VILLANOVA UNIVERSITY
and Subsidiaries

FINANCIAL STATEMENTS
May 31, 2017

VILLANOVA UNIVERSITY

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Table of Contents

Report of Independent Auditors

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, 2017 and 2016, 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.

Auditors' 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 as of May 31, 2017 and 2016, 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

October 9, 2017

VILLANOVA UNIVERSITY AND SUBSIDIARIES

Consolidated Statements of Financial Position at May 31, 2017 and 2016

(in thousands)

	2017	2016
ASSETS		
Cash and cash equivalents	$ 139,649	$ 197,582
Short-term investments	38,412	1,334
Accounts receivable, less allowances of $1,282 in 2017 and $863 in 2016	11,914	13,369
Other assets	4,491	3,753
Assets whose use is limited	95,565	137,907
Pledges receivable, net	107,705	94,301
Student loans receivable, net	10,497	10,864
Investments	697,265	556,910
Land, buildings and equipment, net	460,932	391,440
Total assets	$ 1,566,430	$ 1,407,460
LIABILITIES		
Accounts payable	$ 28,401	$ 20,598
Accrued expenses	38,592	38,309
Deposits	3,772	3,361
Deferred revenues	20,057	16,597
Accrued postretirement benefits	14,337	15,019
Refundable government loan funds	9,351	9,162
Long-term debt	294,532	301,956
Accrued pension cost	7,630	10,504
Total liabilities	416,672	415,506
NET ASSETS		
Unrestricted	561,305	493,122
Temporarily restricted	266,749	196,496
Permanently restricted	321,704	302,336
Total net assets	1,149,758	991,954
Total liabilities and net assets	$ 1,566,430	$ 1,407,460

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, 2017
(in thousands)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	2016 Total
OPERATING REVENUES					
Student related revenue:					
Student tuition and fees, net of $120,434 in student financial aid	$ 291,132			$ 291,132	$ 277,388
Sales and services of auxiliary enterprises, net of $4,022 in student financial aid	65,338			65,338	66,528
	356,470			356,470	343,916
Private gifts and grants	18,129	$ 56,235		74,364	45,933
Government grants	6,932			6,932	6,326
Endowment resources	13,025	11,719		24,744	22,068
Investment income	2,283			2,283	1,226
Other sources	19,584	1,041		20,625	22,283
Net assets released from restrictions	21,344	(21,344)		-	-
Total operating revenues	437,767	47,651	-	485,418	441,752
OPERATING EXPENSES					
Salaries and fringe benefits	256,391			256,391	249,385
Supplies and services	44,673			44,673	43,505
Depreciation	21,020			21,020	19,434
Cost of goods sold	9,486			9,486	8,337
Interest on indebtedness	5,489			5,489	6,373
Travel and special events	13,944			13,944	14,475
Utilities	6,934			6,934	7,024
Other	34,989			34,989	34,138
Total operating expenses	392,926	-	-	392,926	382,671
Change in net assets from operating activities	44,841	47,651	-	92,492	59,081
NON-OPERATING					
Investment Income					
Interest, dividends, and other income	2,405	2,038	$ 25	4,468	5,209
Realized gains/(losses)	8,308	8,227	64	16,599	9,548
Change in fair value of investments	25,700	26,151	34	51,885	(36,258)
Management fees and expenses	(2,425)	(2,095)		(4,520)	(3,546)
Endowment resources	(13,025)	(11,719)		(24,744)	(22,068)
Other					
Rental property revenue	2,334			2,334	2,302
Rental property expenses	(1,141)			(1,141)	(1,192)
	22,156	22,602	123	44,881	(46,005)
Grant for capital expenditures	3,000	-	-	3,000	-
Endowment and other gifts	-	-	19,245	19,245	28,559
Change in net assets from non-operating activities	25,156	22,602	19,368	67,126	(17,446)
Change in net assets prior to gain on bond refinancing	69,997	70,253	19,368	159,618	41,635
Loss on bond refinancing	(5,054)	-	-	(5,054)	-
Change in net assets before other adjustments	$ 64,943	$ 70,253	$ 19,368	$ 154,564	$ 41,635

