SOUTHERN METHODIST UNIVERSITY

CONSOLIDATED FINANCIAL STATEMENTS

May 31, 2016 and 2015

(With Independent Auditors' Report Thereon)

KPMG LLP
Suite 1400
2323 Ross Avenue
Dallas, TX 75201-2709

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, 2016 and 2015, and the related consolidated statements of activities and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers 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.

KPMG LLP is a Delaware limited liability partnership,
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("KPMG International"), a Swiss entity.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Southern Methodist University as of May 31, 2016 and 2015, and the changes in their net assets and their cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

KPMG LLP

Dallas, Texas
September 9, 2016

Southern Methodist University
Consolidated Balance Sheets
As of May 31, 2016, and May 31, 2015
(Dollars in Thousands)

Assets	2016	2015
Cash and cash equivalents (restricted for capital projects: $121,210 in 2016 and $97,090 in 2015)	$ 235,399	$ 176,006
Accounts receivable, less allowance for doubtful accounts of $1,802 in 2016 and $1,041 in 2015	25,177	25,501
Pledges receivable, net	145,188	130,789
Investments:		
Short-term paper (restricted for debt retirement: $3,189 in 2016 and $2,542 in 2015)	$ 60,091	$ 147,328
Stocks	170,918	203,323
Bonds (restricted for debt retirement: $115,153 in 2016 and $6,102 in 2015)	228,579	118,631
Venture capital	35,948	40,283
Mortgage and other notes receivable, less allowance for doubtful accounts of $561 in 2016 and $565 in 2015	6,313	7,318
Real estate	15,723	27,695
Funds held in trust by others	18,516	20,992
Other	861,044	711,775
Total investments	$ 1,397,132	$ 1,277,345
Property, plant and equipment, at cost, net of accumulated depreciation	1,028,149	987,238
Other assets	21,883	15,776
Total Assets	$ 2,852,928	$ 2,612,655

Liabilities and Net Assets	2016	2015
Liabilities:		
Accounts payable and accrued expenses	$ 189,316	$ 188,809
Deposits and deferred income	39,750	39,278
Bonds payable	681,787	552,300
Advances for student loans	3,041	2,990
Other liabilities	1,606	429
Total Liabilities	$ 915,500	$ 783,806
Net Assets:		
Unrestricted	$ 609,020	$ 557,241
Temporarily restricted	645,759	615,993
Permanently restricted	682,649	655,615
Total Net Assets	$ 1,937,428	$ 1,828,849
Total Liabilities and Net Assets	$ 2,852,928	$ 2,612,655

See accompanying notes to the consolidated financial statements.

Southern Methodist University
Consolidated Statements of Activities
For the Fiscal Years Ended May 31, 2016, and May 31, 2015
(Dollars in Thousands)

