>\$ 253,181</u>	<u>\$ 90,131</u>	<u>\$ 225,171</u>

NOTE 2 - DISCLOSURES ABOUT FAIR VALUE OF FINANCIAL INSTRUMENTS: (Continued)

	Fair Value Measurements at May 31, 2014			
	Fair Value	Level 1	Level 2	Level 3
Cash and cash equivalents	\$ 23,303	\$ 23,303	\$ -	\$ -
Domestic equities	130,833	78,974	-	51,859
Domestic corporate and other bonds	34,298	7,239	27,059	-
Foreign equities	122,208	81,168	41,040	-
Hedge funds	95,781	-	-	95,781
Inflation hedging	43,339	24,267	8,835	10,237
Private equities	21,580	-	-	21,580
Venture capital	13,968	-	-	13,968
Real estate fund	1,944	-	-	1,944
Opportunistic managers	14,619	14,619	-	-
Split-interest agreements	3,827	3,827	-	-
Other investments	975	975	-	-
Total investments at fair value	<u>\$ 506,675</u>	<u>\$ 234,372</u>	<u>\$ 76,934</u>	<u>\$ 195,369</u>

The methods described in Note 1 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 tables present the rollforward of the statement of financial position amounts for financial instruments classified by the University within Level 3 of the valuation hierarchy defined above, as of May 31, 2015 and May 31, 2014, respectively:

	Level 3 Fair Value Measurements (in thousands)				
	Domestic	Hedge Funds	Inflation Hedging & Real Estate	Private Equities & Venture Capital	Total
	Equities				
Fair Value, June 1, 2014	\$ 51,859	\$ 95,781	\$ 12,181	\$ 35,548	\$ 195,369
Total Gains	8,718	4,690	(907)	5,858	18,359
Purchases	-	10,250	1,888	17,008	29,146
Sales	(6,000)	(2,017)	-	-	(8,017)
Settlements	-	(156)	(986)	(8,544)	(9,686)
Fair Value, May 31, 2015	<u>\$ 54,577</u>	<u>\$ 108,548</u>	<u>\$ 12,176</u>	<u>\$ 49,870</u>	<u>\$ 225,171</u>

	Level 3 Fair Value Measurements (in thousands)				
	Domestic	Hedge Funds	Inflation Hedging & Real Estate	Private Equities & Venture Capital	Total
	Equities				
Fair Value, June 1, 2013	\$ 37,659	\$ 67,719	\$ 10,312	\$ 31,569	\$ 147,259
Total Gains	10,200	7,715	650	6,489	25,054
Purchases	4,000	29,730	2,617	4,274	40,621
Sales	-	(2,119)	-	-	(2,119)
Settlements	-	(7,264)	(1,398)	(6,784)	(15,446)
Fair Value, May 31, 2014	<u>\$ 51,859</u>	<u>\$ 95,781</u>	<u>\$ 12,181</u>	<u>\$ 35,548</u>	<u>\$ 195,369</u>

NOTE 2 - DISCLOSURES ABOUT FAIR VALUE OF FINANCIAL INSTRUMENTS: (Continued)

The amount of unrealized gains/(losses) and realized gains/(losses) related to financial instruments classified as Level 3 still held at May 31, 2015, included in the statement of activities is as follows (in thousands):

	<u>Domestic Equities</u>	<u>Hedge Funds</u>	<u>Inflation Hedging</u>	<u>Private Equities</u>	<u>Total</u>
Unrealized Gains/(Losses)	\$ 5,376	\$ 4,525	\$ (1,228)	\$ 1,553	\$ 10,226
Realized Gains/(Losses)	3,342	1,139	398	3,244	8,123

Liquidity risk is the risk that the University will not be able to meet its obligations associated with financial liabilities (restrictions on ability to redeem investments). The University has made investments in various long-lived partnerships and, in other cases, has entered into contractual agreements that may limit its ability to initiate redemptions due to notice periods, lock-ups and gates. Details on remaining estimated life and current redemption terms by asset class and type of investment are provided below:

	<u>Redemption Frequency</u>	<u>Days Notice (if applicable)</u>	<u>Remaining Life for Partnerships</u>
Cash and cash equivalents	Daily		N/A
Domestic equities	Daily, Quarterly	0 - 60	N/A
Domestic corporate and other bonds	Daily, Monthly	0 - 2	N/A
Foreign equities	Daily, Monthly	0 - 30	N/A
Hedge funds	Varies	Varies	N/A
Inflation hedging	Daily, Monthly, Illiquid	0 - 30	6 to 11.5 years
Private equities	Illiquid		0.5 to 7 years
Venture capital	Illiquid		0.5 to 13 years
Real estate	Illiquid		0.5 years
Opportunistic managers	Daily		N/A
Split-interest agreements	Daily		N/A
Other investments	Daily		N/A

