SOUTHERN METHODIST UNIVERSITY

CONSOLIDATED FINANCIAL STATEMENTS

May 31, 2017 and 2016

(With Independent Auditors' Report Thereon)

KPMG LLP
Suite 1400
2323 Ross Avenue
Dallas, TX 75201-2721

Independent Auditors' Report

The Board of Trustees
Southern Methodist University:

We have audited the accompanying consolidated financial statements of Southern Methodist University (the University), which comprise the consolidated balance sheets as of May 31, 2017 and 2016, and the related consolidated statements of activities and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Southern Methodist University as of May 31, 2017 and 2016, and the changes in its net assets and its cash flows for the year then ended in accordance with U.S. generally accepted accounting principles.

KPMG LLP

Dallas, Texas
September 8, 2017

Southern Methodist University
Consolidated Balance Sheets
As of May 31, 2017, and May 31, 2016
(Dollars in Thousands)

Assets	2017	2016
Cash and cash equivalents (restricted for capital projects: $37,043 in 2017 and $121,210 in 2016)	$ 171,385	$ 235,399
Accounts receivable, less allowance for doubtful accounts of $1,650 in 2017 and $1,982 in 2016	42,249	25,328
Pledges receivable, net	132,542	145,188
Investments:		
Short-term paper (restricted for debt retirement: $0 in 2017 and $3,189 in 2016)	$ 82,612	$ 60,091
Stocks	184,941	170,918
Bonds (restricted for debt retirement: $113,481 in 2017 and $115,153 in 2016; restricted for capital projects: $22,482 in 2017 and $0 in 2016)	271,991	228,579
Venture capital	29,695	35,948
Mortgage and other notes receivable, less allowance for doubtful accounts of $337 in 2017 and $465 in 2016	5,731	6,162
Real estate	17,802	15,723
Funds held in trust by others	21,004	18,516
Other	839,811	861,044
Total investments	$ 1,453,587	$ 1,396,981
Property, plant and equipment, at cost, net of accumulated depreciation	1,068,754	1,028,149
Other assets	32,023	21,883
Total Assets	$ 2,900,540	$ 2,852,928

Liabilities and Net Assets	2017	2016
Liabilities:		
Accounts payable and accrued expenses	$ 196,547	$ 189,316
Deposits and deferred income	38,953	39,750
Long-term debt, net	659,255	681,787
Advances for student loans	3,088	3,041
Other liabilities	8,330	1,606
Total Liabilities	$ 906,173	$ 915,500
Net Assets:		
Unrestricted	$ 663,262	$ 609,020
Temporarily restricted	619,890	645,759
Permanently restricted	711,215	682,649
Total Net Assets	$ 1,994,367	$ 1,937,428
Total Liabilities and Net Assets	$ 2,900,540	$ 2,852,928

See accompanying notes to the consolidated financial statements.

Southern Methodist University
Consolidated Statements of Activities
For the Fiscal Years Ended May 31, 2017, and May 31, 2016
(Dollars in Thousands)

	2017				2016			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenue:								
Tuition and fees	$ 477,959	$ -	$ -	$ 477,959	$ 453,064	$ -	$ -	$ 453,064
Scholarship allowance - tuition and fees	(168,424)	-	-	(168,424)	(155,346)	-	-	(155,346)
Net tuition	$ 309,535	$ -	$ -	$ 309,535	$ 297,718	$ -	$ -	$ 297,718
Gifts	23,691	27,808	26,593	78,092	29,472	53,553	27,961	110,986
Endowment income, net of investment expenses	12,003	568	972	13,543	10,812	(138)	716	11,390
Net realized and unrealized gains on investments	1,157	49,271	1,001	51,429	4,065	71,619	(1,643)	74,041
Grants and contracts	29,495	-	-	29,495	33,038	-	-	33,038
Organized activities	8,414	-	-	8,414	7,440	-	-	7,440
Other sources	31,184	-	-	31,184	29,988	-	-	29,988
Auxiliary activities	58,939	-	-	58,939	56,427	-	-	56,427
Scholarship allowance - room and board	(3,603)	-	-	(3,603)	(3,617)	-	-	(3,617)
Independent operations	3,609	-	-	3,609	3,514	-	-	3,514
Total revenue	$ 474,424	$ 77,647	$ 28,566	$ 580,637	$ 468,857	$ 125,034	$ 27,034	$ 620,925
Net assets released from restrictions	103,516	(103,516)	-	-	95,268	(95,268)	-	-
Total adjusted revenue	$ 577,940	$ (25,869)	$ 28,566	$ 580,637	$ 564,125	$ 29,766	$ 27,034	$ 620,925
Expenses:								
Program expenses:								
Instructional	$ 187,392	$ -	$ -	$ 187,392	$ 175,784	$ -	$ -	$ 175,784
Academic support	64,936	-	-	64,936	62,893	-	-	62,893
Research	27,506	-	-	27,506	28,624	-	-	28,624
Organized activities	11,364	-	-	11,364	11,581	-	-	11,581
Student services	49,092	-	-	49,092	43,192	-	-	43,192
Auxiliary activities	74,649	-	-	74,649	74,044	-	-	74,044
Total program expenses	$ 414,939	$ -	$ -	$ 414,939	$ 396,118	$ -	$ -	$ 396,118
Institutional support	106,635	-	-	106,635	111,194	-	-	111,194
Independent operations	2,793	-	-	2,793	2,596	-	-	2,596
Total expenses	$ 524,367	$ -	$ -	$ 524,367	$ 509,908	$ -	$ -	$ 509,908
Postretirement plan changes other than net periodic postretirement benefit cost	(669)	-	-	(669)	2,438	-	-	2,438
Total expenses and actuarial adjustment	$ 523,698	$ -	$ -	$ 523,698	$ 512,346	$ -	$ -	$ 512,346
Change in net assets	$ 54,242	$ (25,869)	$ 28,566	$ 56,939	$ 51,779	$ 29,766	$ 27,034	$ 108,579
Net assets at beginning of period	609,020	645,759	682,649	1,937,428	557,241	615,993	655,615	1,828,849
Net assets at end of period	$ 663,262	$ 619,890	$ 711,215	$ 1,994,367	$ 609,020	$ 645,759	$ 682,649	$ 1,937,428

See accompanying notes to the consolidated financial statements.

Southern Methodist University
Consolidated Statements of Cash Flows
For the Fiscal Years Ended May 31, 2017, and May 31, 2016
(Dollars in Thousands)

