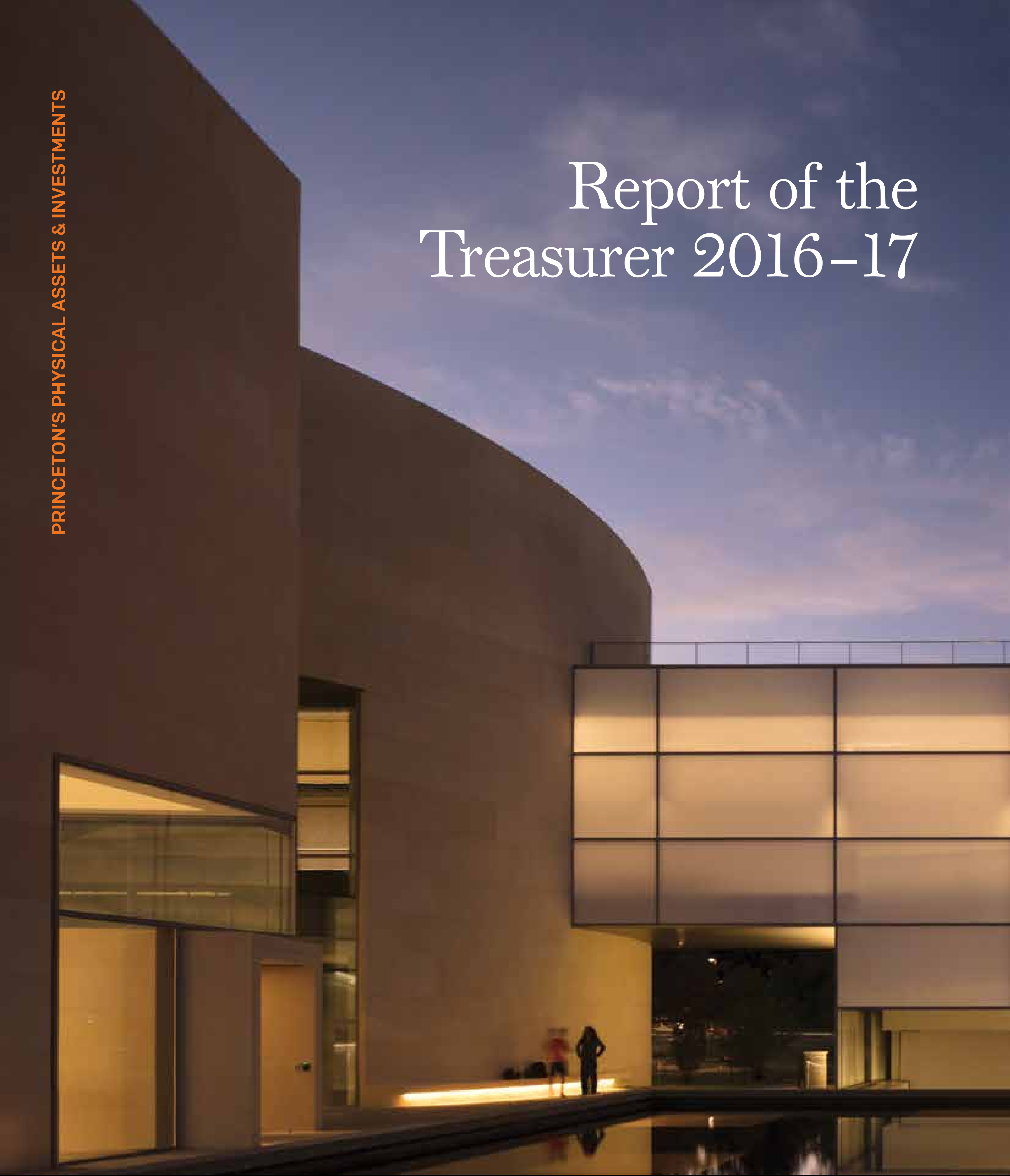
PRINCETON'S PHYSICAL ASSETS & INVESTMENTS

Report of the Treasurer 2016–17



PRINCETON UNIVERSITY

Princeton University Highlights

Fiscal years ending June 30

FINANCIAL

(dollars in thousands)	2017	2016
Principal sources of revenues		
Tuition and fees (net)	$ 108,698	$ 111,161
Government grants and contracts	295,545	290,238
Private gifts, grants, and contracts	102,627	92,719
Investment earnings, including unrealized gains or losses	2,631,651	138,133
Principal purposes of expenditures		
Educational and general	1,386,180	1,442,816
Auxiliary	81,031	84,638
Summary of financial position		
Assets	29,428,995	27,413,880
Liabilities	4,625,492	4,706,438
Net assets	24,803,503	22,707,442
Net assets		
Unrestricted/designated	10,649,353	9,693,143
Temporarily restricted	11,921,478	11,062,850
Permanently restricted	2,041,247	1,951,449
Noncontrolling interests	191,425	–
Total	**$ 24,803,503**	**$ 22,707,442**