NOTE 3 - NET ASSETS:

	(in thousands)	
	2015	2014
Temporarily restricted net assets consist of the following:		
Unexpended contributions for instruction and scholarships	\$ 27,482	\$ 25,947
Unexpended contributions for capital expenditures	48,622	33,557
Property, plant, and equipment acquired through donations	29,138	29,027
Annuity and life income funds	3,053	2,614
Endowment – accumulated change in market value of investments and realized gains	<u>87,389</u>	<u>82,238</u>
	<u><u>\$ 195,684</u></u>	<u><u>\$ 173,383</u></u>
Permanently restricted net assets consist of the following:		
Student loans	\$ 1,876	\$ 1,876
Endowment principal, primarily for scholarships and instruction	<u>272,163</u>	<u>247,001</u>
	<u><u>\$ 274,039</u></u>	<u><u>\$ 248,877</u></u>

The University's endowment consists of approximately 685 individual funds established for a variety of purposes. The endowment includes both donor-restricted endowment funds and funds designated by the Board of Trustees to function as endowments. 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 Commonwealth of Pennsylvania has not enacted a version of the Uniform Prudent Management of Institutional Funds Act (UPMIFA), or a version of the Uniform Management of Institutional Funds Act (UMIFA). Governing law resides in 15 Pa. C.S. § 5548, *Investment of Trust Funds*. The University has interpreted relevant Pennsylvania law as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the University classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the University in a manner consistent with the standard of prudence prescribed by Pennsylvania law.

The University has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the University must hold in perpetuity or for a donor-specific period(s) as well as board-designated funds. Under this policy, as approved by the Board of Trustees, the endowment assets are invested in a manner that is intended to produce a real return, net of inflation and investment management costs, of at least 5% over the long term. Actual returns in any given year may vary from this amount.

To satisfy 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) and current yield (interest and dividends). The University targets a diversified asset allocation that places a greater emphasis on equity-based and alternative investments to achieve its long-term objective within prudent risk constraints.

NOTE 3 - NET ASSETS: (Continued)

Under the University's spending policy, the University utilizes endowment and quasi-endowment resources to support operations at a level of 5% of the 12 calendar quarter moving average of the fair value of endowment and quasi-endowment investment assets calculated as of December 31st of the year immediately preceding the beginning of the University's fiscal year. Any difference between actual investment income and the amounts distributed is retained to support operations of future years. These retained balances are used in any year that the actual total investment return is below the spending rate. The remaining realized and unrealized gains/losses are reported as non-operating revenues. In establishing this policy, the University considered the long-term expected return on its endowment. Accordingly, over the long term, the University expects the current spending policy to allow its endowment to maintain spending at an amount equal to or less than total return less inflation.

At May 31, 2015, the endowment net asset composition by type of fund consisted of the following:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted funds	\$ -	\$ 87,389	\$ 226,616	\$ 314,005
Board-designated funds	249,861	-	-	249,861
Total Funds	<u>\$ 249,861</u>	<u>\$ 87,389</u>	<u>\$ 226,616</u>	<u>\$ 563,866</u>

Changes in endowment net assets for the fiscal year ended May 31, 2015 consisted of the following:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ 232,159	\$ 82,238	\$ 187,086	\$ 501,483
Investment return:				
Investment Income	2,219	3,025	-	5,244
Management and Admin Fees	(1,544)	(1,819)	-	(3,363)
Net appreciation (realized and unrealized)	12,831	12,831	-	25,662
Total investment return	<u>13,506</u>	<u>14,037</u>	<u>-</u>	<u>27,543</u>
Contributions	10	-	39,530	39,540
Planned Savings	11,800	-	-	11,800
Distribution for Spending	(10,514)	(8,886)	-	(19,400)
Other additions to Unrestricted Endowment	<u>2,900</u>	<u>-</u>	<u>-</u>	<u>2,900</u>
Endowment net assets, end of year	<u>\$ 249,861</u>	<u>\$ 87,389</u>	<u>\$ 226,616</u>	<u>\$ 563,866</u>

NOTE 3 - NET ASSETS: (Continued)