	2017	2016
Cash flows from operating activities:		
Change in net assets	$ 56,939	$ 108,579
Adjustments to reconcile change in net assets to net cash provided by (used for) operating activities:		
Depreciation	38,740	35,818
Long-term debt-related amortization	(3,743)	(1,943)
(Gain) loss on disposal of property, plant and equipment	(2,621)	298
Increase in accounts and pledges receivable	(4,275)	(14,075)
Increase in other assets	(10,140)	(6,107)
Increase (decrease) in accounts payable and accrued expenses for operations	9,600	(47)
Increase (decrease) in deposits and deferred income	(797)	472
Increase in advances for student loans	47	51
Increase in other liabilities for operations	6,769	1,224
Contributions restricted for long-term investment	(45,807)	(50,830)
Noncash contributions	(12,445)	(10,046)
Net realized and unrealized gains on investments	(51,429)	(74,041)
Income restricted for long-term investment	(1,887)	(1,021)
Annuity obligation payments	638	515
Net cash used for operating activities	$ (20,411)	$ (11,153)
Cash flows from investing activities:		
Purchase of property, plant and equipment	$ (74,642)	$ (74,456)
Proceeds from sales of property, plant and equipment	5,545	12
Purchase of investments	(284,343)	(450,931)
Proceeds from the sale of investments	283,552	411,644
Increase (decrease) in accounts payable and accrued expenses for investing activities	(2,369)	554
Disbursements of mortgage and other notes receivable	(357)	(475)
Principal payments received on mortgage and other notes receivable	789	1,479
Net cash used for investing activities	$ (71,825)	$ (112,173)
Cash flows from financing activities:		
Contributions restricted for long-term investment	$ 45,807	$ 50,830
Income restricted for long-term investment	1,887	1,021
Annuity obligation payments	(638)	(515)
Payments on notes payable included in other liabilities	(45)	(47)
Net proceeds from debt issuance	48,471	166,900
Long-term debt payments	(67,260)	(35,470)
Net cash provided by financing activities	$ 28,222	$ 182,719
Net increase (decrease) in cash and cash equivalents	(64,014)	59,393
Cash and cash equivalents at beginning of period	235,399	176,006
Cash and cash equivalents at end of period	$ 171,385	$ 235,399
Supplemental data:		
Gifts of investments, real estate and other	$ 4,818	$ 7,463
Gifts of property, plant and equipment	7,627	2,583
Cash paid for interest	27,187	22,375

See accompanying notes to the consolidated financial statements.

1. Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations

Southern Methodist University (the University) is a private higher education institution providing undergraduate, graduate, and continuing educational opportunities. In addition to the revenue generated by the tuition and fees charged for these educational services, the University receives support from donations, and revenue from investment earnings, federal grants, sponsored research, athletic events and other auxiliary activities, and other sources.

As of May 31, 2017, the University had six corporations under its control that are included in the consolidated financial statements. The Southern Methodist University Foundation for Research was established to support academic scholarship and scientific research. SMU Corp. was established in connection with the location of the George W. Bush Presidential Library and Museum at the University. The SMU Golf Foundation was established in connection with SMU's golf facilities, golf teams, and related activities. Peruna Holdings Corporation, Mustang Mockingbird Properties, and Peruna East Corporation are corporations the University established to acquire, own and manage real estate adjacent to or in the near vicinity of the University campus, on behalf of the University. During the fiscal year ended May 31, 2017, the University dissolved Peruna Properties, Inc., Mustang Mockingbird Corporation, and Mustang Airline Corporation, which had been established to own and manage real estate on behalf of the University.

Financial Reporting

The consolidated financial statements have been prepared in accordance with accounting standards established to provide meaningful information about the financial resources and operations of the University as a whole and to present balances and transactions based on the existence or absence of donor-imposed restrictions. Accordingly, transactions and balances have been classified into three categories of net assets:

Unrestricted net assets include funds that have no donor-imposed restrictions, time restrictions or whose restrictions have been satisfied. The University has determined that any donor-imposed restrictions for currently budgeted programs and activities generally are met within the operating cycle of the University. Therefore, the University's policy is to record these funds as unrestricted.

Temporarily restricted net assets include funds for which donor-imposed restrictions have not been met. This classification includes gifts, annuities and unconditional promises to give for which the ultimate purpose of the proceeds is not permanently restricted.

Permanently restricted net assets include gifts, annuities and unconditional promises to give that are restricted by the donor to be invested or held in perpetuity. Only the income from these funds is made available for program operations specified by the donor.

Basis of Accounting

The consolidated financial statements have been prepared on the accrual basis of accounting. The costs of providing various programs and support services have been summarized on a functional basis in the consolidated statements of activities. Accordingly, expenses such as depreciation, interest, bond issuance costs and the operation and maintenance of University facilities have been allocated among the functional categories. Fundraising expenses of approximately $17,341 and $21,177 incurred by the University in fiscal years 2017 and 2016, respectively, are included primarily as institutional support expenses reported in the consolidated statements of activities.

Cash equivalents include operating cash investments, U.S. Treasury bills and short-term paper with maturities of three months or less from the date of purchase. Such assets when purchased with endowment, loan, annuity and life income assets or trust funds are classified as investments.

Investments in short-term paper, stocks, bonds and funds held in trust by others with readily determinable fair values are recorded at fair value. Equity method investments are valued at the University's percentage of the net asset values reported by the fund managers, which are used as practical expedients to estimate the fair values. All other investments are recorded at cost, with disclosure of most recently reported fair values in Note 5, herein. Management monitors the managers and investment strategies of these and other investments to ascertain whether valuations are reasonable and whether the assets are permanently impaired. Permanent impairment losses are recognized when investments' fair values are below their carrying amounts and verifiable positive evidence does not exist to support the recoverability of the investments within a reasonable period of time. Permanent impairment losses were $8,382 and $13,792 as of May 31, 2017 and 2016, respectively. For the year ended May 31, 2017, the University has investments in venture capital funds, real estate and other investments that have fair values lower than cost by $13,700 that are not reported as permanently impaired. The aggregate related fair value of these 22 investments is $119,178.

The University has an energy hedge agreement that qualifies as a derivative financial instrument under ASC 815, *Derivatives and Hedging*. These instruments are recorded on the consolidated balance sheets as either an asset or liability measured at the fair value as of the reporting date. Changes in fair value of any derivatives are recognized in the consolidated statements of activities.

Gifts are recorded at fair value at the date of donation or a nominal value if fair value is not readily determinable. Recorded realized and unrealized gains on investments are reported in the appropriate net asset classifications in the consolidated statements of activities. Gifts and income thereon that are restricted in perpetuity by the donors for the purpose of making loans to students are reported as permanently restricted net assets. Refundable advances from the federal government for student loans are reported as long-term liabilities. University resources designated for student loans are reported as unrestricted net assets. Federally funded student loan programs consist of $3,088 and $3,041 of refundable government advances and $393 and $387 of matching University funds in fiscal years 2017 and 2016, respectively.

Property, plant and equipment (including art objects) are recorded at cost, if purchased, or at the fair value at the time of donation, if donated. During the period qualifying construction projects are in progress, net interest costs are capitalized as part of the basis of capital assets. Capital assets include property, plant and equipment that have an acquisition cost of $5 and over and have an estimated useful life of at least two (2) years, with the exception of software, where the cost must exceed $75 before the asset will be capitalized. Property, plant and equipment (except for art objects, land and other assets) are depreciated on the straight-line basis over their estimated useful lives with equipment, vehicles, furniture, software and "other" depreciating in 5 to 15 years; land improvements depreciating in 15 to 50 years; and buildings depreciating in 20 to 40 years.

Contributions of land, buildings and equipment without donor stipulations concerning the use of such long-lived assets are reported as revenue of the unrestricted net asset class. Contributions of cash or other assets to be used to acquire land, buildings, and equipment without such donor stipulations are reported as revenue of the temporarily restricted net asset class. The restrictions are considered to be released when the long-lived assets are placed in service.

The University has adopted an endowment spending policy whereby annually the Board of Trustees authorizes amounts to be spent for the purposes intended by the donors based in part on an index of the prior year allocation for spending and in part on a stipulated percentage of the fair value of endowments participating in the investment pool. If the current income of the endowment investments is not sufficient to cover the authorized level of spending, the difference is taken from the market value in excess of the historical gift value, to the extent available.