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, 2016
(in thousands)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	2015 Total
OPERATING REVENUES					
Student related revenue:					
Student tuition and fees, net of $114,297 in student financial aid	$ 277,361	$ 27		$ 277,388	$ 270,616
Sales and services of auxiliary enterprises, net of $2,754 in student financial aid	66,528			66,528	64,612
	343,889			343,916	335,228
Private gifts and grants	16,423	29,510		45,933	36,707
Government grants	6,326			6,326	6,822
Endowment resources	11,421	10,647		22,068	19,400
Investment income	1,226			1,226	2,632
Other sources	21,531	752		22,283	18,517
Net assets released from restrictions	17,020	(17,027)	$ 7	-	-
Total operating revenues	417,836	23,909	7	441,752	419,306
OPERATING EXPENSES					
Salaries and fringe benefits	249,385			249,385	240,711
Supplies and services	43,505			43,505	46,864
Depreciation	19,434			19,434	18,983
Cost of goods sold	8,337			8,337	8,633
Interest on indebtedness	6,373			6,373	5,814
Travel and special events	14,475			14,475	14,508
Utilities	7,024			7,024	8,188
Other	34,138			34,138	33,843
Total operating expenses	382,671	-	-	382,671	377,544
Change in net assets from operating activities	35,165	23,909	7	59,081	41,762
NON-OPERATING					
Investment Income					
Interest, dividends, and other income	2,528	2,662	19	5,209	5,492
Realized gains/(losses)	4,866	4,721	(39)	9,548	20,486
Change in fair value of investments	(18,116)	(18,141)	(1)	(36,258)	5,441
Management fees and expenses	(1,606)	(1,940)		(3,546)	(3,363)
Endowment resources	(11,421)	(10,647)		(22,068)	(19,400)
Other					
Rental property revenue	2,302			2,302	2,274
Rental property expenses	(1,192)			(1,192)	(1,239)
	(22,639)	(23,345)	(21)	(46,005)	9,691
Endowment and other gifts		248	28,311	28,559	24,998
Change in net assets from non-operating activities	(22,639)	(23,097)	28,290	(17,446)	34,689
Change in net assets prior to gain on bond refinancing	12,526	812	28,297	41,635	76,451
Loss on bond refinancing	-	-	-	-	(3,212)
Change in net assets before other adjustments	$ 12,526	$ 812	$ 28,297	$ 41,635	$ 73,239

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, 2017 and 2016
(in thousands)

	2017	2016
Unrestricted Net Assets:		
Change in net assets before other adjustments	$ 64,943	$ 12,526
Adjustment for retirement plan obligations	3,240	(1,024)
Increase in unrestricted net assets	68,183	11,502
Temporarily Restricted Net Assets:		
Change in net assets	70,253	812
Increase in temporarily restricted net assets	70,253	812
Permanently Restricted Net Assets:		
Change in net assets	19,368	28,297
Increase in permanently restricted net assets	19,368	28,297
Increase in net assets	157,804	40,611
Net assets:		
Beginning of Year	991,954	951,343
End of Year	$ 1,149,758	$ 991,954

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, 2017 and 2016
(in thousands)

	2017	2016
CASH FLOW FROM OPERATING ACTIVITIES		
Increase in net assets	$ 157,804	$ 40,611
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	21,020	19,434
Contributions restricted for long-term investment	(32,867)	(23,237)
Realized gains on sales of investments	(16,599)	(9,548)
Change in market value of investments	(51,885)	36,258
Pension and other postretirement benefit plan adjustments	(3,240)	1,024
Receipt of contributed securities	(14,915)	(12,201)
Amortization of debt (premium)/discount	6,460	8,204
Changes in operating assets and liabilities:		
Accounts receivable	796	(1,360)
Pledges receivable	(10,191)	(17,238)
Provision for doubtful accounts	(2,655)	1,221
Accounts payable and accrued expenses	4,494	8,448
Other changes	2,944	(2,855)
Net cash provided by operating activities	61,166	48,761
CASH FLOW FROM INVESTING ACTIVITIES		
Proceeds from sales of long-term investments	232,808	186,508
Purchases of long-term investments	(289,764)	(189,444)
Proceeds from sales of short-term investments	377	655
Purchases of short-term investments	(37,455)	-
Student loans receivable	468	231
Purchase of land, buildings and equipment	(86,920)	(54,260)
(Increase)/decrease in assets whose use is limited	42,342	(135,801)
Net cash used by investing activities	(138,144)	(192,111)
CASH FLOW FROM FINANCING ACTIVITIES		
Contributions restricted for long-term investment	32,867	23,237
Repayment of debt principal	(10,541)	(10,164)
Proceeds from borrowing	-	141,270
Debt refinancing	(3,470)	-
Government loan funds	189	(283)
Net cash provided by financing activities	19,045	154,060
Net increase in cash and cash equivalents	(57,933)	10,710
Cash and cash equivalents at beginning of year	197,582	186,872
Cash and cash equivalents at end of year	$ 139,649	$ 197,582
SUPPLEMENTAL DISCLOSURES		
Purchases of property, plant, and equipment in accounts payable	$ 7,088	$ 3,496
Cash paid for interest	12,261	9,307
Tax payments	496	147

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

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 273 acres and comprises 79 buildings. The University also has a Conference Center (The Inn at Villanova University) approximately one-half mile from the campus which encompasses 33 acres. The University has approximately 10,850 students, of whom approximately 6,500 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.