At May 31, 2014, the endowment net asset composition by type of fund consisted of the following:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted funds	\$ -	\$ 82,238	\$ 187,086	\$ 269,324
Board-designated funds	232,159	-	-	232,159
Total Funds	<u>\$ 232,159</u>	<u>\$ 82,238</u>	<u>\$ 187,086</u>	<u>\$ 501,483</u>

Changes in endowment net assets for the fiscal year ended May 31, 2014 consisted of the following:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ 199,260	\$ 61,376	\$ 165,157	\$ 425,793
Investment return:				
Investment Income	2,372	2,348	-	4,720
Management and Admin Fees	(1,358)	(1,448)	-	(2,806)
Net appreciation (realized and unrealized)	28,292	28,292	-	56,584
Total investment return	<u>29,306</u>	<u>29,192</u>	<u>-</u>	<u>58,498</u>
Contributions	-	-	21,929	21,929
Planned Savings	11,300	-	-	11,300
Distribution for Spending	(9,207)	(8,330)	-	(17,537)
Other additions to Unrestricted Endowment	<u>1,500</u>	<u>-</u>	<u>-</u>	<u>1,500</u>
Endowment net assets, end of year	<u>\$ 232,159</u>	<u>\$ 82,238</u>	<u>\$ 187,086</u>	<u>\$ 501,483</u>

NOTE 4 - ASSETS WHOSE USE IS LIMITED:

Assets whose use is limited represent amounts required to be held by bond trustees for debt service payments, along with amounts required to be held in escrow related to the University's self-insured health insurance program.

NOTE 5 - INVESTMENTS:

Investments at May 31, 2015 and 2014 consisted of the following:

	(in thousands)			
	2015		2014	
	Fair Value	Cost	Fair Value	Cost
Cash and cash equivalents	\$ 29,271	\$ 29,271	\$ 23,303	\$ 23,303
Domestic equities	142,790	79,653	130,833	74,417
Domestic corporate and other bonds	34,876	32,751	34,298	32,758
Foreign equities	144,320	120,008	122,208	101,225
Hedge funds	108,548	94,857	95,781	83,598
Inflation hedging	36,374	36,305	43,339	32,201
Private equities	19,207	15,477	21,580	17,381
Venture capital	30,663	24,563	13,968	9,890
Real estate	2,106	2,450	1,944	2,288
Opportunistic managers	14,945	14,553	14,619	13,570
Split-interest agreements	4,227	4,065	3,827	3,570
Other investments	1,156	1,121	975	939
	<u>\$ 568,483</u>	<u>\$ 455,074</u>	<u>\$ 506,675</u>	<u>\$ 395,140</u>

The University uses various external investment managers to diversify the investments in alternative assets. The largest allocation to any alternative investment strategy manager as of May 31, 2015 and 2014 was 18.9% and 18.5%, respectively. At May 31, 2015, based on partnership agreements, the University was committed to invest an additional \$37.1 million in alternative investments, which is expected to occur over the next five to ten years. Alternative investments have liquidity restrictions. Amounts can be divested only at specified times based on terms in the partnership agreements. Refer to Note 2 for additional information on details of current redemption terms by asset class and type of investment. The financial statements of the limited partnerships are audited annually, generally as of December 31.

Investment gains consisted of and is reported in the consolidated statements of activities as follows for the year ended May 31:

	(in thousands)	
	2015	2014
Interest and dividends	\$ 2,129	\$ 1,952
Net realized gains	20,486	17,552
Net change in unrealized gains and losses	5,441	39,479
	<u>\$ 28,056</u>	<u>\$ 58,983</u>

NOTE 6 - LAND, BUILDINGS, AND EQUIPMENT:

Land, buildings, and equipment at May 31, 2015 and 2014 consisted of the following:

	(in thousands)	
	<u>2015</u>	<u>2014</u>
Land and improvements	\$ 27,031	\$ 27,031
Buildings and improvements	549,771	539,123
Equipment	48,042	45,738
Construction in progress	11,706	9,586
Unamortized asset retirement costs	797	809
Aldwyn Lane Rental Properties – Land and Buildings	18,385	18,385
	<u>655,732</u>	<u>640,672</u>
Less accumulated depreciation	<u>(301,819)</u>	<u>(285,468)</u>
	<u>\$ 353,913</u>	<u>\$ 355,204</u>

NOTE 7 - ACCRUED EXPENSES:

Accrued expenses at May 31, 2015 and 2014 consisted of the following:

	(in thousands)	
	<u>2015</u>	<u>2014</u>
Faculty and Staff Salaries	\$ 13,761	\$ 13,492
Payroll Tax Withholdings	4,425	4,397
Workers Compensation Claims	1,951	1,909
Asset Retirement Obligations	1,933	1,822
Vacation Accrual	1,356	1,296
Interest on Long-Term Debt	1,253	1,373
Early Retirement Plan Payments	1,207	606
Copier Leases	748	576
Annuities Payable	551	638
Other	6,079	5,937
	<u>\$ 33,264</u>	<u>\$ 32,046</u>

NOTE 8 – LEASES:

The University leases equipment and vehicles under operating leases expiring through May 2020. Operating rental expense for the years ended May 31, 2015 and 2014, totaling \$3,386,000 and \$4,446,000, respectively, is included in the accompanying Consolidated Statements of Activities.

At May 31, 2015, future minimum lease payments under operating leases with remaining terms greater than one year were as follows (in thousands):

2016	\$ 2,852
2017	816
2018	50
2019	11
2020	5
Total minimum lease payments	<u>\$ 3,734</u>

NOTE 8 – LEASES: (Continued)

The University also leases copiers under capital lease agreements expiring through May 2020. Net land, buildings and equipment includes \$748,000 and \$576,000 of capital leases at May 31, 2015 and May 31, 2014, respectively.

At May 31, 2015, future minimum lease payments under capital leases with remaining terms greater than one year were as follows (in thousands):

2016	\$ 247
2017	188
2018	146
2019	109
2020	58
Total minimum lease payments	<u>\$ 748</u>

NOTE 9 - LONG-TERM DEBT:

Long-term debt payable at May 31, 2015 and 2014 consisted of the following:

Description	Maturity Date	Interest Rate	(in thousands) Principal Balance	
			2015	2014
Delaware County Authority (a):				
2014 Bonds	8/1/2015 to 8/1/2024	4.00% to 5.00%	\$ 60,418 *	\$ -
2012 Bonds	8/1/2015 to 8/1/2022	3.00% to 5.00%	22,015 *	24,320 *
2010 Bonds	12/1/2015 to 12/1/2031	4.00% to 5.25%	70,326 *	75,143 *
2006 Bonds	8/1/2015 to 8/1/2016	4.25% to 5.00%	3,418 *	45,896 *
2005 Bonds	8/1/2015	4.00%	1,412 *	19,425 *
U.S. Dept. of HUD (b):				
1969 Dormitory Bonds	4/1/2019	3.00%	290	360
Mortgage Note – Aldwyn Lane Rental Properties (c)	1/10/2022	7.35%	<u>7,035</u>	<u>7,824</u>
			<u>\$ 164,914</u>	<u>\$ 172,968</u>

*Net of original issue premium as follows

NOTE 9 - LONG-TERM DEBT: (Continued)

Long-term debt original issue premium at May 31, 2015 and 2014 consisted of the following:

	(in thousands)	
	2015	2014
2014 Bonds	\$ (8,213)	\$ -
2012 Bonds	(2,715)	(3,035)
2010 Bonds	(2,776)	(2,943)
2006 Bonds	(83)	(1,485)
2005 Bonds	(27)	(560)
	<u>\$ (13,814)</u>	<u>\$ (8,023)</u>

- (a) The University has pledged and granted to the Delaware County Authority a lien on and security interest in the University's unrestricted revenues and certain property and equipment to collateralize the annual principal maturities and interest payments which average approximately \$15,870,000 through 2020, and \$9,707,000 from 2021 to 2032. The University is required to maintain unrestricted net revenues equal to 100% of the annual debt service requirement.
- (b) To collateralize the annual principal and interest payments, the University has granted a mortgage lien on the Stanford dormitory and related parcels of land. Annual principal and interest payments are approximately \$78,000.
- (c) The mortgage note on the Aldwyn Lane rental properties is collateralized by the related buildings and parcels of land. The mortgage note is non-recourse to the University. Equal monthly payments are to be made over the twenty-year term of the loan.

In August 2014, the University's 2014 Debt Series was issued by Delaware County Authority to refinance the outstanding 2005 and 2006 Series. The 2014 Series was issued as fixed rate debt, principal amount of \$52,205,000.