The expiration of donor-imposed restrictions on contributions or endowment income is recognized in the period in which the restrictions are satisfied. At that time, the related resources are reclassified from temporarily restricted to unrestricted net assets. Restrictions expire when the stipulated time has elapsed or when the stipulated purpose for which the resource was restricted has been fulfilled. Endowment income and contributions received with donor-imposed restrictions that are satisfied in the same period as received are reported as unrestricted revenues.

Tuition revenue is recognized in the fiscal year in which the predominant portion of instruction occurs. Accordingly, deferred income as of May 31, 2017 includes the amount received from the students prior to May 31, 2017 for the 2017 summer session.

The University receives grant and contract revenue for research and other services it provides pursuant to arrangements with governmental and private entities. For financial statement purposes, grant and contract revenue is recorded at the time corresponding expenses have been incurred.

The preparation of consolidated financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Significant estimates related to asset valuations, postretirement benefit obligations, and various commitments and contingencies are described later in the Notes. Actual results may differ from these estimates.

Effective in the year ended May 31, 2016, the University retrospectively adopted the provisions of the Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) No. 2015-3, *Simplifying the Presentation of Debt Issuance Costs*. The ASU is limited to simplifying the presentation of debt issuance costs, and the recognition and measurement guidance for debt issuance costs is not affected by the ASU.

The University has also adopted certain provisions of FASB ASU No. 2016-1, *Recognition and Measurement of Financial Assets and Financial Liabilities*, which removed the requirement for the disclosure of the fair value of financial instruments measured at amortized cost for non-public entities. As a result, the University has not included the fair value of its bonds and notes payable in the Notes to the Consolidated Financial Statements.

2. Accounting Pronouncements or Laws Affecting Future Year Financial Statements

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers* (Topic 606), which requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The ASU will replace most existing revenue recognition guidance in U.S. GAAP when it becomes effective. The new standard is effective for the University on June 1, 2019. The standard permits the use of either the retrospective or cumulative effect transition method. The University is evaluating the effect that ASU No. 2014-09 will have on its consolidated financial statements and related disclosures.

In February 2016, the FASB issued ASU No. 2016-02, *Leases*, which replaces most existing guidance on leases and requires that most leases longer then twelve months be recorded on the balance sheet as an asset, representing the value of the right of use and any direct costs under the lease, and a liability representing the present value of the future payments required under the lease. The new standard is effective for the University on June 1, 2020. The University is evaluating the effect ASU No. 2016-02 will have on its consolidated financial statements and related disclosures.

In August 2016, the FASB issued ASU No. 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*. This update requires multiple changes to the presentation of the University's financial statements and related disclosures, including changes in the presentation of the University's net assets and expanded reporting related to expenses and liquidity in its financial statements. The standard will not be required for the University until fiscal year 2019, however the University is evaluating early application of the standard.

3. Cash, Cash Equivalents, and Accounts Receivable

The fair value of cash, cash equivalents, and accounts receivable is estimated to be the same as carrying (book) value because of their short maturities. Operating funds invested in short-term paper are included as cash equivalents, the value of which may fluctuate based on the financial environment and the type of short-term investment. The fair value of cash, cash equivalents, and accounts receivable totaled \$213,634 and \$260,727 of which \$3,015 and \$3,758 represent donations restricted for property, plant and equipment as of May 31, 2017 and 2016, respectively. The University reserves accounts receivable determined to be impaired or otherwise uncollectible.

4. Pledges Receivable

Unconditional promises to give are included in the consolidated financial statements as pledges receivable with gifts reported in the appropriate net asset categories. Pledges receivable are initially recorded at their fair value, which is determined by computing the present value of future cash flows discounted at rates ranging from 3.5% to 7.0%. The present value and the associated incremental income are reflected as gift revenue in the period the agreement is made and in the period accreted, respectively.

(Dollars in Thousands)

Unconditional pledges receivable as of May 31 are expected to be realized in the following periods:

	2017	2016
In one year or less	$ 45,577	$ 45,605
Between one year and five years	93,903	105,223
More than five years	13,823	17,134
Less discount	(20,761)	(22,774)
	$ 132,542	$ 145,188

Unconditional pledges receivable as of May 31 have the following restrictions:

	2017	2016
Endowment for departmental programs and activities	$ 27,465	$ 21,145
Endowment for scholarships	7,579	11,515
Construction projects	32,930	37,206
Scholarships, departmental programs and activities	35,190	45,003
Purpose restriction met	29,378	30,319
	$ 132,542	$ 145,188

Conditional promises to give are not recorded in the financial statements until the conditions on which they depend are substantially met. As of May 31, the University has received pledges contingent on the following conditions:

	2017	2016
Matching donation/funding requirement	$ 8,500	$ 7,900
Other	1,630	1,750
	$ 10,130	$ 9,650

(Dollars in Thousands)

5. Investments

Total investments as of May 31 are as follows:

	2017		2016	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Short-term paper	$ 82,612	$ 82,612	$ 60,091	$ 60,091
Stocks	184,941	184,941	170,918	170,918
Bonds	271,991	271,991	228,579	228,579
Venture capital	29,695	42,494	35,948	49,954
Mortgage and other notes receivable, net	5,731	5,731	6,162	6,162
Real estate:				
Real properties	$ 17,802	$ 21,158	$ 15,723	$ 18,827
Mineral rights	-	34,371	-	36,191
Total real estate	$ 17,802	$ 55,529	$ 15,723	$ 55,018
Funds held in trust by others	21,004	21,004	18,516	18,516
Other investments:				
Private equity	$ 169,238	$ 215,616	$ 164,133	$ 192,843
Diversifying strategies	283,285	397,014	282,317	367,614
Equity funds without daily liquidity	358,175	429,626	381,921	397,747
Fixed income funds without daily liquidity	13,846	14,386	12,983	13,279
Equity method investments (carrying value is fair value)	15,267	15,267	19,690	19,690
Total other investments	$ 839,811	$ 1,071,909	$ 861,044	$ 991,173
Total investments	$ 1,453,587	$ 1,736,211	$ 1,396,981	$ 1,580,411

The fair value of short-term paper, stocks, bonds and funds held in trust by others is based on quoted market prices. The fair value of the University's interest in venture capital, real estate funds and other investments is based on the net asset value (NAV) reported by the fund managers, which is used as a practical expedient to estimate the fair value of the University's investment therein, unless it is probable that all or a portion of the value is different from NAV. The fair value of real estate mineral rights is estimated based on the income stream those assets generate. Where the fair value of mortgage and other notes receivable and University individually owned and managed real estate surface rights is not available and cannot be determined without incurring excessive costs, the amounts reflected as fair value are the same as carrying value.

Investments include assets associated with split-interest agreements. The University's split-interest agreements consist of perpetual trusts held and administered by others, gift annuities, unitrusts and annuity trusts. Perpetual trusts held and administered by others are recorded at the current fair value of the University's interest in the trust assets. Under split-interest agreements, the University has the right to receive income distributions that are reported as revenue. The gains associated with split-interest agreements were $2,142 and $1,125 in fiscal years 2017 and 2016, respectively. The fair value of split-interest agreements was $34,151 and $31,480 in fiscal years 2017 and 2016, respectively.

Assets associated with gift annuities, unitrusts and annuity trusts held by the University are included in the applicable investment classifications. Under these split-interest agreements, the University makes periodic payments to named beneficiaries in return for assets received. Liabilities associated with split-interest agreements are recorded as accounts payable and accrued expenses on the consolidated balance sheets at current fair value by discounting the anticipated future payments to the income beneficiaries based on their life expectancies determined from the actuarial tables published by the Internal Revenue Service using discount rates of 3.80% and 3.68% per annum in fiscal years 2017 and 2016, respectively. As of May 31, 2017 and 2016, the present values of the University's financial obligations to beneficiaries were $7,717 and $6,498, respectively.