STUDENTS

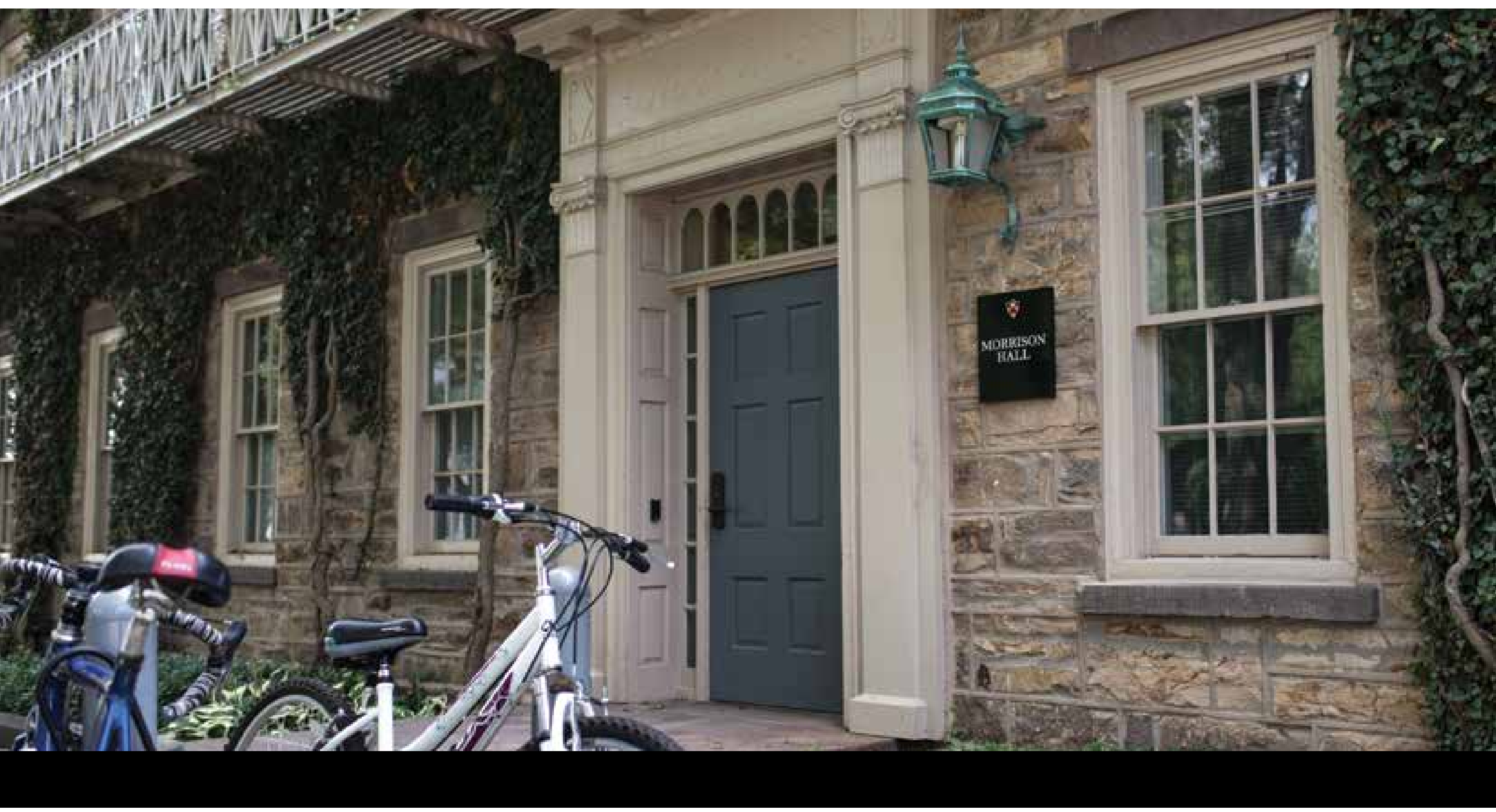
	2017	2016
Enrollment		
Undergraduate students	5,232	5,277
Graduate students	2,747	2,736
Degrees conferred		
Bachelor degrees	1,280	1,307
Advanced and all other degrees	988	906
Annual tuition rate		
Undergraduate	$ 45,320	$ 43,450
Graduate	45,320	43,450

FACULTY

	2017	2016
Full-time equivalent	1,042	1,014

"Universities play a powerful mnemonic role. Their fields, their campuses, are dotted with figures and plaques of bronze, stone and marble—with botanical life to keep memory alive. But universities are not memorabilia; they're not mausoleums. So while Princeton remains legitimately enthralled with the place of the idea, it must continue to be equally faithful to the idea of the place… The place of the idea represents the value of tradition, of independence; the idea of the place is its insightful grasp of the future."

—TONI MORRISON, the Robert F. Goheen Professor in the Humanities, Emerita, and recipient of the 1993 Nobel Prize in Literature
("The Place of the Idea; the Idea of the Place," Princeton University's 250th anniversary convocation, October 25, 1996)



Sense of Place

Letter from the Treasurer

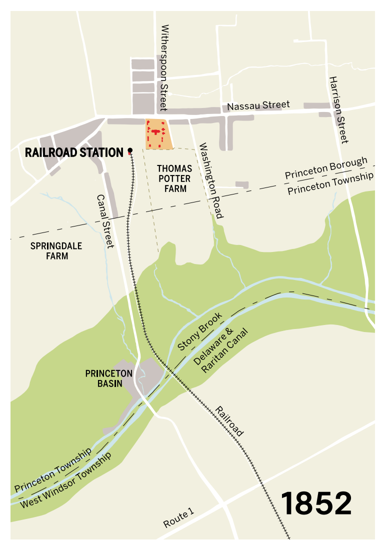
Looking out over the peaceful Cannon Green and beautiful Morrison Hall on this snowy day in December, it is my great pleasure to present Princeton University's audited financial statements for the fiscal year ended June 30, 2017. It was an excellent year for Princeton University, with strong financial results in support of a flourishing academic community. A Financial Statement Overview from Controller Kenneth Molinaro is included in this document to provide management discussion of the key elements of these financial results.

Fiscal year 2017 also marked the successful completion of the University's ambitious 10-year capital plan, which resulted in the stewardship and enhancement of the physical assets of the University. The campus and its buildings, pathways, and green spaces create the "sense of place" that allows teaching, research, and human and intellectual engagement to thrive. The highlights section of this report is a pictorial summary of the elements of this completed plan and its importance to the University's mission and priorities.

Our ability to steward and improve the physical assets of the University is dependent on our financial assets. The endowment is our primary source, representing 84 percent of our assets. The Princeton University Investment Company, led by President Andrew Golden, generated a 12.5 percent investment return resulting in a June 30, 2017, endowment value of $23.8 billion, an increase of approximately $1.7 billion from the previous year. A Report on Investments is included in this document to provide a narrative description of endowment management and performance.

"The physical campus is fundamental to Princeton's mission: the University depends on having classrooms that promote engaged learning, academic buildings that facilitate collaboration and research, and residential spaces that foster an inclusive and stimulating community."

—PRESIDENT CHRISTOPHER L. EISGRUBER '83



Gifts from loyal alumni and friends add to the endowment and also to our annual operations. Fiscal year 2017 marked a historic achievement in Annual Giving with a final fundraising total of $74.9 million, in which 56.8 percent of undergraduate alumni participated. These unrestricted funds are essential to sustaining our teaching and research mission and to ensuring the affordability of a Princeton education.

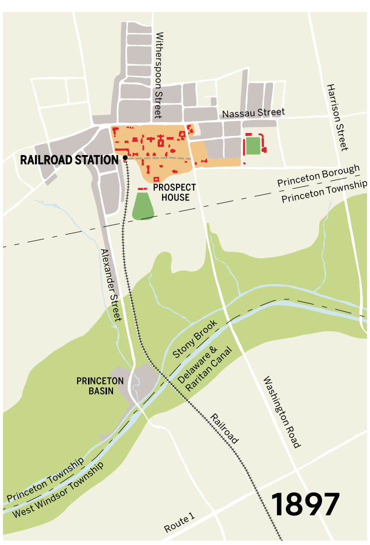
As Princeton closes out another fiscal year and celebrates another graduating class departing through the FitzRandolph Gates, we look to the future. Earlier this month, the University announced the completion of a planning framework to guide campus development over the next 10 years in the context of potential needs and developments over the next 30 years. President Chris Eisgruber, in describing this plan, notes that "the campus must not only house programs and people; it must also foster collaboration, invite serendipity, nurture inclusivity, cultivate argument, inspire creativity, generate community, and facilitate the rigorous, fearless, and path-breaking pursuit of truth."