Aggregate maturities of long-term debt including call provisions at 100% for each of the next five fiscal years are as follows (in thousands):

2016	\$ 10,164
2017	10,544
2018	10,788
2019	11,358
2020	11,948
Thereafter	96,298

Interest paid on long-term debt amounted to \$7,404,000 and \$8,126,000 for the years ended May 31, 2015 and 2014, respectively. Interest expense allocated to the functional expense categories in Note 11 amounted to \$5,814,000 and \$6,943,000 for the years ended May 31, 2015 and 2014, respectively.

The Delaware County Authority bond agreements contain certain covenants, including financial covenants that require the University to generate net revenues at least equal to 100% of actual debt service requirements, and to certify that maximum annual debt service does not exceed 12% of unrestricted revenues. The University was in compliance with these financial covenant requirements at May 31, 2015 and 2014.

NOTE 10 - PENSION AND OTHER POSTRETIREMENT BENEFIT COSTS:

For full-time faculty members and for full-time non-academic employees not covered by the defined benefit plan, the University sponsors a defined contribution retirement plan under which the University makes annual contributions for the benefit of the participants to either the Teachers Insurance Annuity Association of America-College Retirement Equities Fund (TIAA-CREF) or The Vanguard Group, at the option of the participants, and the University has no further liability. The University's contributions to the defined contribution plan amounted to \$12,258,000 and \$11,758,000 for the years ended May 31, 2015 and 2014, respectively.

The University has a non-contributory defined benefit pension plan for certain full-time non-academic employees employed prior to May 31, 1996. Benefits under the plan are based on years of service and the highest average level of earnings for any three consecutive years during the last ten years of service. In October 1999, the University offered participants in the plan the opportunity to transfer to the defined contribution plan effective January 1, 2000. Effective January 1, 2000, the benefits for new retirees, those employees that did not transfer to the defined contribution plan in October 1999 and those employees retiring between June 1, 1998 and December 31, 1999 are based on the highest average level of earnings for any three consecutive years during the last ten years of service.

The University provides postretirement medical benefits to all employees who meet certain eligibility requirements. The University accrues for expected medical postretirement benefits over the years that the employees render the necessary service. No employee of the University who retires from service with the University after May 31, 2018 shall receive a University contribution toward the cost of retiree medical or life insurance, and no faculty member of the University who retires from service with the University after May 31, 2018 under the University's Steady State Program shall receive a University contribution toward the cost of medical, dental or life insurance for the faculty member and any eligible dependents.

The University recognizes the funded status (the difference between the fair value of plan assets and the benefit obligation) of its pension and other postretirement plans in the consolidated statement of financial position, with a corresponding adjustment to unrestricted net assets. Further, actuarial gains and losses that are not recognized in the Statement of Activities are recognized as other changes in unrestricted net assets.

The following is a reconciliation of the beginning and ending balances of the pension benefits projected benefit obligation of the University (in thousands):

Change in Benefit Obligation	<u>2015</u>	<u>2014</u>
Benefit obligation at the beginning of the year	\$ 60,511	\$ 59,058
Interest cost on projected benefit obligations	2,398	2,467
Service costs – during the year	336	367
Actuarial (gain)/loss	5,888	1,805
Benefits and administrative expenses paid	<u>(3,294)</u>	<u>(3,186)</u>
Benefit obligation at the end of the year	<u>\$ 65,839</u>	<u>\$ 60,511</u>

NOTE 10 - PENSION AND OTHER POSTRETIREMENT BENEFIT COSTS: (Continued)

The following table sets forth the funded status and amount recognized in the University's consolidated balance sheets for its defined benefit plan:

	<u>2015</u>	<u>2014</u>
Change in Plan Assets		
Fair value of plan assets at beginning of year	\$ 53,721	\$ 49,380
Actual return on plan assets	2,104	5,187
Employer contributions	2,320	2,340
Benefits and administrative expenses paid	<u>(3,294)</u>	<u>(3,186)</u>
Fair value of plan assets at end of year	<u>\$ 54,851</u>	<u>\$ 53,721</u>
Funded Status		
Actuarial present value of benefit obligations:		
Projected benefit obligation	\$ (65,839)	\$ (60,511)
Plan assets at fair value*	<u>54,851</u>	<u>53,721</u>
Funded Status	<u>\$ (10,988)</u>	<u>\$ (6,790)</u>

*Consist principally of investments in debt and equity funds.