The University also owns foreign investments that are included in the applicable investment classifications on the consolidated balance sheets. To mitigate foreign exchange risk, the investment managers may purchase foreign currency futures contracts which result in unrealized gains and losses that are reflected in the fair values of appropriate investment categories.

Investment return is comprised of investment income and net realized and unrealized gains. Investment income of $19,106 and $14,922 for the years ended May 31, 2017 and 2016, respectively, is net of related expenses, such as custodial fees and investment advisory fees. These expenses are approximately $11,308 and $11,947 for the years ended May 31, 2017 and 2016, respectively. Net realized and unrealized gains on investments totaled $51,429 and $74,041 for the years ended May 31, 2017 and 2016, respectively. Included in these amounts are realized and unrealized gains of approximately $24,256 for the year ended May 31, 2017 and realized and unrealized losses of approximately $6,805 for the year ended May 31, 2016, attributed to assets reported at fair value and realized gains attributed to assets reported at cost of approximately $27,172 and $81,301 for the years ended May 31, 2017 and 2016, respectively.

The University applies the guidance in ASC 970-323, *Investments – Equity Method and Joint Ventures*, on the equity method of accounting for its noncontrolling interests in a for-profit real estate partnership and similar for-profit real estate entities unless those investments are reported at fair value. The University has determined those for-profit real estate investments in which it holds an interest equal to or greater than 5% will be reported using the equity method of accounting. The University has noncontrolling interests in two real estate entities for investment purposes that meets this 5% threshold and these have been recorded using the equity method. All disclosures and unrealized gain (loss) adjustments are based on the most recently reported fair values and financial statements of the investment companies.

As of May 31, 2017 and 2016, the University held a 5.4% ownership interest in the Sustainable Woodlands Fund, L.P. The fair value of its ownership using the most recent (unaudited) financial information of the investment company was $9,969 and $10,075 as of May 31, 2017 and 2016, respectively. As of May 31, 2017 and 2016, the University held a 5.0% ownership interest in Star Asia Japan Special Situations II LP. The fair value of its ownership using the most recent (unaudited) financial information of the investment company was $5,298 and $9,615 as of May 31, 2017 and May 31, 2016, respectively.

6. Endowment Fund

The University applies the provisions of ASC 958-205, *Endowments of Not-for-Profit Entities – Presentation of Financial Statements*, which provides guidance on the net asset classification of donor-restricted endowment funds for a not-for-profit organization that is subject to the Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA or the Act) and also requires disclosures about endowment funds, including both donor-restricted endowment funds and funds functioning as endowment funds.

The University's endowment consists of approximately 1,650 individual donor-restricted endowment funds and funds designated by the Board of Trustees to function as endowments established for a variety of purposes. 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.

Interpretation of Relevant Law

Based on the interpretation of the UPMIFA by the University's Board of Trustees, absent explicit donor stipulations to the contrary, 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 as permanently restricted net assets is classified as temporarily restricted net assets until it is appropriated for expenditure by the Board of Trustees in a manner consistent with the standard of prudence prescribed by the Act. In accordance with the Act, the Board of Trustees considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

1. The duration and preservation of the fund
2. The purposes of the University and the donor-restricted endowment fund
3. General economic conditions
4. The possible effect of inflation and deflation
5. The expected total return from income and appreciation of investments
6. Other resources
7. The investment policies of the University

(Dollars in Thousands)

Changes in endowment net assets are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Net assets as of May 31, 2015	$ 72,071	$ 483,155	$ 629,639	$ 1,184,865
Gifts	-	-	27,733	27,733
Investment return:				
Investment income (loss), net of distributions	26	(196)	710	540
Net realized and unrealized gains	4,198	70,543	-	74,741
Total investment return	4,224	70,347	710	75,281
Endowment gains transferred for spending	(3,738)	(54,833)	-	(58,571)
Funds functioning as endowment net transfers	3,592	-	-	3,592
Other revenues and transfers	-	1,447	8,262	9,709
Net assets as of May 31, 2016	$ 76,149	$ 500,116	$ 666,344	$ 1,242,609
Gifts	-	-	26,429	26,429
Investment return:				
Investment income, net of distributions	160	529	968	1,657
Net realized and unrealized gains	3,370	47,592	-	50,962
Total investment return	3,530	48,121	968	52,619
Endowment gains transferred for spending	(3,945)	(55,495)	-	(59,440)
Funds functioning as endowment net transfers	3,517	-	-	3,517
Other revenues and transfers	-	(2,460)	16	(2,444)
Net assets as of May 31, 2017	$ 79,251	$ 490,282	$ 693,757	$ 1,263,290

Endowment net assets split between donor-restricted and funds functioning as endowment are as follows:

	2016			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	$ (1,053)	$ 500,116	$ 666,344	$ 1,165,407
Funds functioning as endowment	77,202	-	-	77,202
Balance as of May 31, 2016	$ 76,149	$ 500,116	$ 666,344	$ 1,242,609

	2017			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	$ 1,053	$ 490,282	$ 693,757	$ 1,185,092
Funds functioning as endowment	78,198	-	-	78,198
Balance as of May 31, 2017	$ 79,251	$ 490,282	$ 693,757	$ 1,263,290

(Dollars in Thousands)

Endowment funds classified as temporarily restricted net assets and subject to a time restriction under UPMIFA as of May 31 are as follows:

	2017	2016
With purpose restrictions	$ 70,162	$ 72,100
Without purpose restrictions	420,120	428,016
Total endowment funds classified as temporarily restricted net assets	$ 490,282	$ 500,116

Funds with Deficiencies

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level the donor or the Act requires the University to retain as a fund of perpetual duration. As of May 31, 2017, there were no funds with deficiencies. As of May 31, 2016, there were approximately 100 funds with deficiencies totaling $1,053. University practice generally prohibits distributions from newly established endowment funds for four years unless gains exceed 30%. The majority of these prior year deficiencies related to funds currently in this period; as a result, the University's operations are not adversely affected by these deficiencies.

Return Objectives and Risk Parameters

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 the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the University must hold in perpetuity or for donor-specified periods, as well as funds functioning as endowment funds. Under this policy, as approved by the Board of Trustees, the endowment assets are invested in a manner that is intended to outperform over the long term (defined as rolling three and five year periods) a blended benchmark composed of 75% of the Russell 3000 and 25% of Barclay's Government/Credit Index. The University expects its endowment funds, over time, to provide an average rate of return of approximately 9% annually (or 5.5% after an expected average rate of University inflation of 3.5% per year), net of all costs of management fees, trading expenses and custody services over the long term. Actual returns in any given year may vary from this target.

The principal risk to the endowment is the possibility of prolonged or severe asset depreciation that impairs the ability of the fund to preserve the value of the corpus after inflation, fees and the yearly spending distribution. The endowment's broadly diversified portfolio is designed to reduce the volatility of returns. Also, the endowment is invested in asset classes that are projected to perform well and act as a hedge in environments that could cause prolonged or severe asset depreciation such as high inflation or deflation. Risk management is a dynamic process that takes into account general market developments, the proliferation of new investments and the changing nature of correlation across asset classes. The University and its Investment Committee are responsible for this process, monitoring and managing the factors pertaining to credit, liquidity, market and operational risks.