As a practical expedient, the University is permitted under the standard to estimate the fair value of an investment in an investment company at the measurement date using the reported net asset value (NAV). Adjustment is required if the University expects to sell the investment at a value other than NAV or if the NAV is not calculated in accordance with US generally accepted accounting principles (US GAAP). The University holds investments in its portfolio which are generally valued based on the most current NAV. These amounts represent fair value of these investments at May 31, 2017 and 2016.

The University performs additional procedures including due diligence reviews on its investments in investment companies and other procedures with respect to the capital account or NAV provided to ensure conformity with US GAAP. The University has assessed factors including, but not limited to, managers' compliance with the Fair Value Measurement standard, price transparency and valuation procedures in place.

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, exchange traded funds, split-interest agreements, commingled funds, and limited partnership interests.

Investments in domestic equities consist of separate accounts, one exchange traded fund, 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 NAV and is categorized as Level 2 in the fair value hierarchy.

Investments in foreign equities consist of commingled funds, daily traded mutual funds, and one exchange traded fund. Securities held in daily traded mutual funds and exchange traded 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.

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

Fair Value (Continued)

Investments in global equities consist of one limited partnership interest. Securities in this partnership interest are all large capitalization equities and valued at NAV on a daily basis. This investment is categorized as Level 2 in the fair value hierarchy.

Investments in public inflation hedging consist of two commingled funds and one daily traded mutual fund. Investments in opportunistic strategies consist of one daily traded mutual fund. 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.

Investments in private capital inflation hedging and private capital growth assets (together, non-marketable alternatives) consist of limited partnership interests. 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 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.

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 and are included in the accrued expenses line of the Statements of Financial Position. 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.

Investments of operating funds include fixed-income securities with original maturities of greater than one year. The assets are valued using observable market data to the degree that they can be valued based on quoted market prices, but are traded infrequently. These are categorized as Level 2 in the fair value hierarchy.

The University's pension assets consist of common collective trusts and cash. 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 in common collective trusts are categorized as Level 2 in the fair value hierarchy, while cash is categorized as Level 1 in the 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. Endowment cash and cash equivalents are liquid investments with a maturity date of less than one year, though certain investments have the ability to invest in securities with maturities out to 13 months. The intent of the endowment cash and cash equivalents is to fund future investments in other asset categories.

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

Cash and Cash Equivalents (Continued)

During fiscal year 2017, the University implemented a new investment program related to its operating funds. Prior to the implementation of this program, all of the University's operating funds were classified as "Cash and Cash Equivalents".

Operating funds are classified as follows as of May 31, 2017, based on the maturity of the underlying investments:

	(in thousands)
Cash and cash equivalents	$ 139,649
Short-term investments	37,455
Long-term invesments	50,526
Total	$ 227,630

Short-Term Investments

Short-term investments include fixed-income securities with original maturities less than one year. Short-term investments are valued using observable market data to the degree that they can be valued based on quoted market prices. These are categorized as Level 2 in the fair value hierarchy.

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 for operations 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 operating funds is recorded as operating revenue.

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).

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.

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

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 and Prepaid Expenses

All revenues received and expenses paid 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 expenses and pays the actual cost of claims, and bears risk related to these claims. There are risk-mitigation strategies in place such as stop loss insurance to reduce the impact of 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.

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).

Student tuition and fees as well as sales and services of auxiliary enterprises are shown net of student financial aid.

In addition, operation and maintenance of plant, depreciation and interest expenses have been allocated to the functional operating expense categories in Note 12.

Reclassification

Certain amounts from prior years have been reclassified to conform to the current year's presentation.

NOTE 2 - DISCLOSURES ABOUT FAIR VALUE OF FINANCIAL INSTRUMENTS:

At May 31, 2017 and 2016, the fair value of cash and cash equivalents and deposits with bond trustees approximate their respective carrying amounts. The fair value of deposits with bond trustees are based on the quoted market price of the underlying securities (and would be considered Level 1).

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.

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

The following tables present the financial instruments carried at fair value on a recurring basis as of May 31, 2017 and May 31, 2016, respectively, and indicates the fair value hierarchy of the valuation techniques that were utilized to determine such fair value. The tables reflect investments classified as short-term investments and long-term investments in the Statements of Financial Position.