The principal assumptions used in determining the actuarial present value of projected benefit obligations were as follows:

	<u>2015</u>	<u>2014</u>
Weighted average discount rate	4.03%	4.08%
Rate of increase in compensation levels	3.00%	3.00%
Expected long-term rate of return on assets	5.75%	6.75%

The University develops a target asset allocation for the pension assets, with the assistance of an independent investment consultant. The asset values at May 31, 2015 and May 31, 2014 are shared with the University's actuarial consultant, who utilizes a model to determine a range of reasonable expected rates of return based on the asset allocation and current capital market assumptions. The results are shared with the University and further discussed with the independent investment consultant and pension plan administrator. The expected rate of return is selected and is used in developing the net periodic benefit cost for the following fiscal year.

	(in thousands)	
	<u>2015</u>	<u>2014</u>
Components of Net Periodic Benefit Cost		
Service cost – benefits earned during the period	\$ 336	\$ 367
Interest cost on projected benefit obligation	2,398	2,467
Expected return on plan assets	(3,616)	(3,452)
Amortization of unrecognized net loss	<u>1,560</u>	<u>1,915</u>
Total net periodic benefit cost	<u>\$ 678</u>	<u>\$ 1,297</u>

The principal assumptions used in determining the actuarial present value of projected benefit cost were as follows:

	<u>2015</u>	<u>2014</u>
Weighted average discount rate	4.08%	4.26%
Rate of increase in compensation levels	3.00%	3.50%
Expected long-term rate of return on assets	6.75%	7.00%

NOTE 10 - PENSION AND O`THER POSTRETIREMENT BENEFIT COSTS: (Continued)

The expected benefit payments from the Plan in subsequent years are as follows:

Year ending	(in thousands)
May 31, 2016	\$ 3,751
May 31, 2017	3,815
May 31, 2018	3,926
May 31, 2019	4,030
May 31, 2020	4,083
May 31, 2021 through May 31, 2025	20,700

The University plans to contribute \$2,200,000 during the fiscal year ending May 31, 2016. If the minimum required contribution to the defined benefit plan exceeds this amount as a result of the June 1, 2015 valuation, the University will make the minimum required contribution.

Plan assets are allocated at May 31, 2015 and May 31, 2014 as follows:

Plan Assets	2015	2014
Equity Securities	32%	32%
Debt Securities	52%	51%
Other	16%	17%
Total	100%	100%

The plan assets are diversified among a mix of assets including large, mid, and small cap, domestic and international equities, fixed income, managed funds, and cash. Asset mix is targeted to a specific allocation that is established by evaluating expected return, standard deviation, and correlation of various assets against the plan's long-term objectives. Asset performance is monitored monthly and rebalanced if asset classes exceed explicit ranges. The investment policy governs permitted types of investments. The Retirement Plans Investment Committee oversees the pension investment program and monitors investment performance, utilizing specific benchmarks and performance percentiles. Risk is closely monitored through the evaluation of portfolio holdings and tracking the portfolio performance.

The following tables present the Plan's financial instruments carried at fair value on a recurring basis as of May 31, 2015 and May 31, 2014, respectively, and indicate the fair value hierarchy of the valuation techniques that were utilized to determine such fair value, as discussed in Note 1.

	(in thousands)				Valuation Technique
	Level 1	Level 2	Level 3	Total	
Pension investment program:					
Equity securities	\$ -	\$ 17,293	\$ -	\$ 17,293	Market
Debt securities	-	28,624	-	28,624	Market
Other	280	8,649	5	8,934	Market
Total at May 31, 2015	<u>\$ 280</u>	<u>\$ 54,566</u>	<u>\$ 5</u>	<u>\$ 54,851</u>	

	(in thousands)				Valuation Technique
	Level 1	Level 2	Level 3	Total	
Pension investment program:					
Equity securities	\$ -	\$ 17,222	\$ -	\$ 17,222	Market
Debt securities	-	27,596	-	27,596	Market
Other	285	8,619	5	8,909	Market
Total at May 31, 2014	<u>\$ 285</u>	<u>\$ 53,437</u>	<u>\$ 5</u>	<u>\$ 53,727</u>	

NOTE 10 - PENSION AND OTHER POSTRETIREMENT BENEFIT COSTS: (Continued)

The following table presents the rollforward of the fair value of the Level 3 assets for the Plan, as of May 31, 2015 and May 31, 2014, respectively:

	(in thousands)	
	2015	2014
Fair value June 1	\$ 5	\$ 3
Realized and unrealized losses	-	-
Purchases	-	-
Sales	-	-
Net investment income	-	2
Fair value May 31	<u>\$ 5</u>	<u>\$ 5</u>
Amount of unrealized losses related to Level 3 investments held at May 31	<u>\$ -</u>	<u>\$ -</u>