Strategies Employed for Achieving Objectives

To satisfy its long-term return objectives, the University relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized gains) and current income (interest and dividends, etc.). The University targets a diversified asset allocation that places emphasis on global equities, diversifying strategies, private markets, real assets and fixed income strategies to achieve its long-term return objectives within prudent risk constraints.

Spending Policy and the Investment Objectives Relationship to Spending Policy

University Administration is authorized to distribute for spending from all endowment funds invested in the Investment Pool that have sufficient realized and unrealized capital gains an amount equal to seventy percent (70%) of the spending calculated for the previous fiscal year increased by an inflation factor to be determined each fiscal year (1% for fiscal year 2017), and a percent determined for each fiscal year (4.55% for fiscal year 2017) of thirty percent (30%) of the four-quarter average of the Investment Pool per share market value for the preceding calendar year multiplied by the number of shares outstanding at the end of that calendar year. In establishing this policy, the University considers 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 its purchasing power by growing at a rate at least equal to planned payouts and inflationary increases. Additional real growth will be provided through new gifts and excess investment returns.

7. Fair Value of Financial Instruments

The University complies with ASC 820, *Fair Value Measurement*. This codification provides a definition for fair value, as well as establishing a framework for measuring it and expanding disclosures about fair value measurements. The financial assets recorded at fair value on a recurring basis primarily relate to investments. ASC 820 establishes a fair value hierarchy that distinguishes between market participant assumptions based on market data obtained from sources independent of the reporting entities (observable inputs that are classified within Levels 1 and 2 of the hierarchy) and the reporting entities' own assumptions about market participant assumptions (unobservable inputs classified within Level 3 of the hierarchy).

Additional disclosures are required under ASC 820, including segregating asset values among the three levels that identify how investments are valued. In general, fair values determined by Level 1 inputs utilize quoted prices (unadjusted) in active markets for identical assets. Fair values determined by Level 2 inputs utilize data points that are observable, such as quoted prices for comparable assets, interest rates and yield curves. Fair values determined by Level 3 inputs are unobservable data points for the assets and include situations where there is little, if any, market activity for the assets.

Effective in the year ended May 31, 2016, the University retrospectively adopted the provisions of FASB ASU 2015-07, *Fair Value Measurement: Disclosures for Investments in Certain Entities that Calculate NAV per Share (or its Equivalent)*. ASU 2015-07 removes the requirement to classify within the fair value hierarchy table in Levels 2 or 3 investments in certain funds measured at NAV or its equivalent as a practical expedient to estimate fair value.

ASC 825, *Financial Instruments*, permits entities to choose to measure financial instruments and other items at fair value. The unrealized gains and losses on items for which the fair value option has been elected would be classified as revenue. For financial statement purposes (balance sheets), the University reports marketable securities, funds held in trust by others and equity method investments at fair value. Venture capital, real estate and other investments (other than equity method investments) are carried on the cost basis.

Notes and bonds payable are carried at the amount of debt incurred, net of unamortized issuance costs and unamortized premiums and discounts adjusted for principal payments made. Annuity obligations are valued for financial statement purposes at fair value using the present value of future payments discounted at the prevailing interest rates of comparable debt instruments (Level 2 valuation technique). Annuity obligations value was $7,717 as of May 31, 2017 and $6,498 as of May 31, 2016.

(Dollars in Thousands)

The University entered into an agreement during fiscal year 2015 to hedge a portion of the cost of electricity from January 1, 2018 through December 31, 2026. The transaction allows the University to accurately budget future costs and limit the effect of unexpected changes in utility prices. The estimated fair value of the arrangement, using Level 2 valuation techniques, was a liability of $2,939 and $1,395 as of May 31, 2017 and May 31, 2016, respectively. The change in value is reported as institutional support expense on the consolidated statements of activities. The fair value of the agreement is the estimated amount the University would pay to terminate the contract as of the respective fiscal year ends.

The following table presents information about the University's investments at fair value, the fair value hierarchy utilized to determine such fair value, and the strategies related to them as of May 31, 2017:

	Quoted in Active Markets (Level 1)	Observable Inputs (Level 2)	Unobservable Inputs (Level 3)	Net Asset Value	Total
Short-term paper	$ 82,612	$ -	$ -	$ -	$ 82,612
Stocks	184,941	-	-	-	184,941
Bonds	270,216	1,775	-	-	271,991
Venture capital	-	-	976	41,518	42,494
Mortgage and other notes receivable	-	5,731	-	-	5,731
Real Estate:					
Real Properties					
Directly held real estate	-	125	154	-	279
Real estate funds	-	-	-	13,365	13,365
Timber funds	-	-	-	7,514	7,514
Mineral rights	-	34,371	-	-	34,371
Funds held in trust by others	-	-	21,004	-	21,004
Other Investments:					
Private Equity	-	-	-	215,616	215,616
Diversifying strategies:					
Single strategy hedge funds	-	-	-	214,920	214,920
Multi strategy hedge funds	-	-	-	180,218	180,218
Side pockets/private-like hedge funds	-	-	-	1,876	1,876
Equity funds without daily liquidity:					
Domestic equities, long only	-	-	-	174,713	174,713
International equities emerging markets	-	-	-	50,427	50,427
International equities developed markets	-	-	-	203,380	203,380
Multi strategy equity funds	-	-	1,106	-	1,106
Fixed Income funds without daily liquidity	-	31	476	13,879	14,386
Equity method investments (Timber Fund)	-	-		15,267	15,267
Total Investments	$ 537,769	$ 42,033	$ 23,716	$ 1,132,693	$ 1,736,211

The University has unfunded commitments of $10,880, $12,210 and $165,211 in the venture capital, real estate funds, private equity and other investments categories, respectively.

(Dollars in Thousands)

The following table presents information about the University's investments at fair value, the fair value hierarchy utilized to determine such fair value, and the strategies related to them as of May 31, 2016:

	Quoted in Active Markets (Level 1)	Observable Inputs (Level 2)	Unobservable Inputs (Level 3)	Net Asset Value	Total
Short-term paper	$ 60,091	$ -	$ -	$ -	$ 60,091
Stocks	170,918	-	-	-	170,918
Bonds	226,382	2,197	-	-	228,579
Venture capital	-	-	897	49,057	49,954
Mortgage and other notes receivable	-	6,162	-	-	6,162
Real Estate:					
Real Properties					
Directly held real estate	-	1,433	154	-	1,587
Real estate funds	-	-	-	5,892	5,892
Timber funds	-	-	-	11,348	11,348
Mineral rights	-	36,191	-	-	36,191
Funds held in trust by others	-	4,601	13,915	-	18,516
Other Investments:					
Private Equity	-	-	-	192,843	192,843
Diversifying strategies:					
Single strategy hedge funds	-	-	-	198,100	198,100
Multi strategy hedge funds	-	-	-	167,383	167,383
Side pockets/private-like hedge funds	-	-	-	2,131	2,131
Equity funds without daily liquidity:					
Domestic equities, long only	-	-	-	157,650	157,650
International equities emerging markets	-	-	-	54,155	54,155
International equities developed markets	-	-	-	184,950	184,950
Multi strategy equity funds	-	-	992	-	992
Fixed Income funds without daily liquidity	-	-	486	12,793	13,279
Equity method investments (Timber Fund)	-	-		19,690	19,690
Total Investments	$ 457,391	$ 50,584	$ 16,444	$ 1,055,992	$ 1,580,411

At May 31, 2016, the University had unfunded commitments of $3,038, $13,652 and $180,263 in the venture capital, real estate funds, private equity and other investments categories, respectively.