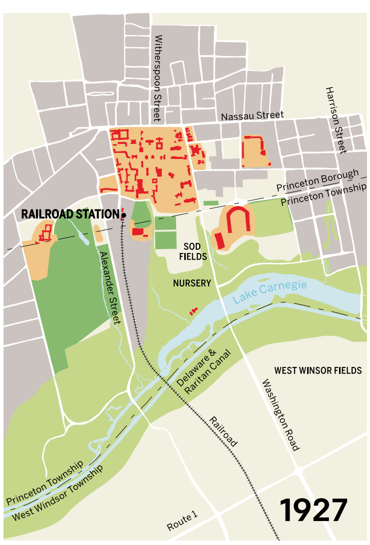
I am honored and proud to be part of the Princeton team that nurtures and stewards the "sense of place" that supports the experiences and knowledge, making an impact on all who enter. May you enjoy the pictorial tour that follows.

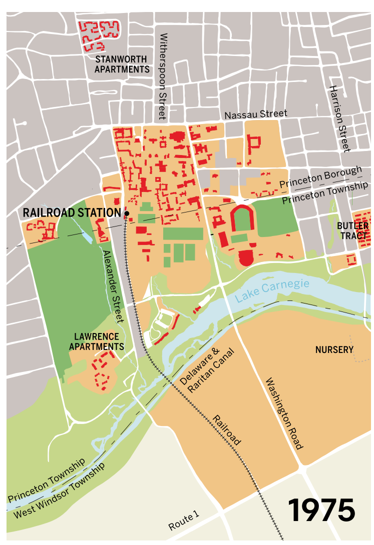
Best regards,

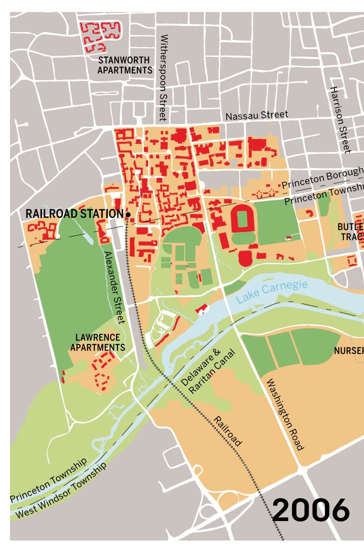
Carolyn N. Ainslie

CAROLYN N. AINSLIE
Vice President for Finance and Treasurer









New Construction

(as part of the 2008-2017 capital plan)

Frick Chemistry Laboratory
(completed in 2010)

A state-of-the-art science facility with laboratory space for research and teaching, as well as faculty and administrative offices. The skylit atrium connects the laboratory wing with the administrative offices, providing a light-filled space with pedestrian bridges for special functions and promoting scientific collaboration.

High-Performance Computing Research Center
(completed in 2011)

The center houses Princeton University's computing research systems on the Forrestal Campus in Plainsboro, about three miles from the main campus. It serves as the home of TIGRESS, the Terascale Infrastructure for Groundbreaking Research in Engineering and Science.

Butler College
(completed in 2009)

Part of the Residential College construction program, this 288-bed complex was built on the site of the former Butler dorms. Butler College comprises a group of two-story to four-story buildings that complement the historic campus with contemporary architecture.

1756

The College of New Jersey, as Princeton University was then known, was relocated from Newark, NJ to Prince-Town, NJ; Nassau Hall was the largest academic building in the colonies

1774

First recorded use of the term "campus" in reference to the front green of Nassau Hall

◀ Peretsman Scully Hall and Princeton Neuroscience Institute

(completed in 2013)

The two-building complex houses the interdisciplinary Princeton Neuroscience Institute and the Department of Psychology. As part of the natural sciences "neighborhood," the buildings join other science, teaching, and research buildings located to the east and west of Washington Road, linked by Streicker Bridge.

▶ Lakeside Graduate Housing

(completed in 2015)

This complex provides housing for more than 700 graduate students in 74 townhome units and 255 apartments. Its location promotes walking, biking, and mass transit through pathways connecting to campus, bicycle storage, and the TigerTransit shuttle stop.

▲ Andlinger Center for Energy and the Environment

(completed in 2015)

The center supports a vibrant and expanding program of research and teaching in the areas of sustainable energy development, energy conservation, and environmental protection and remediation.

▲ University NOW Day Nursery

(completed in 2017)

Princeton University maintains a strong commitment to helping members of the campus community balance work and life responsibilities, and to being a family-friendly employer and institution for graduate study. The objective of the nursery is to strengthen this commitment by expanding and enhancing the childcare services available to Princeton University faculty, staff, and students.

1830

Joseph Henry suggested a quadrangle with two new dormitories and new buildings for the debating societies, Whig and Clio

1896

Official name change to "Princeton University" and the collegiate gothic architectural style was adopted

1913

Graduate College was built

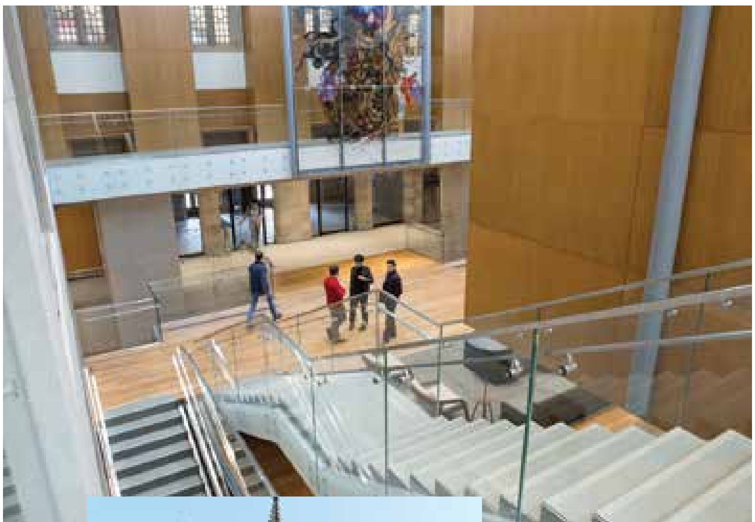
Renovations

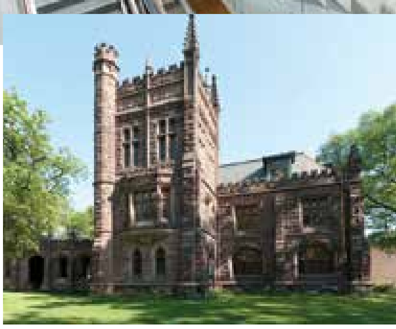
(as part of the 2008-2017 capital plan)

◀ Carl Fields Center

(completed in 2009)

Providing an expanded facility for the Carl A. Fields Center for Equality and Cultural Understanding, this project included the renovation and restoration of 58 Prospect Avenue (formerly the Elm Club) and the construction of an addition that accommodates a large multipurpose room for lectures and gatherings.