	2016				2015			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenue:								
Tuition and fees	$ 453,064	$ -	$ -	$ 453,064	$ 429,679	$ -	$ -	$ 429,679
Scholarship allowance - tuition and fees	(155,346)	-	-	(155,346)	(149,505)	-	-	(149,505)
Net tuition	$ 297,718	$ -	$ -	$ 297,718	$ 280,174	$ -	$ -	$ 280,174
Gifts	29,472	53,553	27,961	110,986	18,696	52,270	47,297	118,263
Endowment income (loss), net of investment expenses	10,812	(138)	716	11,390	15,015	233	1,401	16,649
Net realized and unrealized gains (losses) on investments	4,065	71,619	(1,643)	74,041	2,493	50,298	110	52,901
Grants and contracts	33,038	-	-	33,038	30,278	-	-	30,278
Organized activities	7,440	-	-	7,440	8,435	-	-	8,435
Other sources	29,988	-	-	29,988	29,234	-	-	29,234
Auxiliary activities	56,427	-	-	56,427	53,268	-	-	53,268
Scholarship allowance - room and board	(3,617)	-	-	(3,617)	(3,669)	-	-	(3,669)
Independent operations	3,514	-	-	3,514	3,895	-	-	3,895
Total revenue	$ 468,857	$ 125,034	$ 27,034	$ 620,925	$ 437,819	$ 102,801	$ 48,808	$ 589,428
Net assets released from restrictions	95,268	(95,268)	-	-	97,182	(97,182)	-	-
Total adjusted revenue	$ 564,125	$ 29,766	$ 27,034	$ 620,925	$ 535,001	$ 5,619	$ 48,808	$ 589,428
Expenses:								
Program expenses:								
Instructional	$ 175,784	$ -	$ -	$ 175,784	$ 172,905	$ -	$ -	$ 172,905
Academic support	62,893	-	-	62,893	61,869	-	-	61,869
Research	28,624	-	-	28,624	27,101	-	-	27,101
Organized activities	11,581	-	-	11,581	11,227	-	-	11,227
Student services	43,192	-	-	43,192	44,700	-	-	44,700
Auxiliary activities	74,044	-	-	74,044	74,240	-	-	74,240
Total program expenses	$ 396,118	$ -	$ -	$ 396,118	$ 392,042	$ -	$ -	$ 392,042
Institutional support	111,194	-	-	111,194	112,469	-	-	112,469
Independent operations	2,596	-	-	2,596	2,922	-	-	2,922
Total expenses	$ 509,908	$ -	$ -	$ 509,908	$ 507,433	$ -	$ -	$ 507,433
Postretirement plan changes other than net periodic postretirement benefit cost	2,438	-	-	2,438	(90)	-	-	(90)
Total expenses and actuarial adjustment	$ 512,346	$ -	$ -	$ 512,346	$ 507,343	$ -	$ -	$ 507,343
Change in net assets	$ 51,779	$ 29,766	$ 27,034	$ 108,579	$ 27,658	$ 5,619	$ 48,808	$ 82,085
Net assets at beginning of period	557,241	615,993	655,615	1,828,849	529,583	610,374	606,807	1,746,764
Net assets at end of period	$ 609,020	$ 645,759	$ 682,649	$ 1,937,428	$ 557,241	$ 615,993	$ 655,615	$ 1,828,849

See accompanying notes to the consolidated financial statements.

Southern Methodist University
Consolidated Statements of Cash Flows
For the Fiscal Years Ended May 31, 2016, and May 31, 2015
(Dollars in Thousands)

	2016	2015
Cash flows from operating activities:		
Change in net assets	$ 108,579	$ 82,085
Adjustments to reconcile change in net assets to net cash provided by (used for) operating activities:		
Depreciation	35,818	33,496
Bond-related amortization	(1,943)	(2,227)
Loss on disposal of property, plant and equipment	298	548
Increase in accounts and pledges receivable	(14,075)	(1,239)
(Increase) decrease in other assets	(6,107)	287
Increase (decrease) in accounts payable and accrued expenses for operations	(47)	10,379
Increase in deposits and deferred income	472	3,828
Increase in advances for student loans	51	61
Increase in other liabilities for operations	1,224	171
Contributions restricted for long-term investment	(50,830)	(56,599)
Noncash contributions	(10,046)	(13,356)
Net realized and unrealized gains on investments	(74,041)	(52,901)
Loss restricted for long-term investment	(1,021)	(1,899)
Annuity obligation payments	515	378
Net cash provided by (used for) operating activities	$ (11,153)	$ 3,012
Cash flows from investing activities:		
Purchase of property, plant and equipment	$ (74,456)	$ (82,957)
Proceeds from sales of property, plant and equipment	12	12
Purchase of investments	(450,931)	(234,459)
Proceeds from the sale of investments	411,644	254,260
Increase (decrease) in accounts payable and accrued expenses for investing activities	554	(17,346)
Disbursements of mortgage and other notes receivable	(475)	(787)
Principal payments received on mortgage and other notes receivable	1,479	1,033
Net cash used for investing activities	$ (112,173)	$ (80,244)
Cash flows from financing activities:		
Contributions restricted for long-term investment	$ 50,830	$ 56,599
Income restricted for long-term investment	1,021	1,899
Annuity obligation payments	(515)	(378)
Decrease in other liabilities from financing activities	(47)	(47)
Net proceeds from bond issuance	166,900	-
Long-term bond payments	(35,470)	(15,705)
Net cash provided by financing activities	$ 182,719	$ 42,368
Net increase (decrease) in cash and cash equivalents	59,393	(34,864)
Cash and cash equivalents at beginning of period	176,006	210,870
Cash and cash equivalents at end of period	$ 235,399	$ 176,006
Supplemental data:		
Gifts of investments, real estate and other	$ 7,463	$ 11,318
Gifts of property, plant and equipment	2,583	2,038
Grants of property, plant and equipment	-	23
Cash paid for interest	22,375	19,829