The University's policy is to recognize transfers among levels of the fair value hierarchy on the date of the event or change in circumstances that caused the transfer. There were transfers of $4,601 into Level 3 from Level 2 during fiscal year 2017 and no transfers into or out of Level 1, Level 2, or Level 3 during fiscal year 2016.

(Dollars in Thousands)

For fiscal years 2017 and 2016, changes in fair value for assets using significant unobservable inputs (Level 3) is as follows after the retroactive application of ASU 2015-07, *Fair Value Measurement: Disclosures for Investments in Certain Entities that Calculate NAV per Share (or its Equivalent)*:

2017	Opening Balance	Transfers In	Realized Gains	Unrealized Gains	Sales	Purchases	Ending Balance
Venture capital	$ 897	$ -	$ -	$ -	$ (79)	$ 158	$ 976
Real estate	154	-	-	-	-	-	154
Funds held in trust	13,915	4,601	-	2,364	(124)	248	21,004
Other investments	1,478	-	-	137	(33)	-	1,582
Total	$ 16,444	$ 4,601	$ -	$ 2,501	$ (236)	$ 406	$ 23,716

2016	Opening Balance	Transfers In	Realized Gains (Losses)	Unrealized Gains (Losses)	Sales	Purchases	Ending Balance
Venture capital	$ 797	$ -	$ -	$ -	$ -	$ 100	$ 897
Real estate	290	-	-	(136)	-	-	154
Funds held in trust	5,601	-	(310)	919	(361)	8,066	13,915
Other investments	1,614	-	36	(134)	(70)	32	1,478
Total	$ 8,302	$ -	$ (274)	$ 649	$ (431)	$ 8,198	$ 16,444

(Dollars in Thousands)

The following table presents the liquidity of the University's investments at fair value at May 31, 2017:

	Within 30 Days[1]	Quarterly[2]	Semi-Annual or Annual[3]	Illiquid[4]	Total
Venture capital	$ -	$ -	$ -	$ 42,494	$ 42,494
Real Estate:					
Real Properties					
Directly held real estate	-	-	-	279	279
Real estate funds	-	-	-	13,365	13,365
Timber funds	-	-	-	7,514	7,514
Mineral rights	-	-	-	34,371	34,371
Funds held in trust by others	-	-	-	21,004	21,004
Other Investments:					
Private Equity	-	-	-	215,616	215,616
Diversifying strategies:					
Single strategy hedge funds	-	61,538	109,277	44,105	214,920
Multi strategy hedge funds	-	116,409	5,472	58,337	180,218
Side pockets/private-like hedge funds	-	-	-	1,876	1,876
Equity funds without daily liquidity:					
Domestic equities, long only	-	53,416	54,836	66,461	174,713
International equities emerging markets	48,136	2,291	-	-	50,427
International equities developed markets	134,324	26,369	-	42,687	203,380
Multi strategy equity funds	1,106	-	-	-	1,106
Fixed Income funds without daily liquidity	14,356	-	-	30	14,386
Equity method investments	-	-	-	15,267	15,267
Total	$ 197,922	$ 260,023	$ 169,585	$ 563,406	$ 1,190,936
Level 1 Securities					537,769
Other investments not subject to redemption terms					7,506
Total Investments					$ 1,736,211

[1] With 3 business days to 60 days notice
[2] With 30 to 90 days notice
[3] With 45 to 90 days notice
[4] Includes funds under lock up as of May 31, 2017

(Dollars in Thousands)

The following table presents the liquidity of the University's investments at fair value at May 31, 2016:

	Within 30 Days[1]	Quarterly[2]	Semi-Annual or Annual[3]	Illiquid[4]	Total
Venture capital	$ -	$ -	$ -	$ 49,954	$ 49,954
Real Estate:					
Real Properties					
Directly held real estate	-	-	-	1,587	1,587
Real estate funds	-	-	-	5,892	5,892
Timber funds	-	-	-	11,348	11,348
Mineral rights	-	-	-	36,191	36,191
Funds held in trust by others	-	-	-	18,516	18,516
Other Investments:					
Private Equity	-	-	-	192,843	192,843
Diversifying strategies:					
Single strategy hedge funds	-	55,390	103,150	39,560	198,100
Multi strategy hedge funds	-	105,515	5,055	56,813	167,383
Side pockets/private-like hedge funds	-	-	-	2,131	2,131
Equity funds without daily liquidity:					
Domestic equities, long only	-	47,560	50,230	59,860	157,650
International equities emerging markets	37,533	16,622	-	-	54,155
International equities developed markets	133,718	20,652	-	30,580	184,950
Multi strategy equity funds	992	-	-	-	992
Fixed Income funds without daily liquidity	13,279	-	-	-	13,279
Equity method investments (Timber Fund)	-	-	-	19,690	19,690
Total	$ 185,522	$ 245,739	$ 158,435	$ 524,965	$ 1,114,661
Level 1 Securities					457,391
Other investments not subject to redemption terms					8,359
Total Investments					$ 1,580,411

[1] With 3 business days to 60 days notice
[2] With 30 to 90 days notice
[3] With 45 to 90 days notice
[4] Includes funds under lock up as of May 31, 2016

(Dollars in Thousands)

8. Property, Plant and Equipment

Plant assets include net interest expense of $2,361 and $2,038 capitalized for construction bond projects during fiscal years 2017 and 2016, respectively, and included in property, plant and equipment in the following table:

	2017	2016
Land	$ 176,950	$ 176,011
Land improvements	110,436	105,082
Buildings	1,007,032	960,015
Equipment	109,725	101,813
Art	40,312	37,939
Other assets	19,543	19,316
Construction in progress	73,404	60,236
Total property, plant and equipment	$ 1,537,402	$ 1,460,412
Less accumulated depreciation	(468,648)	(432,263)
Total, net of accumulated depreciation	$ 1,068,754	$ 1,028,149

The fair value of a liability for the legal obligation for asbestos and lead paint abatement associated with the retirement of long-lived assets is recognized in the period in which it is incurred, at the present value of expected future cash flows and is added to the carrying value of the associated asset to be depreciated over the asset's useful life.

The following table summarizes the change in the asset retirement obligation for fiscal years ended May 31, 2017 and 2016:

	2017	2016
Asset retirement obligations at beginning of year	$ 16,935	$ 16,288
Disposal of asset retirement obligations	(15)	(207)
Decrease in property, plant and equipment, net of accumulated depreciation	(99)	(141)
Current year accretion and depreciation expense	1,031	995
Asset retirement obligations at end of year	$ 17,852	$ 16,935

9. Accounts Payable and Accrued Expenses

The University has $196,547 and $189,316 reported as accounts payable and accrued expenses as of May 31, 2017 and 2016, respectively. Included in these amounts is postretirement benefit obligations, the present value of conditional asset retirement obligations and performance on a long-term lease obligation, which are adjusted annually. Due to the use of present value calculations or the short maturity of the obligations included in accounts payable and accrued expenses, the carrying values reflected on the consolidated financial statements approximate their fair values.