	Fair Value Measurements at May 31, 2017 (in thousands)			
	Fair Value	Level 1	Level 2	Level 3
Cash and cash equivalents-endowment	$ 34,555	$ 34,555	$ -	$ -
Domestic equities	148,114	84,530	-	63,584
Domestic corporate and other bonds	35,789	16	35,773	-
Foreign equities	141,136	84,252	56,884	-
Global equities	33,028	-	33,028	-
Hedge funds	116,528	-	-	116,528
Public inflation hedging	22,923	16,914	6,009	-
Private capital inflation hedging	16,274	-	-	16,274
Private capital growth assets	77,086	-	-	77,086
Opportunistic strategies	15,611	15,611	-	-
Split-interest agreements	4,386	4,386	-	-
Investments of operating funds	87,981		87,981	-
Other investments	2,266	2,266	-	-
Total	$ 735,677	$ 242,530	$ 219,675	$ 273,472

	Fair Value Measurements at May 31, 2016 (in thousands)			
	Fair Value	Level 1	Level 2	Level 3
Cash and cash equivalents-endowment	$ 26,985	$ 26,985	$ -	$ -
Domestic equities	139,452	85,851	-	53,601
Domestic corporate and other bonds	35,625	6,937	28,688	-
Foreign equities	124,417	75,950	48,467	-
Hedge funds	110,182	-	-	110,182
Public inflation hedging	22,171	16,207	5,964	-
Private capital inflation hedging	11,969	-	-	11,969
Private capital growth assets	66,789	-	-	66,789
Opportunistic strategies	13,977	13,977	-	-
Split-interest agreements	4,153	4,153	-	-
Other investments	2,524	2,524	-	-
Total	$ 558,244	$ 232,584	$ 83,119	$ 242,541

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.

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

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, 2017 and May 31, 2016, respectively:

	Level 3 Fair Value Measurements (in thousands)				
	Domestic Equities	Hedge Funds	Private Capital Inflation Hedging	Private Capital Growth Assets	Total
Fair Value, June 1, 2016	$ 53,601	$ 110,182	$ 11,969	$ 66,789	$ 242,541
Gains	9,983	5,255	3,022	3,927	22,187
Purchases	-	-	2,830	14,065	16,895
Sales	-	1,120	-	-	1,120
Distributions	-	(29)	(1,547)	(7,695)	(9,271)
Fair Value, May 31, 2017	$ 63,584	$ 116,528	$ 16,274	$ 77,086	$ 273,472

	Level 3 Fair Value Measurements (in thousands)				
	Domestic Equities	Hedge Funds	Private Capital Inflation Hedging	Private Capital Growth Assets	Total
Fair Value, June 1, 2015	$ 54,577	$ 108,548	$ 12,176	$ 49,870	$ 225,171
Gains/(Losses)	(976)	(3,797)	(787)	5,684	124
Purchases	-	5,600	2,070	17,372	25,042
Sales	-	-	-	-	-
Distributions	-	(169)	(1,490)	(6,137)	(7,796)
Fair Value, May 31, 2016	$ 53,601	$ 110,182	$ 11,969	$ 66,789	$ 242,541

The amount of unrealized gains/(losses) and realized gains/(losses) related to financial instruments classified as Level 3 still held at May 31, 2017, included in the statement of activities is as follows (in thousands):

	Domestic Equities	Hedge Funds	Private Capital Inflation Hedging	Private Capital Growth Assets	Total
Unrealized Gains/(Losses)	$ 9,983	$ 6,752	$ 2,531	$ 1,144	$ 20,410
Realized Gains/(Losses)	-	(498)	699	2,475	2,676

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

Liquidity risk is the risk that the University will not be able to meet its obligations associated with financial liabilities due to 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 the estimated remaining life and current redemption terms by asset class and type of investment are provided below:

	Redemption Frequency	Days Notice (if applicable)	Remaining Life for Partnerships
Cash and cash equivalents-endowment	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
Global equities	Weekly	7	N/A
Hedge funds	Varies	Varies	N/A
Public inflation hedging	Daily, Monthly	0 - 30	N/A
Private capital inflation hedging	Illiquid		Liquidating to 9.5 years
Private capital growth assets	Illiquid		Liquidating to 13 years
Opportunistic managers	Daily		N/A
Split-interest agreements	Daily		N/A
Long-term operating funds	Daily		N/A
Other investments	Daily		N/A

NOTE 3 - NET ASSETS:

	(in thousands) 2017	2016
Temporarily restricted net assets consist of the following:		
Unexpended contributions for instruction and scholarships	$ 35,276	$ 30,582
Unexpended contributions for capital expenditures	83,862	56,186
Property, plant, and equipment acquired through donations	60,262	44,965
Annuity and life income funds	3,421	3,026
Endowment – accumulated change in market value of investments and realized gains	83,928	61,737
	$ 266,749	$ 196,496
Permanently restricted net assets consist of the following:		
Student loans	$ 1,877	$ 1,876
Endowment principal, primarily for scholarships and instruction	319,827	300,460
	$ 321,704	$ 302,336

NOTE 3 - NET ASSETS: (Continued)

The University's endowment consists of 788 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.

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.