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.

The University currently has nine corporations under its control that are included in the consolidated financial statements. Peruna Properties, Inc., Peruna Holdings Corporation, Mustang Mockingbird Corporation, Mustang Mockingbird Properties, Mustang Airline Corporation and Peruna East Corporation are corporations the University established to acquire, own and manage, on behalf of the University, real estate adjacent to or in the near vicinity of the University campus. The University also established the Southern Methodist University Foundation for Research to support academic scholarship and scientific research in the public interest for the benefit of the University and to assist in fulfilling the educational and research purposes of the University. SMU Corp., in connection with the location of the George W. Bush Presidential Library and Museum at the University and the SMU Golf Foundation to participate in a public-private initiative to construct a world class golf facility in southern Dallas that will become the home of the University's Men's and Women's Golf teams and support other community activities. During the fiscal year end May 31, 2015, the University dissolved the Stadium Club, Inc. which operated a private club in the Gerald J. Ford Stadium as well as Pony Properties, Inc. which owned and managed real estate adjacent to the University 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. Fund-raising expenses of approximately $21,177 and $20,387 incurred by the University in fiscal years 2016 and 2015, respectively, are included primarily as institutional support expenses reported in the consolidated statements of activities.

During fiscal year 2015, the University undertook to restructure certain administrative processes in an effort to divert more of the University's funding to its primary mission. In accordance with Accounting Standards Codification (ASC) 420, *Exit or Disposal Cost Obligations,* expenses related to severances for employees departing during the fiscal year have been accrued on the 2015 consolidated statement 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 and certain certificates of deposit with maturities in excess of three months. 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 $13,792 and $24,604 as of May 31, 2016 and 2015, respectively. For the year ended May 31, 2016, the University has investments in venture capital funds, real estate and other investments that have fair values lower than cost by $16,955 that are not reported as permanently impaired. The aggregate related fair value of these 21 investments is $63,559.

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 $3,041 and $2,990 of refundable government advances and $387 and $381 of matching University funds in fiscal years 2016 and 2015, 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, 2016 includes the amount received from the students prior to May 31, 2016 for the 2016 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. 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. As a result of the adoption, $3,987 of unamortized bond issuance costs has been reclassified from other assets on the accompanying consolidated balance sheets as of May 31, 2015, and presented as a reduction to bonds payable. The adoption of this provision has no effect on net assets, consolidated statements of activities or consolidated statements of cash flows for the year ended May 31, 2015.

The University has also adopted certain provisions of FASB ASU No. 2016-1, *Recognition and Measurement of Financials Assets and Financial Liabilities*, which remove 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.

Certain prior year amounts on the consolidated balance sheets, consolidated statements of activities, consolidated statements of cash flows and the accompanying notes have been adjusted to be consistent with current year presentation.