(Dollars in Thousands)

10. Long-term Debt

Long-term debt as of May 31 consists of the following:

	2017	2016
2007 Serial Bonds; maturing from 2026 through 2029 with fixed interest rate of 5.25% and Term Bonds maturing in 2032 with a fixed rate of 4.30%; secured by unrestricted receivables	$ 21,240	$ 75,630
2009 Serial Bonds; maturing from 2016 through 2029 with fixed interest rates ranging from 4.00% to 5.00% and Term Bonds maturing in 2032 and 2036 with fixed interest rates of 4.25% and 5.00%, respectively; secured by unrestricted receivables	124,050	129,845
2010 Serial Bonds; maturing from 2016 through 2030 with fixed interest rates ranging from 3.00% to 5.00% and Term Bonds maturing in 2035 and 2041 with a fixed interest rate of 5.00%; secured by unrestricted receivables	109,710	112,015
2013A Serial Bonds; maturing from 2029 through 2033 with fixed interest rates ranging from 3.25% to 5.00% and Term Bonds maturing in 2038 with a fixed interest rate of 5.00% and maturing in 2042 with fixed interest rates of 4.00% and 5.00%; secured by unrestricted receivables	99,195	99,195
2013B Serial Bonds; maturing from 2016 through 2028 with fixed interest rates ranging from 0.92% to 3.62% and Term Bonds maturing in 2033 with a fixed interest rate of 4.16%; secured by unrestricted receivables	75,630	80,400
2016A Serial Bonds; maturing from 2020 through 2035 with fixed interest rates ranging from 2.50% to 5.00% and Term Bonds maturing from 2036 through 2045 with a fixed interest rate of 5.00%; secured by unrestricted receivables	118,545	118,545
2016B Serial Bonds; maturing from 2023 through 2031 with fixed interest rates ranging from 2.26% to 3.42% and Term Bonds maturing from 2032 through 2045 with a fixed interest rates ranging from 3.80% to 3.95%; secured by unrestricted receivables	25,250	25,250
Private Bank Loan; maturing from 2017 through 2032 with fixed interest rate of 2.35%; secured by unrestricted receivables	48,860	-
Total long-term debt payable prior to unamortized net premium and issuance costs	$ 622,480	$ 640,880
Unamortized issuance costs included in long-term debt	(5,284)	(5,141)
Unamortized net premium	42,059	46,048
Total long-term debt, net	$ 659,255	$ 681,787

(Dollars in Thousands)

On February 14, 2017, the University received funds from a loan entered into on October 1, 2015. The funds were placed in escrow with the trustee of the Series 2007 bonds. The trustee defeased $48,875 in par value using these proceeds and existing escrow funds. The defeased bonds were redeemed on April 1, 2017.

On May 27, 2016, the University issued Series 2016A tax-exempt and Series 2016B taxable bonds totaling $143,795. The majority of the proceeds were used to purchase securities with a fair value of $111,706 which are being held in escrow in order to refund Series 2009 bonds with a par value of $102,600 in 2019. The remaining proceeds are expected to partially fund various construction projects including parking facilities, child care facilities, and an aquatics center. As of May 31, 2017, $21,627 of proceeds from the Series 2016A bonds and $25,127 of proceeds from the Series 2016B bonds are invested in bonds and cash and cash equivalents.

On April 16, 2013, the University issued Series 2013A and Series 2013B bonds totaling $189,285. The proceeds of the Series 2013A tax-exempt bonds are being used for various construction projects including the new Residential Commons, renovation of existing educational facilities and housing facilities, the Dr. Bob Smith Health Center, and to purchase property on the east side of campus for future University growth. The proceeds of the Series 2013B taxable bonds are being used to partially fund the building of the SMU Tennis Center, renovate Moody Coliseum, equip a distributed antenna system, refund a portion of a prior bond issuance, and purchase property on the east side of campus. As of May 31, 2017, $17,546 of proceeds from the Series 2013A bonds and $13,843 of proceeds from the Series 2013B bonds are invested in cash and cash equivalents.

Debt issuance costs of $5,284 and $5,141 as of May 31, 2017 and 2016, respectively, are recorded as a reduction of long-term debt. All bond issuance costs are amortized using the straight-line method over the lives of the bonds.

In addition, the University has cash and securities in escrow with the trustee bank as of May 31, 2017, with a fair value totaling $1,775 that relates to a donor gift that will be applied to bond principal of $1,630 on the Series 2007 bonds.

Interest expense on long-term debt was $21,067 and $18,391 for the fiscal years ended May 31, 2017 and 2016, respectively. As of May 31, 2017, the University had scheduled principal maturities for the following fiscal years:

2018	$ 18,900
2019	19,705
2020	20,615
2021	28,935
2022	30,210
Thereafter	504,115
	$ 622,480

11. Related Party Transactions

In the ordinary course of business, the University may have business transactions with entities in which University board members or employees have an interest. Although generally such transactions are immaterial, the University does engage in such business transactions that may be material. The University has invested funds totaling $5,525 and $5,799 in fiscal years 2017 and 2016, respectively, with investment firms with which board members are affiliated.

(Dollars in Thousands)

12. Postemployment Benefits

The University accrues obligations for certain other future postemployment benefits payable to former or inactive employees, if they are determinable. The University has postemployment benefit obligations of $925 and $855 in fiscal year 2017 and 2016, respectively.

13. Postretirement Healthcare Benefits

The University provides postretirement healthcare benefits for employees who meet minimum age and service requirements and retire from the University. These benefits are provided by an insured Medicare supplement product with no lifetime maximum. The funding for the premium of this product is shared between the University and plan participants.

The University accrues the expected cost of providing postretirement benefits, other than pensions, during the years that employees render services. The accumulated postretirement benefit obligation (APBO) initially recognized in fiscal year 1994 was amortized over twenty years.

Actuarial assumptions used to determine the value of the APBO and the benefit costs included discount rates of 3.80% and 3.68% per annum for fiscal years 2017 and 2016, respectively. Healthcare cost trends are graded from 8.0% in 2017 to 5.5% in 2023.

ASC 715, *Compensation – Retirement Benefits*, requires the funded status of the postretirement benefit plan to be reported as an asset (for overfunded plans) or a liability (for underfunded plans). ASC 715 also requires disclosure of the incremental effect of adopting the standard on certain individual line items of the consolidated balance sheets.

The components of the net periodic benefit cost for the year ended May 31 are as follows:

	2017	2016
Service cost	$ 557	$ 685
Interest cost	1,749	1,756
Amortization:		
Prior service cost (credit)	(25)	(330)
Unrecognized loss	1,357	949
Net periodic benefit cost	$ 3,638	$ 3,060

The unrecognized loss for the defined benefit postretirement plan that will be amortized from unrestricted net assets into net periodic benefit cost over the next fiscal year and is a loss of $1,340.

(Dollars in Thousands)

Net periodic benefit cost and other changes in plan assets and benefit obligations recognized in unrestricted net assets in 2017 and 2016 are as follows:

	2017	2016
Net periodic benefit cost recognized	$ 3,638	$ 3,060
Other changes in plan assets and benefit obligations recognized in unrestricted net assets:		
Net actuarial gain (loss)	(694)	2,108
Prior service cost	25	330
Total recognized in unrestricted net assets	(669)	2,438
Total recognized in net periodic benefit cost and unrestricted net assets	$ 2,969	$ 5,498

The accrued postretirement benefit obligations recognized in the University's consolidated balance sheets as of May 31 pursuant to the recognition provisions of ASC 715 are as follows:

	2017	2016
Benefit obligation, beginning of year	$ 48,708	$ 45,216
Service cost	557	685
Interest cost	1,749	1,756
Plan participants' contribution	1,240	1,163
Benefit payments	(3,631)	(3,169)
Actuarial loss	663	3,057
Benefit obligation, end of year	$ 49,286	$ 48,708

The accumulated postretirement benefit includes a current liability of $2,539 for the claims and expenses that are expected to be paid out in the coming year and $46,747 of noncurrent postretirement benefit liabilities.