NOTE 3 - NET ASSETS: (Continued)

At May 31, 2017, the endowment net asset composition by type of fund consisted of the following:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted funds	$ -	$ 83,928	$ 278,690	$ 362,618
Board-designated funds	277,810	-	-	277,810
Total Funds	$ 277,810	$ 83,928	$ 278,690	$ 640,428

Changes in endowment net assets for the fiscal year ended May 31, 2017 consisted of the following:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$ 242,713	$ 61,737	$ 248,251	$ 552,701
Investment return:				
Investment Income	2,205	2,257	-	4,462
Management and Admin Fees	(2,425)	(2,095)	-	(4,520)
Net appreciation (realized and unrealized)	34,242	33,748	-	67,990
Total investment return	34,022	33,910	-	67,932
Contributions	-	-	30,439	30,439
Planned Savings	12,500	-	-	12,500
Distribution for Spending	(13,025)	(11,719)	-	(24,744)
Other additions to Unrestricted Endowment	1,600	-	-	1,600
Endowment net assets, end of year	$ 277,810	$ 83,928	$ 278,690	$ 640,428

At May 31, 2016, the endowment net asset composition by type of fund consisted of the following:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted funds	$ -	$ 61,737	$ 248,251	$ 309,988
Board-designated funds	242,713	-	-	242,713
Total Funds	$ 242,713	$ 61,737	$ 248,251	$ 552,701

NOTE 3 - NET ASSETS: (Continued)

Changes in endowment net assets for the fiscal year ended May 31, 2016 consisted of the following:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$ 252,305	$ 84,945	$ 226,616	$ 563,866
Investment return:				
Investment Income	3,010	2,146	-	5,156
Management and Admin Fees	(1,606)	(1,940)	-	(3,546)
Net depreciation (realized and unrealized)	(13,483)	(13,015)	-	(26,498)
Total investment return	(12,079)	(12,809)	-	(24,888)
Contributions	-	248	21,635	21,883
Planned Savings	12,150	-	-	12,150
Distribution for Spending	(11,421)	(10,647)	-	(22,068)
Other additions to Unrestricted Endowment	1,758	-	-	1,758
Endowment net assets, end of year	$ 242,713	$ 61,737	$ 248,251	$ 552,701

NOTE 4 - ASSETS WHOSE USE IS LIMITED:

Assets whose use is limited were comprised primarily of unspent proceeds from the issuance of long-term debt related to construction projects, as well as amounts required to be held by bond trustees for debt service payments and amounts required to be held in escrow related to the University's self-insured health insurance program.

NOTE 5 - INVESTMENTS:

Investment gains reported in the consolidated statements of activities for the year ended May 31 consisted of the following:

	(in thousands)	
	2017	2016
Interest, dividends, and other income	$ 4,468	$ 5,209
Net realized gains	16,599	9,548
Net change in unrealized gains and losses	51,885	(36,258)
Management fees and expenses	(4,520)	(3,546)
	$ 68,432	$ (25,047)

The University uses various external investment managers to diversify the investments in alternative assets. The largest allocation to any alternative investment manager as of May 31, 2017 and 2016 was 16.6% and 19.7%, respectively. At May 31, 2017, based on partnership agreements, the University was committed to invest an additional $51.9 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.

NOTE 6 - LAND, BUILDINGS, AND EQUIPMENT:

Land, buildings, and equipment at May 31, 2017 and 2016 consisted of the following:

	(in thousands) 2017	2016
Land and improvements	$ 27,170	$ 27,170
Buildings and improvements	639,604	567,423
Equipment	54,246	50,244
Construction in progress	52,947	45,000
Capitalized interest	7,465	3,142
Unamortized asset retirement costs	927	839
Aldwyn Lane Rental Properties – Land and Buildings	18,385	18,385
	800,744	712,203
Less accumulated depreciation	(339,812)	(320,763)
	$ 460,932	$ 391,440

NOTE 7 - ACCRUED EXPENSES:

Accrued expenses at May 31, 2017 and 2016 consisted of the following:

	(in thousands) 2017	2016
Faculty and Staff Salaries	$ 15,684	$ 15,761
Payroll Tax Withholdings	3,579	3,568
Interest on Long-Term Debt	3,248	3,339
Asset Retirement Obligations	2,431	2,132
Workers Compensation Claims	1,893	1,877
Early Retirement Plan Payments	1,646	1,297
Vacation Accrual	1,484	1,373
Copier Leases	683	764
Annuities Payable	299	531
Other	7,645	7,667
	$ 38,592	$ 38,309

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, 2017 and 2016, totaling $1,970,000 and $2,951,000, respectively, is included in the accompanying Consolidated Statements of Activities.

At May 31, 2017, future minimum lease payments under operating leases with remaining terms greater than one year were as follows (in thousands):

2018	$ 932
2019	42
2020	5
2021	-
2022	-
Total minimum lease payments	$ 979

NOTE 8 – LEASES: (Continued)

The University also leases copiers under capital lease agreements expiring through May 2022. Land, buildings and equipment, net includes $683,000 and $764,000 of capital leases at May 31, 2017 and May 31, 2016, respectively.