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, short maturity 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. As of May 31, 2015, approximately $947 of the cash and cash equivalents value relates to certificates of deposit with maturities exceeding three months at the date of purchase. The fair value of these investments may fluctuate with market conditions. The fair value of cash, cash equivalents, and accounts receivable totaled $260,576 and $201,507 of which $3,758 and $5,285 represent donations restricted for property, plant and equipment as of May 31, 2016 and 2015, 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 4% to 7%. 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:

	2016	2015
In one year or less	$ 45,605	$ 45,399
Between one year and five years	105,223	93,634
More than five years	17,134	13,564
Less discount	(22,774)	(21,808)
	$ 145,188	$ 130,789

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

	2016	2015
Endowment for departmental programs and activities	$ 21,145	$ 18,313
Endowment for scholarships	11,515	12,581
Construction projects	37,206	23,032
Scholarships, departmental programs and activities	45,003	42,151
Purpose restriction met	30,319	34,712
	$ 145,188	$ 130,789

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:

	2016	2015
Contingent on donor's gift collections	$ -	$ 4,330
Matching donation/funding requirement	7,900	9,853
Other	1,750	1,500
	$ 9,650	$ 15,683

(Dollars in Thousands)

5. Investments

Total investments as of May 31 are as follows:

	2016		2015	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Short-term paper	$ 60,091	$ 60,091	$ 147,328	$ 147,328
Stocks	170,918	170,918	203,323	203,323
Bonds	228,579	228,579	118,631	118,631
Venture capital	35,948	49,954	40,283	69,081
Mortgage and other notes receivable, net	6,313	6,313	7,318	7,563
Real estate:				
Real properties	$ 15,723	$ 18,827	$ 27,695	$ 33,593
Mineral rights	-	36,191	-	57,560
Total real estate	$ 15,723	$ 55,018	$ 27,695	$ 91,153
Funds held in trust by others	18,516	18,516	20,992	20,992
Other investments:				
Private equity	$ 164,133	$ 192,843	$ 151,838	$ 194,954
Diversifying strategies	282,317	367,614	195,442	353,510
Equity funds without daily liquidity	381,921	397,747	351,077	421,691
Fixed income funds without daily liquidity	12,983	13,279	2,967	3,102
Equity method investments (carrying value is fair value)	19,690	19,690	10,451	10,451
Total other investments	$ 861,044	$ 991,173	$ 711,775	$ 983,708
Total investments	$ 1,397,132	$ 1,580,562	$ 1,277,345	$ 1,641,779

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 $1,125 and $1,926 in fiscal years 2016 and 2015, respectively. The fair value of split-interest agreements was $31,480 and $34,427 in fiscal years 2016 and 2015, 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 3.68% and 3.98% per annum in fiscal years 2016 and 2015, respectively. As of May 31, 2016 and 2015, the present values of the University's financial obligations to beneficiaries were $6,498 and $6,773, 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 $14,922 and $20,363 for the years ended May 31, 2016 and 2015, respectively, is net of related expenses, such as custodial fees and investment advisory fees. These expenses are approximately $11,947 and $11,566 for the years ended May 31, 2016 and 2015, respectively. Net realized and unrealized gains on investments totaled $74,041 and $52,901 for the years ended May 31, 2016 and 2015, respectively. Included in these amounts are realized and unrealized losses of approximately $6,805 for the year ended May 31, 2016 and realized and unrealized gains of approximately $13,575 for the year ended May 31, 2015, attributed to assets reported at fair value and realized gains attributed to assets reported at cost of approximately $81,301 and $39,326 for the years ended May 31, 2016 and 2015, 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 meet this 5% threshold and 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, 2016 and 2015, 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 $10,075 and $10,451 as of May 31, 2016 and 2015, respectively. As of May 31, 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 $9,615 as of May 31, 2016.

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 1,625 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, 2014	$ 72,356	$ 485,937	$ 580,793	$ 1,139,086
Gifts	-	-	47,292	47,292
Investment return:				
Investment income, net of distributions	1,232	77	1,398	2,707
Net realized and unrealized gains	3,436	49,389	-	52,825
Total investment return	4,668	49,466	1,398	55,532
Endowment gains transferred for spending	(3,691)	(53,213)	-	(56,904)
Funds functioning as endowment net transfers	(1,262)	-	-	(1,262)
Other revenues and transfers	-	965	156	1,121
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, 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

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

	2015			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	$ -	$ 483,155	$ 629,639	$ 1,112,794
Funds functioning as endowment	72,071	-	-	72,071
Balance as of May 31, 2015	$ 72,071	$ 483,155	$ 629,639	$ 1,184,865

	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

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

	2016	2015
With purpose restrictions	$ 72,100	$ 66,699
Without purpose restrictions	428,016	416,456
Total endowment funds classified as temporarily restricted net assets	$ 500,116	$ 483,155

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, 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 deficiencies relate to funds currently in this period, as a result the University's operations are not adversely effected by these deficiencies. There were no deficiencies of this nature as of May 31, 2015.