▲ Julis Romo Rabinowitz Building and Louis A. Simpson International Building

(completed in 2016)

The 200,000 square feet of space is divided into two complementary areas; one houses the Department of Economics and one houses international initiatives, including a convenient location for students exploring international programs.

▲ Dodge Hall

(completed in 2016)

Home to offices of the dean of religious life, a number of University chaplains of various faiths, the Murray-Dodge Café, and several campus ministries, the newly renovated Dodge Hall incorporates many maintenance and accessibility improvements.

▲ Firestone Library

(to be completed in 2018)

The library plays a central role in the University's mission, and its renovation is focused on creating a building that is well-suited to supporting modern library services and contemporary approaches to scholarship while also providing the proper environment for one of the world's great book and manuscript collections.

1962

The construction of the Engineering Quadrangle buildings and extended campus presence

1982

System of residential colleges established

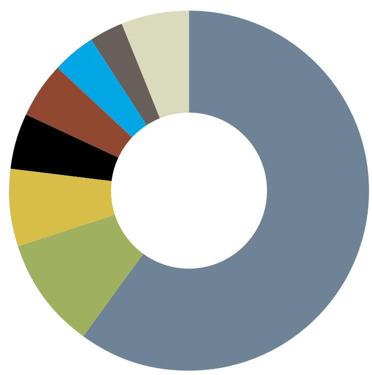
Maintenance and Infrastructure

The recently completed capital plan added 1.5 million new square feet of space at a cost of $2.8 billion. The majority of the plan was focused on mission priorities in the construction and renovation of academic teaching and research facilities, as shared on the prior pages. The second major category of expenditure was major maintenance. This is an enduring priority of the University, ensuring that existing facilities are stewarded and maintained in a cost-effective and timely manner. The University targets annual spending of approximately 2 percent of the plant replacement value for this purpose. Some amount of this stewardship expenditure is incorporated in the renovations that are included in the program categories shown below. The capital plan also incorporated an investment in technology and systems infrastructure.

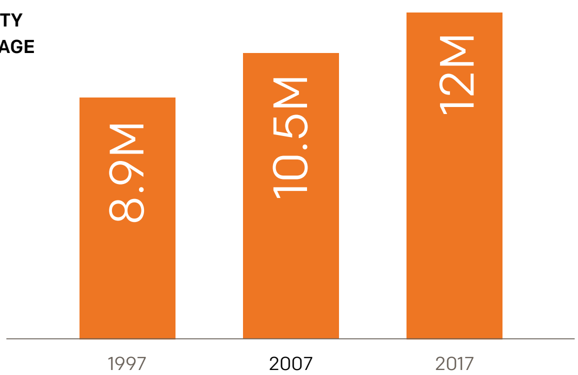
CAPITAL PROJECT EXPENDITURES BY MAJOR CATEGORY
(as part of the 2008-2017 capital plan)

As of October 2017 ($ in millions)

Academic (60%)	$	1,678
Major Maintenance (10%)		269
Campus Life (7%)		199
Housing Graduate (5%)		156
Campus Improvement (5%)		149
Real Estate (incl PFC) (4%)		112
Administrative (3%)		72
All Other (6%)		172
TOTAL	$	2,807



PRINCETON UNIVERSITY GROSS SQUARE FOOTAGE
(in millions)



2006

Princeton announces its most comprehensive campus plan in history

2009

Butler Residential College, Carl Fields Center Renovation

2010

Frick Chemistry Laboratory

Sustainability

(as part of the 2008-2017 capital plan)

Princeton University developed a comprehensive sustainability plan in 2008. It set ambitious goals in three areas: (1) reduction of greenhouse gas emission, (2) resource conservation, and (3) research, education, and civic engagement.

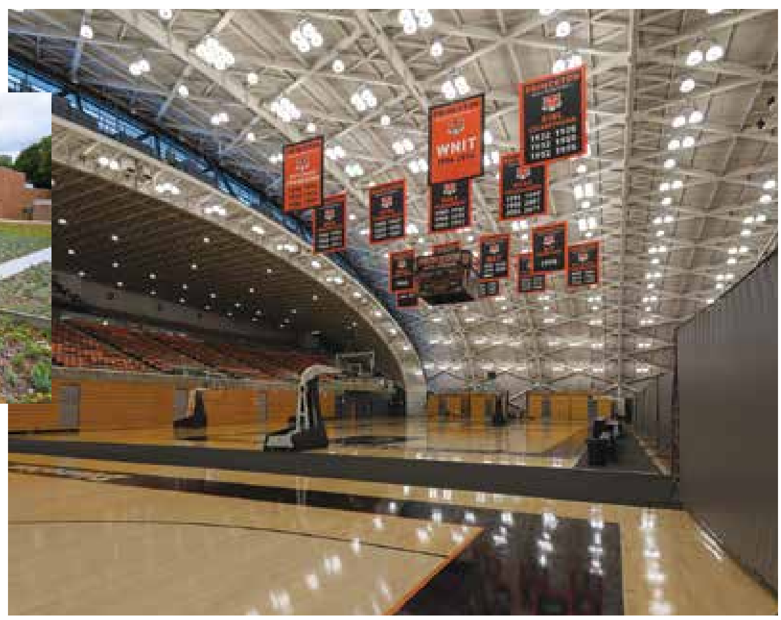
These goals were incorporated where appropriate into the 2008–2017 capital plan as the University prepared to add one to two million square feet. There was an emphasis on landscape and stormwater strategies designed to restore, enhance, and expand the natural areas of campus. In addition, Princeton established its own rigorous guidelines for sustainable building, ensuring that every new construction and major renovation project achieves campus sustainability goals, including significant energy cost reduction versus comparable off-campus buildings. These standards require Life-cycle cost analysis (LCCA) of major building systems, as well as consideration of the buildings' educational and research potential in sustainability problem solving.

◀ Solar Field

Located south of Lake Carnegie, the 16,528 photovoltaic panels of Princeton's solar field absorb sunshine and deliver it to campus via a 13kV power cable. This equates to energy that doesn't have to be produced or purchased.