At May 31, 2017, future minimum lease payments under capital leases with remaining terms greater than one year were as follows (in thousands):

2018	$	245
2019		206
2020		147
2021		68
2022		17
Total minimum lease payments	$	683

NOTE 9 - LONG-TERM DEBT:

Long-term debt payable at May 31, 2017 consisted of the following:

	(in thousands)		
Bond Issuance	Principal	Unamortized Premium	Unamortized Issuance Costs
Delaware County Authority Bonds (a):			
2016 Issue, 4% - 5%, maturing serially through 2031	$ 45,480	$ 10,141	$ (469)
2015 Issue, 3% - 5%, maturing serially through 2045	141,270	9,240	(971)
2014 Issue, 4% - 5%, maturing serially through 2024	50,860	6,586	(406)
2012 Issue, 5%, maturing serially through 2022	15,130	2,053	(197)
2010 Issue, 5%, maturing serially through 2019	10,030	458	(98)
U.S. Dept. of HUD Bonds (b):			
1969 Dormitory Bonds, 3%, maturing serially through 2019	150	-	-
Mortgage Note (c) – Aldwyn Lane Rental Properties, 7.35%	5,275	-	-
	$ 268,195	$ 28,478	(2,141)
Total			$ 294,532

NOTE 9 - LONG-TERM DEBT: (Continued)

Long-term debt payable at May 31, 2016 consisted of the following:

Bond Issuance	Principal (in thousands)	Unamortized Premium (in thousands)	Unamortized Issuance Costs (in thousands)
Delaware County Authority Bonds (a):			
2015 Issue, 4% - 5%, maturing serially through 2045	$ 141,270	$ 9,558	$ (1,005)
2014 Issue, 4% - 5%, maturing serially through 2024	52,205	7,410	(457)
2012 Issue, 4% - 5%, maturing serially through 2022	17,250	2,395	(229)
2010 Issue, 4% - 5.25%, maturing serially through 2031	62,680	2,609	(558)
2006 Issue, 5%, maturing serially through 2016	2,395	46	(19)
U.S. Dept. of HUD Bonds (b):			
1969 Dormitory Bonds, 3%, maturing serially through 2019	220	-	-
Mortgage Note (c) – Aldwyn Lane Rental Properties, 7.35%	6,186	-	-
	$ 282,206	$ 22,018	(2,268)
Total			$ 301,956

(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 $23,019,000 through 2022, and $12,608,000 from 2023 to 2046. 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 September 2016, the University's 2016 Debt Series was issued by Delaware County Authority to refinance a portion of the outstanding 2010 Series. The 2016 Series was issued as fixed rate debt, with a principal amount of $45,480,000.

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

2017	$ 10,788
2018	11,358
2019	11,948
2020	15,205
2021	15,548
Thereafter	203,345

Interest paid on long-term debt amounted to $12,261,000 and $9,307,000 for the years ended May 31, 2017 and 2016, respectively. Interest expense allocated to the functional expense categories in Note 11 amounted to $5,489,000 and $6,372,000 for the years ended May 31, 2017 and 2016, respectively.

NOTE 9 - LONG-TERM DEBT: (Continued)

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, 2017 and 2016.

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 the Teachers Insurance Annuity Association of America-College Retirement Equities Fund (TIAA-CREF), and the University has no further liability. The University's contributions to the defined contribution plan amounted to $13,327,000 and $12,698,000 for the years ended May 31, 2017 and 2016, 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. Effective May 31, 2016, the defined benefit pension plan was frozen and there will be no future benefit accruals, as the result of the declining number of active employees participating in the plan. Active employees who elected to remain in the defined benefit pension plan in October 1999 were transitioned into the defined contribution pension plan effective June 1, 2016. The University will continue to fund the liabilities related to the benefits earned under the defined benefit pension plan prior to June 1, 2016.

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 or any dependent.

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	2017	2016
Benefit obligation at the beginning of the year	$ 64,785	$ 65,839
Interest cost on projected benefit obligations	1,871	2,574
Service costs – during the year	-	341
Actuarial gain	276	397
Benefits and administrative expenses paid	(3,455)	(3,342)
Liability gain due to curtailment	-	(1,024)
Benefit obligation at the end of the year	$ 63,477	$ 64,785

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 (in thousands):

	2017	2016
Change in Plan Assets		
Fair value of plan assets at beginning of year	$ 54,281	$ 54,851
Actual return on plan assets	4,271	572
Employer contributions	750	2,200
Benefits and administrative expenses paid	(3,455)	(3,342)
Fair value of plan assets at end of year	$ 55,847	$ 54,281
Funded Status		
Actuarial present value of benefit obligations:		
Projected benefit obligation	$ (63,477)	$ (64,785)
Plan assets at fair value*	55,847	54,281
Funded Status	$ (7,630)	$ (10,504)