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 2016), and a percent determined for each fiscal year (4.60% for fiscal year 2016) 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.

Annuity obligations are valued for financial statement purposes at fair value using Level 2 valuation techniques. Notes and bonds payable are at the amount of debt incurred, adjusted for principal payments made and premium amortizations. The fair value of annuity obligations at the present value of future payments discounted at the prevailing interest rates of comparable debt instruments (Level 2 valuation technique) was $6,498 as of May 31, 2016 and $6,773 as of May 31, 2015.

(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 $1,395 and $171 as of May 31, 2016 and May 31, 2015, 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, 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	-	6,313	-	-	6,313
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	$ 50,735	$ 16,444	$ 1,055,993	$ 1,580,562

The University has unfunded commitments of $3,038, $13,652 and $180,263 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 as of May 31, 2015, including the fair value hierarchy utilized to determine such fair value as well as the strategies related to them:

	Quoted in Active Markets (Level 1)	Observable Inputs (Level 2)	Unobservable Inputs (Level 3)	Net Asset Value	Total
Short-term paper	$ 147,328	$ -	$ -	$ -	$ 147,328
Stocks	203,323	-	-	-	203,323
Bonds	116,417	2,214	-	-	118,631
Venture capital	-	-	797	68,284	69,081
Mortgage and other notes receivable	-	7,563	-	-	7,563
Real Estate:					
Real Properties					
Directly held real estate	-	4,213	290	-	4,503
Real estate funds	-	-	-	16,383	16,383
Timber funds	-	-	-	12,706	12,706
Mineral rights	-	57,560	-	-	57,560
Funds held in trust by others	-	15,391	5,601	-	20,992
Other Investments:					
Private Equity	-	-	-	194,954	194,954
Diversifying strategies:					
Single strategy hedge funds	-	-	-	198,475	198,475
Multi strategy hedge funds	-	-	-	152,547	152,547
Side pockets/private-like hedge funds	-	-	-	2,489	2,489
Equity funds without daily liquidity:					
Domestic equities, long only	-	-	-	187,832	187,832
International equities emerging markets	-	-	-	58,579	58,579
International equities developed markets	-	-	-	174,144	174,144
Multi strategy equity funds	-	-	1,136	-	1,136
Fixed Income funds without daily liquidity	-	-	478	2,624	3,102
Equity method investments (Timber Fund)	-	-		10,451	10,451
Total Investments	$ 467,068	$ 86,941	$ 8,302	$ 1,079,468	$ 1,641,779

At May 31, 2015, the University had unfunded commitments of $4,086, $13,226 and $142,852 in the venture capital, real estate funds, private equity and other investments categories, respectively.

(Dollars in Thousands)

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 no transfers into or out of Level 1, Level 2, or Level 3 during fiscal years 2016 and 2015.

For fiscal years 2016 and 2015, 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)*:

2016	Opening Balance	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

2015	Opening Balance	Realized Gains	Unrealized Gains (Losses)	Sales	Purchases	Ending Balance
Venture capital	$ 612	$ -	$ -	$ -	$ 185	$ 797
Real estate	290	-	-	(8)	8	290
Funds held in trust	5,688	108	(198)	(110)	113	5,601
Other investments	1,595	-	145	(190)	64	1,614
Total	$ 8,185	$ 108	$ (53)	$ (308)	$ 370	$ 8,302