▼ LED Lighting

Replacing and recycling 200,000 lamps with light-emitting diode (LED) technology will save approximately 14 million kilowatt hours, 9,690 metric tons of net CO2, and energy cost savings. The campus-wide LED installation is expected to be complete in early 2018.



▲ Green Roofs

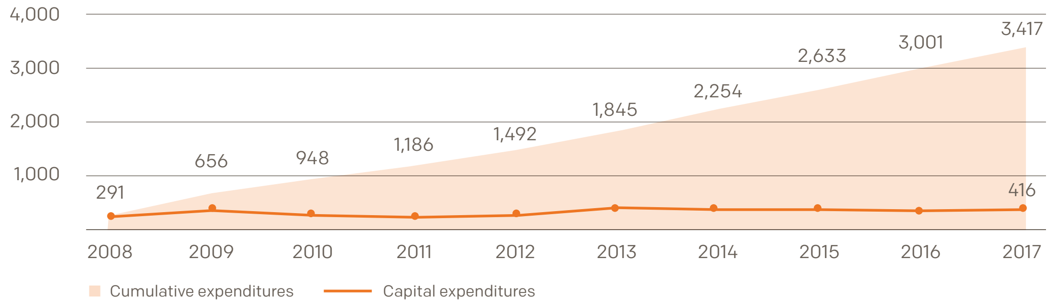
Turning the roof of a building into a living green area leads to many sustainable benefits. With more living plants, we decrease stormwater runoff and improve air quality, and by installing green roofs, we use our campus as a living lab to educate and inform our students.

2011	2015
High-Performance Computing Research Center	**Andlinger Center for Energy and the Environment, Lakeside Graduate Housing**

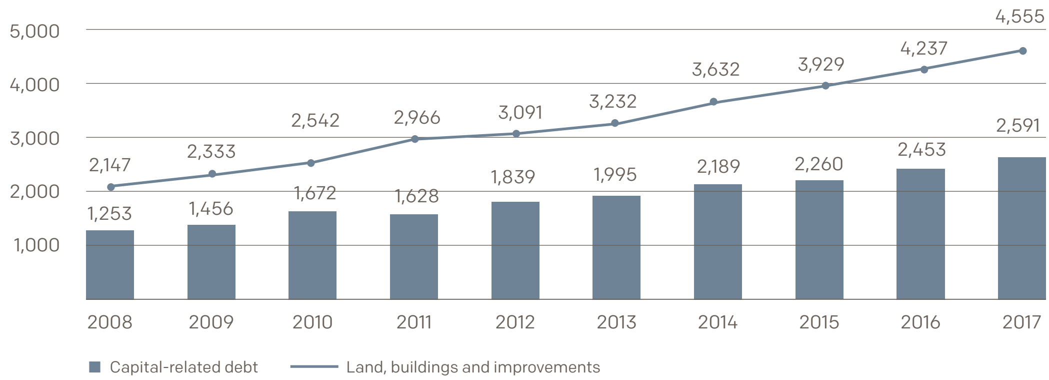
Strategic Use of Debt to Finance Capital

The recent capital plan was funded from a combination of gifts, operating revenues including rental and housing income, and strategic reserves. Debt financing has been used strategically to spread the cost of the capital investment over the useful life of the asset. As of June 30, 2017, the University had $3.6 billion of outstanding debt, of which $2.6 billion was for capital purposes. Princeton is rated Aaa/AAA by Moody's and Standard and Poor's, respectively.

CAPITAL EXPENDITURES
($ in millions)



PROPERTY AND RELATED DEBT
($ in millions)



2016	2017	2018
Julis Romo Rabinowitz Building and the Louis A. Simpson International Building, Dodge Hall Renovation	**Lewis Center for the Arts, University NOW Day Nursery**	**Firestone Library Renovation**

Financial Statement Overview

Letter from the Controller

Fiscal year 2017 was a financially strong year for Princeton University, with respect to both investment and operating performance, as well as the growth of its financial resources. Net assets for the year ended June 30, 2017 increased by $2.1 billion, or 9.2 percent, primarily due to strong investment results. Total net assets of $24.8 billion at year-end set a new high-water mark for Princeton. The return of 12.5 percent from the managed investment portfolio maintains Princeton's ranking in the highest-performing tier of large university endowments over the long term. The University increased its Endowment spending rate to 5.0 percent in 2017, in accordance with its board-approved spending framework, so as to fund various new strategic initiatives in the areas of expanded enrollment and aid, emerging academic fields, and innovation. An operating surplus of $198 million, or 10.9 percent of total operating revenues, was achieved primarily through the increased Endowment payout combined with the prudent management of operating expenses and stewardship of financial resources.

Revenues from tuition and fees, net of scholarships and fellowships, decreased for the first time by 2.0 percent in fiscal 2017, reflecting growth in financial aid to support a more socioeconomically diverse student body, which exceeded the tuition and fee increase. Princeton's steadfast commitment to access, affordability, and financial aid has held net tuition growth to 1.5 percent annually on a nominal basis for more than a decade. Revenues from long-term gifts and pledges of $155 million were consistent with Princeton's long history of successful fundraising. Annual Giving, which is vital to the university's annual operations and financial aid capacity, raised a record $74.9 million, a testament to the unwavering generosity of loyal alumni, of whom 56.8% participated. Revenues from government sponsors grew 1.8 percent during the year, reflecting the competitiveness of Princeton's faculty in attracting research awards in the context of constrained federal funding. Total operating revenues of $1.8 billion in fiscal 2017 grew 7.4 percent from the previous year.

Total operating expenses of $1.6 billion in fiscal 2017 decreased 3.3 percent from the previous year primarily due to favorable changes in actuarial assumptions, particularly a higher discount rate and lower per capita healthcare costs, on the University's postretirement benefit obligations. On a normalized basis, excluding the effect of the actuarial gains, total operating expenses increased 6.2 percent, consistent with the University's strategic direction.

The University successfully pursued its annual practice of issuing debt for capital expenditure and property renewal purposes. Princeton's bonds and notes continue to attract high demand as a safe haven for conservative investors. In connection with a $396 million tax-exempt bond refunding issue and $312 million in new money issues during the fiscal year in support of the capital plan, Princeton again received the highest attainable credit ratings from both Moody's Investors Service and Standard & Poor's agencies, affirming the University's stellar credit standing.