*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:

	2017	2016
Weighted average discount rate	3.73%	3.72%
Rate of increase in compensation levels	3.00%	3.00%
Expected long-term rate of return on assets	5.75%	5.75%

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, 2017 and May 31, 2016 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)	
Components of Net Periodic Benefit Cost	2017	2016
Service cost – benefits earned during the period	$ -	$ 341
Interest cost on projected benefit obligation	1,871	2,574
Expected return on plan assets	(3,044)	(3,140)
Amortization of unrecognized net loss	978	701
Total net periodic benefit cost	$ (195)	$ 476

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

	2017	2016
Weighted average discount rate	3.70%	4.03%
Rate of increase in compensation levels	3.00%	3.00%
Expected long-term rate of return on assets	5.75%	5.75%

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

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

Year ending	(in thousands)
May 31, 2018	$ 3,988
May 31, 2019	4,163
May 31, 2020	4,245
May 31, 2021	4,288
May 31, 2022	4,342
May 31, 2023 through May 31, 2027	20,749

The University plans to contribute $750,000 during the fiscal year ending May 31, 2018. If the minimum required contribution to the defined benefit plan exceeds this amount as a result of the June 1, 2017 valuation, the University will make the minimum required contribution.

Plan assets are allocated at May 31, 2017 and May 31, 2016 as follows:

	2017	2016
Equity Securities	31%	31%
Debt Securities	54%	54%
Other	15%	15%
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, 2017 and May 31, 2016, 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)				
	Level 1	Level 2	Level 3	Total	Valuation Technique
Pension investment program:					
Equity securities	$ -	$ 17,286	$ -	$ 17,286	Market
Debt securities	-	30,243	-	30,243	Market
Other	348	7,970	-	8,318	Market
Total at May 31, 2017	$ 348	$ 55,499	$ -	$ 55,847	

	(in thousands)				
	Level 1	Level 2	Level 3	Total	Valuation Technique
Pension investment program:					
Equity securities	$ -	$ 16,730	$ -	$ 16,730	Market
Debt securities	-	29,481	-	29,481	Market
Other	19	8,051	-	8,070	Market
Total at May 31, 2016	$ 19	$ 54,262	$ -	$ 54,281	

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

The components of medical postretirement benefits as of May 31, 2017 and 2016 are as follows:

	(in thousands)	
	2017	2016
Projected benefit obligation	$ 14,337	$ 15,019
Fair value of plan assets	-	-
Unfunded status	$ (14,337)	$ (15,019)
Accrued post-retirement benefits	$ (14,337)	$ (15,019)
Weighted-average assumptions:		
Discount rate	3.61%	3.55%

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 $1,700,000 and $1,734,000 for the years ended May 31, 2017 and 2016, respectively. Benefits paid totaled $1,071,000 and $1,085,000 for the years ended May 31, 2017 and 2016, 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 $1,646,000 and $1,298,000 as of May 31, 2017 and 2016, respectively.

NOTE 11 - OPERATING EXPENSE:

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

	(in thousands)	
	2017	2016
Instruction	$ 158,962	$ 159,072
Research	6,910	5,955
Academic support	50,793	47,851
Student services	61,661	56,565
Institutional support	57,743	56,010
Auxiliary enterprises	56,857	57,218
Total operating expense	$ 392,926	$ 382,671

Included in the above operating expenses are expenditures related to fund-raising activities for the year ended May 31, 2017 and 2016 of $12,760,000 and $12,863,000, 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, 2017 and 2016. Those expenses were allocated to the individual functional categories as follows:

	(in thousands) 2017		
	Operation and Maintenance	Interest on Indebtedness	Depreciation
Instruction	$ 9,343	$ 2,235	$ 8,180
Research	-	76	-
Academic support	1,332	88	1,187
Student services	6,349	52	2,453
Institutional support	1,774	66	2,556
Auxiliary enterprises	12,040	2,357	5,041
Operation and maintenance of plant	-	615	1,603
	$ 30,838	$ 5,489	$ 21,020

	(in thousands) 2016		
	Operation and Maintenance	Interest on Indebtedness	Depreciation
Instruction	$ 9,391	$ 3,149	$ 7,729
Research	-	114	-
Academic support	1,339	118	941
Student services	5,853	73	2,310
Institutional support	1,783	72	1,592
Auxiliary enterprises	12,101	2,406	5,350
Operation and maintenance of plant	-	441	1,512
	$ 30,467	$ 6,373	$ 19,434

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 $11,000 for the year ended May 31, 2017, with regards to unrelated business income reported on IRS Form 990-T.