(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	103,149	39,561	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	133,719	20,652	-	30,579	184,950
Multi strategy equity funds	992	-	-	-	992
Fixed Income funds without daily liquidity	13,279	-	-	-	13,279
Equity method investments	-	-	-	19,690	19,690
Total	$ 185,523	$ 245,739	$ 158,434	$ 524,965	$ 1,114,661
Level 1 Securities					457,391
Other investments not subject to redemption terms					8,510
Total investments					$ 1,580,562

[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)

The following table presents the liquidity of the University's investments at fair value at May 31, 2015:

	Within 30 Days[1]	Quarterly[2]	Semi-Annual or Annual[3]	Illiquid[4]	Total
Venture capital	$ -	$ -	$ -	$ 69,081	$ 69,081
Real Estate:					
Real Properties					
Directly held real estate	-	-	-	4,503	4,503
Real estate funds	-	-	-	5,933	5,933
Timber funds	-	-	-	23,157	23,157
Mineral rights	-	-	-	57,560	57,560
Funds held in trust by others	-	-	-	20,992	20,992
Other Investments:					
Private Equity	-	-	-	194,954	194,954
Diversifying strategies:					
Single strategy hedge funds	-	73,776	106,108	18,590	198,474
Multi strategy hedge funds	-	111,187	15,850	25,510	152,547
Side pockets/private-like hedge funds	-	-	-	2,489	2,489
Equity funds without daily liquidity:					
Domestic equities, long only	-	65,474	53,420	68,939	187,833
International equities emerging markets	37,659	20,884	37	-	58,580
International equities developed markets	152,298	21,844	-	-	174,142
Multi strategy equity funds	1,136	-	-	-	1,136
Fixed Income funds without daily liquidity	3,102	-	-	-	3,102
Equity method investments (Timber Fund)	-	-	-	10,451	10,451
Total	$ 194,195	$ 293,165	$ 175,415	$ 502,159	$ 1,164,934
Level 1 Securities					467,068
Other investments not subject to redemption terms					9,777
Total investments					$ 1,641,779

[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, 2015

8. Property, Plant and Equipment

Plant assets include net interest expense of $2,038 and $3,098 capitalized for construction bond projects during fiscal years 2016 and 2015, respectively, and included in property, plant and equipment in the following table (dollars in thousands):

	2016	2015
Land	$ 176,011	$ 176,012
Land improvements	105,082	82,659
Buildings	960,015	922,402
Equipment	101,813	97,010
Art	37,939	37,469
Other assets	19,316	18,077
Construction in progress	60,236	52,217
Total property, plant and equipment	$ 1,460,412	$ 1,385,846
Less accumulated depreciation	(432,263)	(398,608)
Total, net of accumulated depreciation	$ 1,028,149	$ 987,238

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, 2016 and 2015:

	2016	2015
Asset retirement obligations at beginning of year	$ 16,288	$ 15,852
Disposal of asset retirement obligations	(207)	(448)
Decrease in property, plant and equipment, net of accumulated depreciation	(141)	(69)
Current year accretion and depreciation expense	995	953
Asset retirement obligations at end of year	$ 16,935	$ 16,288

9. Accounts Payable and Accrued Expenses

The University has $189,316 and $188,809 reported as accounts payable and accrued expenses as of May 31, 2016 and 2015, 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. Bonds Payable

Bonds payable as of May 31 consist of the following:

	2016	2015
1985 Refunding Series; weekly demand put bonds paid in full on July 1, 2015; secured by unrestricted receivables supported by self liquidity	$ -	$ 19,200
2007 Serial Bonds; maturing from 2015 through 2029 with fixed interest rates ranging from 4.00% to 5.25% and Term Bonds maturing in 2032 with a fixed rate of 4.30%; secured by unrestricted receivables	75,630	80,870
2009 Serial Bonds; maturing from 2015 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	129,845	133,945
2010 Serial Bonds; maturing from 2015 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	112,015	114,215
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 2015 through 2028 with fixed interest rates ranging from 0.69% to 3.62% and Term Bonds maturing in 2033 with a fixed interest rate of 4.16%; secured by unrestricted receivables	80,400	85,130
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	-
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	-
Total bonds payable prior to unamortized net premium and issuance costs	$ 640,880	$ 532,555
Unamortized issuance costs included in bonds payable	(5,141)	(3,987)
Unamortized net premium	46,048	23,732
Total bonds payable	$ 681,787	$ 552,300

(Dollars in Thousands)

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 $116,145 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, 2016, $25,012 of proceeds from the Series 2016A bonds and $25,002 of proceeds from the Series 2016B bonds are invested in cash and cash equivalents.