The components of medical postretirement benefits as of May 31, 2015 and 2014 are as follows:

	(in thousands)	
	2015	2014
Projected benefit obligation	\$ 14,586	\$ 13,671
Fair value of plan assets	-	-
Unfunded status	<u>\$ (14,586)</u>	<u>\$ (13,671)</u>
Accrued post-retirement benefits	<u>\$ (14,586)</u>	<u>\$ (13,671)</u>
Weighted-average assumptions:		
Discount rate	3.80%	3.81%

There is no healthcare cost trend rate associated with the liabilities, because the University provides a fixed subsidy for postretirement medical benefits. Benefit expense totaled \$720,000 and \$744,000 for the years ended May 31, 2015 and 2014, respectively. Benefits paid totaled \$1,032,000 and \$875,000 for the years ended May 31, 2015 and 2014, respectively.

The University allows faculty members that meet specific criteria for eligibility to elect to participate in an ongoing voluntary severance program. The accrued liability for future payments under these programs amounted to \$1,207,000 and \$606,000 as of May 31, 2015 and 2014, respectively.

NOTE 11 - OPERATING EXPENSE:

Expenses were incurred for the following functions for the years ended May 31:

	(in thousands)	
	2015	2014
Instruction	\$ 159,722	\$ 158,419
Research	6,583	6,881
Academic support	45,696	43,743
Student services	55,290	49,551
Institutional support	52,727	55,969
Auxiliary enterprises	57,526	59,231
Total operating expense	<u>\$ 377,544</u>	<u>\$ 373,794</u>

Included in the above operating expenses are expenditures related to fund-raising activities for the year ended May 31, 2015 and 2014 of \$12,625,000 and \$17,590,000, respectively.

NOTE 12 - ALLOCATION OF EXPENSES:

The University allocated operation and maintenance of plant, interest on indebtedness and depreciation expenses to functional expense categories in Note 11 for the fiscal years ended May 31, 2015 and 2014. Those expenses were allocated to the individual functional categories as follows:

	(in thousands)		
	<u>2015</u>		
	Operation and Maintenance	Interest on Indebtedness	Depreciation
Instruction	\$ 9,919	\$ 3,372	\$ 7,220
Research	-	123	-
Academic support	1,414	127	846
Student services	6,182	77	2,000
Institutional support	1,862	73	2,609
Auxiliary enterprises	12,782	1,860	5,204
Operation and maintenance of plant	-	182	1,104
	<u>\$ 32,159</u>	<u>\$ 5,814</u>	<u>\$ 18,983</u>

	(in thousands)		
	<u>2014</u>		
	Operation and Maintenance	Interest on Indebtedness	Depreciation
Instruction	\$ 10,377	\$ 4,282	\$ 7,121
Research	-	161	148
Academic support	1,533	130	683
Student services	4,374	83	1,914
Institutional support	1,916	80	1,346
Auxiliary enterprises	13,729	2,014	5,615
Operation and maintenance of plant	-	193	2,034
	<u>\$ 31,929</u>	<u>\$ 6,943</u>	<u>\$ 18,861</u>

NOTE 13 - INCOME TAX:

The University is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code. The University files IRS Form 990-T (Exempt Organization Business Income Tax Return) annually, and has recorded a liability of \$221,000 as of May 31, 2015, with regards to unrelated business income reported on IRS Form 990-T.

NOTE 14 - COMMITMENTS AND CONTINGENCIES:

During the 2015 fiscal year, the University invested \$7,083,000 in twenty-six long-term partnerships which were formed prior to the 2015 fiscal year, bringing its cumulative contributions to the partnerships to \$71,651,000. Under the terms of the partnership agreements, the University and other investors are committed to fund additional investments. As of May 31, 2015, the University's remaining commitments to these twenty-six partnerships total \$18,363,000.

The University also committed a total of \$30,700,000 to nineteen additional long-term partnership which was formed during the 2015 fiscal year. As of May 31, 2015, the University had invested \$12,562,000 in these partnerships. As a result, the University's remaining commitment to these partnership totals \$18,138,000.

As of May 31, 2015, the University's remaining commitments to all forty-five partnerships total \$36,501,000.

NOTE 14 - COMMITMENTS AND CONTINGENCIES: (Continued)

Outstanding commitments related to construction contracts totaled approximately \$9,386,000 as of May 31, 2015.