NOTE 14 - COMMITMENTS AND CONTINGENCIES:

Under the terms of certain investment partnership agreements, the University and other investors are committed to fund additional investments as capital calls are exercised. Capital calls are generally exercised over a period of years and are subject to fixed expiration dates or other means of termination. The University's remaining commitments to all partnerships total $63,942,000 and $55,604,000 as of May 31, 2017 and 2016, respectively.

Outstanding commitments related to construction contracts totaled $149,928,000 as of May 31, 2017.

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, 2017 and 2016 and the time periods in which they are expected to be realized are as follows:

	(in thousands)	
	2017	2016
In one year or less	$ 56,555	$ 49,967
Between one year and five years	69,270	65,160
In more than five years	894	263
Less: Discount	(6,940)	(5,802)
Allowance for doubtful accounts	(12,074)	(15,287)
	$ 107,705	$ 94,301

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, 2017 through its distribution date of October 9, 2017.

NOTE 18 – NEW ACCOUNTING PRONOUNCEMENTS:

The Financial Accounting Standards Board ("FASB") issued an accounting standard update in March 2017, to improve the presentation of net periodic pension and postretirement benefit cost. Defined benefit pension and postretirement benefit costs "(net benefit cost") comprise several components that reflect different aspects of an employer's financial arrangements as well as the cost of benefits provided to employees. This accounting standard update requires that an employer disaggregate the service cost component from the other components of net benefit cost, provides explicit guidance on how to present the service cost component and the other components of net benefit cost in the statement of activities and allows only the service cost component of net benefit cost to be eligible for capitalization. The guidance within this accounting standard update should be applied retrospectively for the presentation of the service cost component and the other components of net periodic benefit cost in the statement of activities, and prospectively for the capitalization of the service cost component of net periodic benefit in assets. This accounting standard update is effective for annual periods beginning after December 15, 2018. Early adoption is permitted as of the beginning of an annual period for which financial statements (interim or annual) have not been issued or made available for issuance. The accounting standard update allows a practical expedient that permits an employer to use the amounts disclosed in its pension and other postretirement benefit plan note for the prior comparative periods as the estimation basis for applying the retrospective presentation requirements. Disclosure that the practical expedient was used is required. University management is currently evaluating the effects of this guidance and expects adoption of this guidance to not have a material impact or effect on the financial statements.

The FASB issued an accounting standard update in February 2016 regarding the accounting and disclosure for leases. Specifically, the update will require entities that lease assets to recognize the assets and liabilities for the rights and obligations created by those leases on the balance sheet, in most instances. The guidance within this accounting standard update is effective for annual and interim periods beginning after December 15, 2018, and should be applied on a modified retrospective basis for the reporting periods presented. Early adoption is permitted. The University has not early adopted and is currently evaluating the potential impact of this guidance on the consolidated financial statements and is considering the appropriate implementation strategy.

The 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 reporting periods beginning after December 15, 2017. 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 University will adopt this standard for the Fiscal Year 2018, and will be applied on a retrospective basis. As a result of this adoption, investments previously reported at net asset value per share, as a practical expedient, will no longer included within levels 1, 2 or 3 in the fair value hierarchy. The adoption of this guidance will require all Level 2 and 3 assets valued at NAV, with a total fair value of $131,694,000 and $273,472,000 respectively, to be moved to a new category, and serve as a reconciliation to total investments.

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 adopted this standard in Fiscal Year 2017 and has reflected capitalized debt issuance costs as a reduction of long-term debt.

NOTE 18 – NEW ACCOUNTING PRONOUNCEMENTS: (Continued)

In August 2016, the FASB issued ASU 2016-14, Presentation of Financial Statements for Not-for-Profit Entities, which makes targeted changes to the not-for-profit financial reporting model. The new ASU marks the completion of the first phase of a larger project aimed at improving not-for-profit financial reporting. Under the new ASU, net asset reporting will be streamlined and clarified. The existing three-category classification of net assets will be replaced with a simplified model that combines temporarily restricted and permanently restricted into a single category called "net assets with donor restrictions." The guidance for classifying deficiencies in endowment funds and on accounting for the lapsing of restrictions on gifts to acquire property, plant, and equipment have also been simplified and clarified. New disclosures will highlight restrictions on the use of resources that make otherwise liquid assets unavailable for meeting near-term financial requirements. Not-for-profits will continue to have flexibility to decide whether to report an operating subtotal and if so, to self-define what is included or excluded. However, if the operating subtotal includes internal transfers made by the governing board, transparent disclosure must be provided. The ASU also imposes several new requirements related to reporting expenses, including providing information about expenses by their natural classification. The ASU is effective for fiscal years beginning after December 15, 2017 (fiscal year 2019 for the University) and early adoption is permitted. The University is evaluating the impact of the new guidance on the consolidated financial statements.

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