On October 1, 2015, the University entered into a loan agreement under which a bank will provide the University with the funds to refund a portion of the Series 2007 bonds with a par value of $48,470 which become callable during fiscal year 2017. As of May 31, 2016, no amounts were outstanding and issuance costs of $268 have been included in other assets.

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 the 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, 2016, $48,330 of proceeds from the Series 2013A bonds and $19,122 of proceeds from the Series 2013B bonds are invested in cash and cash equivalents.

Debt issuance costs of $5,141 and $3,987 as of May 31, 2016 and 2015, respectively, are capitalized. All bond issuance costs are amortized using the straight-line method over the lives of the bonds.

As required by bond indenture agreements, the University had cash and securities that had fair values totaling $6,430 on deposit with the trustee bank as of May 31, 2015. These assets were restricted for the payment of principal and interest relating to $19,200 general obligation demand bonds included in long-term debt which matured and were paid on July 1, 2015.

In addition, the University has cash and securities in escrow with the trustee bank as of May 31, 2016, with a fair value totaling $2,197 that relates to a donor gift that will be applied to bond principal of $2,035 on the Series 2007 bonds.

Interest expense on bonds payable was $20,307 and $17,534 for the fiscal years ended May 31, 2016 and 2015, respectively. As of May 31, 2016, the University had scheduled principal maturities for the following fiscal years:

2017	$ 18,385
2018	18,935
2019	19,725
2020	20,745
2021	29,140
Thereafter	533,950
	$ 640,880

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 $5,799 and $6,591 in fiscal years 2016 and 2015, respectively, with investment firms with which board members are affiliated.

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 post-employment benefit obligations of $855 and $703 in fiscal year 2016 and 2015, 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 3.68% and 3.98% per annum for fiscal years 2016 and 2015, respectively. Health care cost trends are graded from 8.0% in 2016 to 5.0% 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 sheet.

(Dollars in Thousands)

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

	2016	2015
Service cost	$ 685	$ 777
Interest cost	1,756	1,756
Amortization:		
Prior service cost (credit)	(330)	132
Unrecognized loss	949	932
Net periodic benefit cost	$ 3,060	$ 3,597

The prior service cost and 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 are a credit of $25 and a loss of $1,357, respectively. The transition obligation has been completely amortized.

Net periodic benefit cost and other changes in plan assets and benefit obligations recognized in unrestricted net assets in 2016 and 2015 are as follows:

	2016	2015
Net periodic benefit cost recognized	$ 3,060	$ 3,597
Other changes in plan assets and benefit obligations recognized in unrestricted net assets:		
Net actuarial gain	2,108	42
Prior service cost (credit)	330	(132)
Total recognized in unrestricted net assets	2,438	(90)
Total recognized in net periodic benefit cost and unrestricted net assets	$ 5,498	$ 3,507

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:

	2016	2015
Benefit obligation, beginning of year	$ 45,216	$ 43,205
Service cost	685	777
Interest cost	1,756	1,755
Plan participants' contribution	1,163	1,097
Benefit payments	(3,169)	(2,593)
Actuarial loss	3,057	975
Benefit obligation, end of year	$ 48,708	$ 45,216

The accumulated postretirement benefit as of May 31, 2016 includes a current liability of $2,376 for the claims and expenses that are expected to be paid out in the coming year and $46,332 of noncurrent postretirement benefit liabilities.