The University has a \$5,000,000 unsecured line of credit. No portion of the line was utilized during the fiscal year.

NOTE 15 - UNCONDITIONAL PROMISES AND PLEDGES:

Contributions received, including unconditional promises, are recognized as revenue when the donor's commitment is received. Unconditional promises are recognized at the estimated present value of the future cash flows, net of allowances (fair value). Promises made that are designated for future periods or restricted by the donor for specific purposes are reported as temporarily restricted or permanently restricted support. However, if a restriction is fulfilled in the same time period in which the contribution is received, the University reports the support as unrestricted. Conditional promises are recorded when donor stipulations are substantially met.

Unconditional promises at May 31, 2015 and 2014 and the time periods in which they are expected to be realized are as follows:

	(in thousands)	
	2015	2014
In one year or less	\$ 40,983	\$ 46,323
Between one year and five years	56,124	72,865
In more than five years	601	3,818
Less: Discount	(5,358)	(7,072)
Allowance for doubtful accounts	(14,049)	(16,181)
	<u>\$ 78,301</u>	<u>\$ 99,753</u>

Estimated cash flows from pledges receivable due after one year are discounted using a base rate of the Federal Reserve Treasury constant maturities 5-year rate of return, adjusted for a risk factor related to potential write-offs of uncollectible pledges.

NOTE 16 - SUBSIDIARIES:

The Aldwyn Lane LLC (LLC) and the Aldwyn Lane Limited Partnership (Partnership) were formed by the University for the purpose of acquiring property and office space adjacent to the campus. The LLC is 100% owned by the University, and it is the general partner in the Partnership, in which the University is the limited partner. The Partnership purchased property and office space adjacent to the campus in December 2001, and entered into an agreement to lease back the property to the previous owner for a period of twenty years. The Partnership also obtained a mortgage on the property at the time of purchase.

Rental income related to the property is collected by the Partnership, and the mortgage payments are made by the Partnership. The title to the property and the related mortgage are both held by the Partnership. The assets and liabilities of both the Partnership and the LLC are consolidated into the University financial statements, and the net income from the rental of the property is shown as non-operating income on the consolidated statement of activities.

NOTE 17 – SUBSEQUENT EVENTS:

In connection with the preparation of the consolidated financial statements and in accordance with the FASB Subsequent Events standard, the University evaluated subsequent events after the balance sheet date of May 31, 2015 through its distribution date of August 26, 2015.

NOTE 18 – NEW ACCOUNTING PRONOUNCEMENTS:

The Financial Accounting Standards Board ("FASB") issued an accounting standard update in May 2014 regarding the accounting for and disclosure of revenue recognition. Specifically, the update outlined a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers, which will be common to both U.S. GAAP and International Financial Reporting Standards. The guidance was effective for annual periods beginning after December 15, 2016, which allowed for full retrospective adoption of prior period data or a modified retrospective adoption. Early adoption was not permitted. In July 2015, the FASB issued an update to delay the effective date of the new revenue standard by one year, or, in other words, to be effective for annual and interim periods beginning after December 15, 2018. Entities will be permitted to adopt the new revenue standard early, but not before the original public organization effective date. The University is currently evaluating the effects of this guidance.

The FASB issued an accounting standard update in May 2015 regarding the required disclosures for entities that elect to measure the fair value of certain investments using the net asset value per share (or its equivalent) practical expedient in accordance with the fair value measurement authoritative guidance. The update removes the requirement to categorize within the fair value hierarchy, and also, limits the requirement to make certain other disclosures, for all such investments. The amendments in this update are effective for fiscal years beginning after December 15, 2016, and interim periods within those fiscal years, and should be applied on a retrospective basis for the periods presented. Early adoption is permitted. The University is currently evaluating the effects of this guidance.

The FASB issued an accounting standard update in April 2015 regarding the presentation of debt issuance costs on the balance sheet. The update requires capitalized debt issuance costs be presented on the balance sheet as a reduction to debt, rather than recorded as a separate asset. The amendments in this update are effective for annual and interim periods beginning after December 15, 2015 and should be applied on a retrospective basis for the periods presented. Early adoption is permitted. In June 2015, the SEC staff announced that the guidance within this accounting standard update was not applicable to revolving debt arrangements or credit facilities. The University is currently evaluating the effects of this guidance, and the SEC's recent announcement, but does not expect a material impact.



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