ACCOUNTING PRINCIPLES

Princeton University's financial statements, which follow herein, are presented in accordance with generally accepted accounting principles set forth by the Financial Accounting Standards Board (FASB) as supplemented by the American Institute of Certified Public Accountants (AICPA) audit and accounting guide for not-for-profit entities. In addition to general accounting guidance, the statements reflect the impact of specific reporting requirements of not-for-profit organizations prescribed by FASB Accounting Standards

Codification (ASC) 958, *Not-for-Profit Entities*, on the topics of accounting for contributions and the format of external financial statements. Compliance with AICPA guidance includes consolidating wholly owned subsidiaries and significant trusts in which the University is a beneficiary, as well as reporting tuition discounts, primarily fellowships and scholarships, as reductions of tuition and fee revenue. The financial statements are fully comparable, including prior-year data on the consolidated statements of activities.

FINANCIAL REPORTS

The principal objectives of the accounting standards are to provide consistency among the financial statements of not-for-profit organizations and to make them comparable to those of the for-profit sector. The standards require not-for-profit organizations to provide, for their external financial reports, a statement of financial position, a statement of activities, and a statement of cash flows. The organization's resources are classified among three categories of net assets, that is, gross assets less liabilities, based solely on the existence or absence of donor-imposed restrictions. Amounts for each of the three classes of net assets—permanently restricted, temporarily restricted, and unrestricted—are displayed in a statement of financial position, and the changes in each category are displayed in a statement of activities.

Permanently restricted net assets are those resources that may not be spent, mainly true Endowment funds. They are generally the result of gifts and bequests with donor stipulations that they be invested to provide a permanent source of income. They may also include gifts-in-kind, such as works of art or real property. Temporarily restricted net assets include those that, again by donor stipulation, must be invested only for a certain period of time or that may be used in a future period for a specified purpose. Temporarily restricted net assets also include the accumulated income and gains on permanently restricted funds,

Table 1

ASSETS AND LIABILITIES

($ in millions)

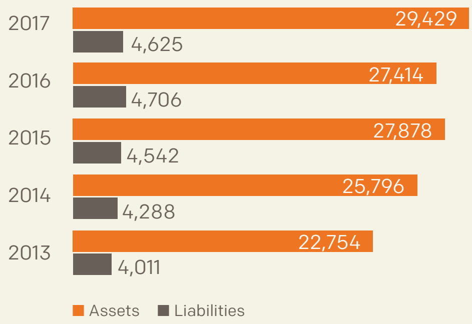


Table 2

MANAGED AND OTHER INVESTMENTS

($ in millions)

absent explicit donor stipulations to the contrary, until appropriated for expenditure. Unrestricted net assets may be expended for any purpose and result from gifts, other institutional resources, and income and gains on those funds.

Statement of Financial Position

The statement of financial position is a snapshot of the University's resources and obligations at the close of the fiscal year and is comparable to the document commonly referred to as the balance sheet. Assets on the statement, which totaled $29.4 billion as of June 30, 2017 (see Table 1), are presented in decreasing order of liquidity, from cash to property, the least liquid asset.

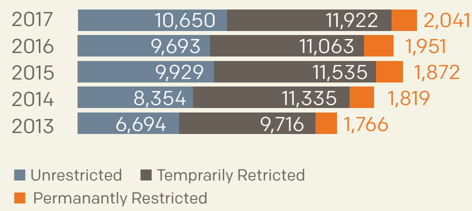
As of June 30, 2017, managed and other investments totaling $24.5 billion accounted for 84 percent of total assets, and increased 8.1 percent from the prior year primarily due

to managed investment returns of 12.5 percent less spending appropriations of 5.0 percent (see Table 2). Property (net of accumulated depreciation) totaling $4.1 billion accounted for an additional 14 percent of total assets. Other significant assets were contributions receivable, which totaled $169 million, and educational and mortgage loans receivable, which totaled $418 million.

Liabilities, which totaled $4.6 billion as of June 30, 2017 (see Table 1), are presented in order of anticipated time of liquidation. Indebtedness to third parties totaling $3.6 billion, which primarily includes loans to finance the construction, renovation, and maintenance of University facilities and bonds issued for working capital and general corporate purposes, accounted for 79 percent of total liabilities as of June 30, 2017. Also included are the liabilities under unitrust agreements totaling $94 million, which represent the estimated amounts payable to donors under the University's planned giving programs. The accounting rules require donees to record a liability for the present value of the expected lifetime payments to donors, and to recognize the net amount received as a contribution in the year of receipt.

Net assets, which totaled $24.8 billion as of June 30, 2017, are calculated as total assets less total liabilities, and are classified into three categories—unrestricted, temporarily restricted, and permanently restricted, as discussed above (see Table 3). Unrestricted net assets, which totaled $10.7 billion as of June 30, 2017, include gifts and other institutional resources that are not subject to explicit donor-imposed restrictions. In accordance with the accounting rules, certain unrestricted net assets have been partially earmarked, or designated, according to their intended use by the University. Temporarily restricted net assets, which totaled $11.9 billion, include promises to give that are receivable in future years as well as donor-restricted contributions whose purpose has not yet been fulfilled. The most significant portion of temporarily restricted net assets

Table 3
NET ASSETS
($ in millions)



represents the accumulated income and gains on true Endowment assets that have been reinvested. Permanently restricted net assets, which total $2.0 billion, include Endowment gifts that cannot be spent and funds held in perpetual trust by others. Noncontrolling interests of $191 million pertain to the share of controlled and consolidated investment funds that are not owned by the University.

Statement of Activities

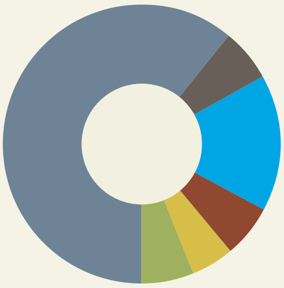
The statement of activities is a summary of the income and expenses for the year, classified according to the existence or absence of the restrictions described above. Sources such as tuition, sponsored research, and auxiliary activities are normally shown as unrestricted income, whereas income from certain gifts or sponsored agreements may be includible in any of the three classes of income, depending upon the donor's specifications. Gifts to the Endowment, for example, are permanently restricted. Income from temporarily restricted sources is reclassified to unrestricted income when the circumstances of the restriction have been fulfilled. All expenditures are made from unrestricted net assets, since funds cannot be spent until all restrictions on their use have been removed.

The statement of activities is presented in two sections, operating and nonoperating, which reflect the principles of the University's operating budget. Items of income reported in the operating section, which totaled $1.814 billion for the year ended June 30,

Figure 1

OPERATING REVENUES

Fiscal Year 2017



- Support from Investments (61%)
- Net Tuition and Fees (6%)
- Government Grants and Contracts (16%)
- Private Gifts, Grants and Contracts (6%)
- Auxiliary Sales and Services (5%)
- Other Sources (6%)

2017, include all unrestricted receipts as well as the Endowment earnings made available for spending under the spending rule. The major components of operating revenues and their relative proportions are shown in Figure 1.