(Dollars in Thousands)

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 $134 increase in the net periodic postretirement benefit cost recognized in fiscal year 2016 and a $2,635 increase in the accumulated postretirement benefit obligation for healthcare benefits as of May 31, 2016. A one percentage point decrease in the assumed healthcare cost trend rate would result in a $127 decrease in the net periodic postretirement benefit cost recognized in fiscal year 2016, and a $2,501 decrease in the accumulated postretirement benefit obligation for healthcare benefits as of May 31, 2016.

As of May 31, 2016, the University had expected benefit payments in the following fiscal years:

2017	$	2,376
2018		2,522
2019		2,610
2020		2,701
2021		2,795
2022-2026		15,511
	$	28,515

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 $2,006 and $1,496 to this program in fiscal years 2016 and 2015, 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 $17,102 and $16,866 in fiscal years 2016 and 2015, 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:

	2016	2015
Acquisition of buildings and equipment	$ 23,878	$ 24,173
Instruction, research, departmental support, scholarships and other	71,390	73,009
	$ 95,268	$ 97,182

(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:

	2016		2015	
	Temporarily Restricted	Permanently Restricted	Temporarily Restricted	Permanently Restricted
Donor-restricted endowment	$ 500,116	$ 666,344	$ 483,155	$ 629,639
Annuity trust and unitrust	324	3,937	614	5,449
Student loan funds	-	12,368	-	20,527
Gifts and other unexpended revenues and gains available for:				
Acquisition of building and equipment	81,742	-	81,293	-
Instruction, research, departmental support, scholarships and other	63,577	-	50,931	-
	$ 645,759	$ 682,649	$ 615,993	$ 655,615

17. Commitments and Contingencies

The University is contractually obligated for approximately $68,477 as of May 31, 2016 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. The University incurred $745 and $565 in operating lease expenses for facilities and equipment and received $3,321 and $3,423 in rental revenue in the fiscal years ended May 31, 2016 and 2015, respectively. As of May 31, 2016, the University has lease commitments and future lease revenue for the following future fiscal years:

	Lease Commitments	Lease Revenues
2017	$ 333	$ 3,409
2018	268	2,983
2019	55	2,468
2020	20	2,144
2021	20	2,005
Thereafter	101	1,025
	$ 797	$ 14,034

Accounts payable and accrued expenses include $44,611 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, 2016. This balance is being accreted over the 249 years of the lease, including extensions.

The University has committed to capital draws totaling $695,368 for venture capital, real estate funds and other investments, of which $487,372 had been drawn as of May 31, 2016. The University has committed to pay draws as required for the remaining $196,953 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 five 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. Unless otherwise noted, the maximum amount of the guarantee is equal to the amount outstanding. The Kappa Alpha Theta guarantee was issued during fiscal year 2016 and the Delta Gamma guarantee was issued during fiscal year 2015.

	2016	2015	Maximum Amount	Expiration
Phi Beta Phi	$ 503	$ 638	$ -	2017
Tri Delta	3,062	3,062	-	2027
Chi Omega	2,739	2,895	-	2028
Delta Gamma	2,500	1,208	2,500	2029
Kappa Alpha Theta	1,479	-	5,125	2027
	$ 10,283	$ 7,803	$ 7,625	

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 ("Code"), as amended, as an organization described in Section 501(c)(3). Peruna Properties, Inc., Pony Properties, Inc., the Southern Methodist University Foundation for Research, Peruna Holdings Corporation, Mustang Mockingbird Corporation, Mustang Mockingbird Properties, Mustang Airline Corporation, The Stadium Club, Inc., 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, Peruna Properties, Inc., Pony Properties, Inc., the Southern Methodist University Foundation for Research, Peruna Holdings Corporation, Mustang Mockingbird Corporation, Mustang Mockingbird Properties, Mustang Airline Corporation, SMU Corporation, 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.

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, 2016 and 2015.

19. Subsequent Events

The University has evaluated subsequent events from the balance sheet date through September 9, 2016, the issue date of the financial statements, and determined that there are no items to disclose.