Healthcare cost trend assumptions have a significant impact on the amounts reported. A one percentage point increase in the assumed healthcare cost trend rate would result in a $112 increase in the net periodic postretirement benefit cost recognized in fiscal year 2017 and a $2,318 increase in the accumulated postretirement benefit obligation for healthcare benefits as of May 31, 2017. A one percentage point decrease in the assumed healthcare cost trend rate would result in a $108 decrease in the net periodic postretirement benefit cost recognized in fiscal year 2017, and a $2,220 decrease in the accumulated postretirement benefit obligation for healthcare benefits as of May 31, 2017.

(Dollars in Thousands)

As of May 31, 2017, the University had expected benefit payments in the following fiscal year:

2018	$	2,539
2019		2,672
2020		2,747
2021		2,961
2022		3,156
2023-2027		16,891
	$	30,966

The University also has a defined contribution retiree medical plan intended to replace the University's defined benefit retiree medical plan. Under this program, both the University and employees contribute monthly to the employees' retiree medical accounts. The University contributed $2,391 and $2,006 to this program in fiscal years 2017 and 2016, respectively. The current defined benefit retiree medical plan will be phased out concurrently with funding of this defined contribution plan.

14. Retirement Plan

Full-time and part-time benefits-eligible employees are eligible for the 403(b) Retirement Plan at age 21. Full-time employees are required to enroll if age 36 or older. Retirement benefit expenses under this plan were approximately $17,723 and $17,102 in fiscal years 2017 and 2016, respectively.

15. Net Assets Released from Restrictions

The sources of net assets released from temporary restrictions by incurring expenses satisfying the restricted purposes or by occurrence of events specified by donors were as follows:

	2017	2016
Acquisition of buildings and equipment	$ 17,248	$ 23,878
Instruction, research, departmental support, scholarships and other	86,268	71,390
	$ 103,516	$ 95,268

(Dollars in Thousands)

16. Restrictions and Limitations on Net Asset Balances

Temporarily and permanently restricted net assets as of May 31 consist of the following:

	2017		2016	
	Temporarily Restricted	Permanently Restricted	Temporarily Restricted	Permanently Restricted
Donor-restricted endowment	$ 490,282	$ 693,757	$ 500,116	$ 666,344
Annuity trust and unitrust	677	4,890	324	3,937
Student loan funds	-	12,568	-	12,368
Gifts and other unexpended revenues and gains available for:				
Acquisition of building and equipment	76,595	-	81,742	-
Instruction, research, departmental support, scholarships and other	52,336	-	63,577	-
	$ 619,890	$ 711,215	$ 645,759	$ 682,649

17. Commitments and Contingencies

The University is contractually obligated for approximately $24,210 as of May 31, 2017 for construction projects with scheduled completion dates through fiscal year 2018.

The University is party to various lease agreements which requires the University to make future lease payments and other agreements that entitle the University to future independent operations revenues. During the fiscal year, the University incurred $853 and $745 in operating lease expenses for facilities and equipment and received $4,120 and $4,085 in rental revenue in the fiscal years ended May 31, 2017 and 2016, respectively. As of May 31, 2017, the University has lease commitments and future lease revenue for the following future fiscal years:

	Lease Commitments	Lease Revenues
2018	$ 262	$ 4,151
2019	52	3,275
2020	20	2,845
2021	20	2,879
2022	20	1,059
Thereafter	83	3,064
	$ 457	$ 17,273

Accounts payable and accrued expenses include $44,607 reflecting the fair value of a ground lease contribution to The George W. Bush Foundation for the location, construction and operation of the George W. Bush Presidential Library Center facilities at the University as of May 31, 2017. This balance is being accreted over the 249 years of the lease, including extensions.

The University has committed to capital draws totaling $717,421 for venture capital, real estate funds and other investments, of which $518,077 had been drawn as of May 31, 2017. The University has committed to pay draws as required for the remaining $188,301 through fiscal year 2027.

(Dollars in Thousands)

The University participates in the federal Title IV student financial aid programs and must fulfill federal requirements to qualify for these programs. Management is of the opinion that the University is in compliance with the federal requirements.

The University enters into contracts with vendors, some of which may have penalties for early termination. It is the University's practice when entering into such contracts to not cancel the contracts prior to the end of their term. If, from a business standpoint, including consideration of the cancellation penalty, the University does cancel any such contract, it does not believe there would be any material adverse effect on the University's consolidated financial statements.

The University is a defendant in several legal actions. The outcomes of these actions cannot be determined at this time, but management is of the opinion that liability, if any, from these actions will not have a material effect on the University's financial position.

The University has entered into various agreements with banks to guarantee the construction loan debt for sorority houses built on University land. Under these agreements if the debtors default on their obligations, the University may be required to satisfy all or part of the remaining obligation. The liability for these guarantees has been recorded as accounts payable and accrued expenses with an offsetting amount recorded as other assets. The following guarantees were outstanding at the end of the respective fiscal years. The maximum amount of the guarantee is equal to the amount outstanding. The Kappa Alpha Theta guarantee was issued during fiscal year 2016.

	2017	2016	Expiration
Pi Beta Phi	$ 380	$ 503	2021
Tri Delta	3,062	3,062	2027
Chi Omega	2,366	2,739	2028
Delta Gamma	2,500	2,500	2029
Kappa Alpha Theta	4,939	1,479	2027
	$ 13,247	$ 10,283	

18. Tax Status

The University has received a determination letter from the Internal Revenue Service indicating it is exempt from federal income taxes under Section 501(a) of the Internal Revenue Code of 1986 (the Code), as amended, as an organization described in Section 501(c)(3). Pony Properties, Inc., the Southern Methodist University Foundation for Research, Peruna Holdings Corporation, Mustang Mockingbird Properties, SMU Corp., Peruna East Corporation, and SMU Golf Foundation are controlled corporations included in the University's consolidated financial statements and exempt from federal income taxes under Section 501(a) of the Code, as amended, as organizations described in Sections 501(c)(3) and 501(c)(7).

The University, Pony Properties, Inc., the Southern Methodist University Foundation for Research, Peruna Holdings Corporation, Mustang Mockingbird Properties, SMU Corp., Peruna East Corporation, and SMU Golf Foundation have been classified as organizations that are not private foundations under Sections 509(a)(1) and 509(a)(3), and as such, contributions to these entities qualify for deduction as charitable contributions. The University and its controlled corporations are exempt from federal income taxes except to the extent they have unrelated business income. As discussed in Note 1, Peruna Properties, Inc., Mustang Mockingbird Corporation, and Mustang Airline Corporation were dissolved during the fiscal year ended May 31, 2017.

The University complies with the requirements of ASC 740, *Income Taxes*, which prescribes a recognition threshold and measurement requirements for financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. In addition, ASC 740 provides guidance on recognition, classification, and accounting in interim periods and disclosure requirements for uncertain tax provisions. The University and its controlled corporations do not have any uncertain tax positions and, therefore, have recorded no liability or benefit for such positions for the years ended May 31, 2017 and 2016.

19. Subsequent Events

The University has evaluated subsequent events from the balance sheet date through September 8, 2017, the issue date of the financial statements, and determined that there are no other items to disclose.