Virtually all expenses, which totaled $1.616 billion, are considered to be associated with operating activity, and are reported on the statement of activities by functional category. The major components of operating expenses by functional category and their relative proportions are shown in Figure 2.

Operating expenses by natural classification are reported in the footnotes to the financial statements. The major components of operating expenses by natural classification and their relative proportions are shown in Figure 3.

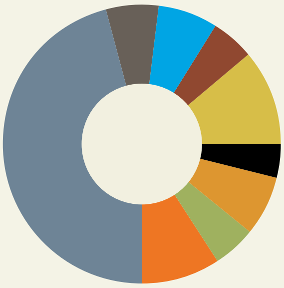
For the year ended June 30, 2017, the University produced a surplus from operating activities in the amount of $198 million, calculated as total operating revenues less total operating expenses, as illustrated in Table 4.

Major items of income that are considered nonoperating, which amounted to a net gain of $1.7 billion for the year ended June 30, 2017, include unrealized appreciation

Figure 2

OPERATING EXPENSES BY FUNCTIONAL CATEGORY

Fiscal Year 2017

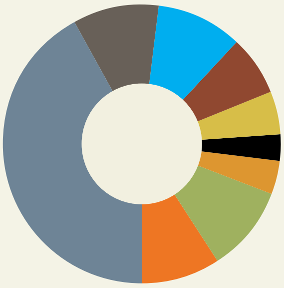


- Academic Departments and Programs (46%)
- Academic Support (6%)
- Student Services (7%)
- Library (5%)
- General Administration and Institutional Support (11%)
- Other Student Aid (4%)
- Plasma Physics Laboratory (7%)
- Auxiliary Activities (5%)
- Interest (9%)

Figure 3

OPERATING EXPENSES BY NATURAL CLASSIFICATION

Fiscal Year 2017



- Salaries and Wages (42%)
- Employee Benefits (10%)
- Purchased Services (10%)
- Supplies and Materials (7%)
- Space and Occupancy (5%)
- Other Expenses (3%)
- Other Student Aid (4%)
- Depreciation (10%)
- Interest (9%)

Financial Statement Overview

(Continued)

on investments and Endowment income earned in the current year to be used in the current and succeeding years, in accordance with operating budget policy. The distribution of investment income for spending under the University's spending policy is shown as a transfer from nonoperating activities to operating revenue. Unrestricted gift income, primarily from Annual Giving, is shown as operating income, whereas income from promises to give (pledges) is considered a nonoperating source of income.

The statement of activities concludes with a reconciliation of the change in each class of net assets for the year to the balance of net assets shown on the statement of financial position. The total change in net assets for the year ended June 30, 2017, for all classes of net assets was an increase of $2.1 billion.

Statement of Cash Flows

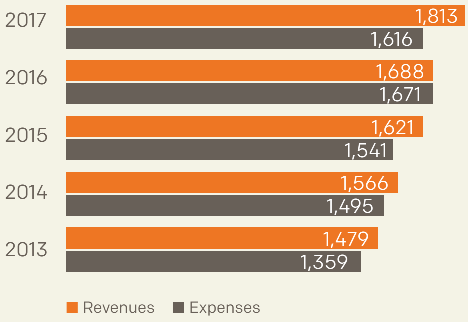
The statement of cash flows bridges the change in net assets for the year to the change in the cash balance from one year-end to the next. Several items shown as expenses in the statement of activities, such as depreciation, do not require an outlay of cash, whereas the purchase of capital assets, which does require the expenditure of cash, is added directly to assets on the statement of financial position and is reflected on the statement of activities only as a depreciation expense. Other items that affect cash balances but are not required to be included in the statement of activities include the purchase and sale of investments, proceeds from borrowing and the repayment of loan principal, and the net change in accounts receivable and payable.

The reconciling items on the statement of cash flows are grouped into three categories. Operating activities, which used $559 million in net cash for the year ended June 30, 2017, are those items of income and expense that occur during the normal course of providing services as an educational institution. Cash flows from operating activities also include distributions of interest and dividends.

Table 4

OPERATING ACTIVITIES

$ in Millions



Investing activities, which provided $324 million in net cash, include the acquisition and disposal of capital assets such as buildings and equipment, and the purchase and sale of investments. Financing activities, which provided $242 million in net cash, include the proceeds from long-term borrowing to finance capital additions, renewal, and replacement, and the repayment of principal on such indebtedness, as well as the disbursement of funds for new educational and mortgage loans and the collection of principal payments on such loans. Also included are contributions restricted for long-term purposes such as endowments.

CONTRIBUTIONS

In accordance with FASB ASC 958-310, *Not-for-Profit Entities—Receivables*, donors' unconditional promises to give are required to be recorded by donees as revenue and as amounts receivable in the year received. Where collection is not expected within one year, the amount recorded is determined on a present-value basis. Conditional promises to give are recognized when they become unconditional, that is, when the conditions imposed by the donor have been substantially met. Contributions must be classified among those that are permanently restricted, temporarily restricted, or unrestricted, as dictated solely by the donor. For the year ended June 30, 2017, contributions classified as permanently restricted totaled $73 million, those classified as temporarily restricted totaled $4 million, and those classified as unrestricted totaled $140 million. The classification of contributions is essential for the proper presentation of revenue in the statement of activities and of net assets in the statement of financial position, previously discussed.

ENDOWMENT MANAGEMENT

A significant portion of the operating budget is financed from Endowment earnings (see Figure 1). Consequently, the University's investment portfolio is managed for maximum total returns commensurate with prudent levels of risk.

Most invested funds participate in the Primary Pool, which is operated on a market-value basis. Long-term growth of principal and increased future earnings are the University's investment objectives for these funds. Funds participating in the Primary Pool are assigned units on a market-value basis and appreciate or depreciate based on the change in unit market value. After investment management fees are deducted, the earnings are allocated quarterly on the basis of units owned by participating funds.

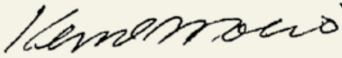
The University follows an Endowment spending rule that provides for an annual increase in the amount of Primary Pool earnings allocated for spending, provided that the resulting spending rate, expressed as a percentage of the market value, remains within a policy band as further discussed in the Report on Investments, which follows. For the Primary Pool's year ended June 30, 2017, the interest and dividends per unit (net of service charges) were $67.27. The unit earnings allocated for spending were $525.53 in fiscal year 2017 and $449.17 in fiscal year 2016. The market value of a unit was $10,863.01 at June 30, 2017, and $10,521.24 at June 30, 2016.

The Balanced Fund, Income Fund, and Tiger Fund have been established for funds subject to the donor's reservation of life income. The fiscal year-end for each pool is December 31. These pools are operated on a market-value basis in a manner similar to the operation of the Primary Pool. Earnings are distributed quarterly to the beneficiaries. For the year ended December 31, 2016, the earnings distribution from the Balanced Fund was $85.20 per unit, and the average market value of a unit was $2,874.39; the earnings distribution from the Income Fund was $4.02 per unit, and the average market value of a unit was $136.46; the earnings distribution from the Tiger Fund was $29.84 per unit, and the average market value of a unit was $981.44.

The University also maintains a group of separately invested funds. Included therein are funds established from gifts of investments restricted from sale by donors, funds held in trust by others, and the University's investments in strategic real estate.

CONCLUSION

Princeton hopes that the readers of these financial statements find the presentations and explanations helpful in interpreting the financial state of the University. Princeton is blessed with extraordinary financial resources, and is responsible for protecting and preserving them over a very long time horizon. This long-term view allows Princeton to weather any near-term financial challenge, such as the global recession experienced not too long ago. The University is committed to utilizing its financial resources in a thoughtful, prudent, and consistent manner in support of its current educational and research programs, while preserving their value for future generations.



KENNETH MOLINARO
Controller

Report on Investments

PRINCETON UNIVERSITY INVESTMENT COMPANY

As of June 30, 2017, Princeton's Endowment stood at $23.8 billion, an increase of approximately $1.7 billion from last year.[1] The vast majority of the Endowment, $23.4 billion, is actively managed by the Princeton University Investment Company ("PRINCO").[2] While PRINCO maintains its own Board of Directors (the "Directors"), it is a University office operating under the final authority of the University's Board of Trustees (the "Trustees").

The purpose of the Endowment is to provide steady support for the University's current and future operating needs, while preserving real value for future generations. This mission requires an expected long-term return that exceeds the sum of the annual rate of spending and University inflation. To pursue this goal, PRINCO maintains an equity-biased portfolio and seeks to partner with best-in-class investment management firms across diverse asset categories.

Against a backdrop of buoyant equity markets, the portion of the Endowment actively managed by PRINCO generated a 12.5 percent investment return during fiscal 2017, a strong absolute result, in line with the Endowment's main benchmark.

Of course, the evaluation of our investment program should focus on the long term, and our long-term results are solid in absolute terms and quite strong on a relative basis. The Endowment's annualized return over the past ten years is 7.1 percent, which equates to a real return of 4.6 percent when adjusted for the Higher Education Price Index (HEPI), a measure of university inflation. As discussed further below, the 7.1 percent annualized nominal gain compares favorably with all performance yardsticks.

SPENDING

Each year the Trustees decide upon an amount to be spent from the Endowment for the following fiscal year.[3] In their deliberations, the Trustees use a spending framework that is designed to enable sizable amounts to be spent in a reasonably stable fashion, while allowing for reinvestment sufficient to preserve purchasing power in perpetuity. For much of the last decade, the framework targeted annual spending between 4.00 percent and 5.75 percent. In 2015, the Trustees decided that based upon the continued strength of Princeton's investment program, higher long-term average spending rates could be supported, and indeed, that a higher average rate of spending was needed in order to achieve intergenerational equity, i.e., having endowment spending patterns that balanced the interests of current and future students and faculty. Moreover, a higher average spending rate would likely help optimize the mix of the University's three important types of capital—financial, physical, and human. The Trustees agreed that an important step toward the goal of higher long-term average spending was to raise the upper boundary of the spending target range to 6.25 percent. Notably, this marked the second time that the Trustees raised the upper boundary of the spending range in recent memory, having previously moved the boundary from 5.00 percent to 5.75 percent in 2006.

In fiscal 2017, the Endowment spending distribution, in aggregate, equaled $1.1 billion, an increase of nearly $168 million from the prior year. Spending per Endowment unit equated to 5.0 percent of market value at the start of fiscal 2017. Of note, the Trustees approved a substantial increase in endowment spending for fiscal 2018 for strategic priorities, resulting in per-unit spending of 5.6 percent for the coming year.

ASSET ALLOCATION

Asset allocation involves deciding what share of the portfolio should be placed within each

1 Excluded from Princeton's traditional definition of "Endowment" are working capital, planned giving investments, and proceeds from debt.

2 The pool actively managed by PRINCO excludes University mortgages, loans, and other assets held primarily for strategic University purposes. "Endowment net assets" as reported in the notes to the Consolidated Financial Statements in the amount of $23.2 billion as of June 30, 2017, further exclude agency funds in custody for others.

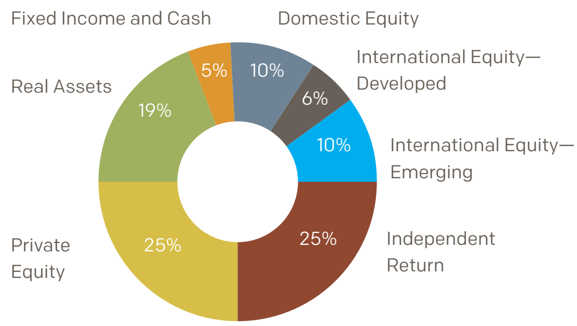
3 Excluded from these decisions are funds devoted to certain strategic purposes, such as subsidizing faculty and staff housing.

of the various broad asset categories. The decisions attempt to balance the relative merits of equities versus fixed income, domestic versus foreign investments, and publicly traded versus nonmarketable assets. Princeton's long-term asset allocation decisions are embodied by a Policy Portfolio that describes the asset categories in which Princeton will invest, a set of target weights that indicate how the portfolio will be positioned in "normal" market conditions, and a range of weightings within which exposures can be adjusted in response to mid-term opportunities arising from significant market disequilibria or to other unusual circumstances. Figure 1 depicts the Policy Portfolio targets.

Readily manifest is PRINCO's bias toward equities or equity-like assets—95 percent of the portfolio is allocated toward these investments. Also striking is the relatively small portion (only 10 percent) of the portfolio dedicated directly to Domestic Equities. Large portions of the portfolio are allocated to other high expected return categories. Independent Return, Private Equity, and Real Assets bear further description. Independent Return is broadly defined as consisting of investment vehicles that seek high absolute returns that are typically independent of broad market trends. Private Equity and Real Assets include investments in private companies, venture capital opportunities, real estate, and natural resources. These areas can offer attractive opportunities for skilled, patient investors.

The Policy Portfolio is diversified among asset categories for a number of reasons. Most importantly, PRINCO seeks return premia, in both risk-adjusted and absolute terms. In each equity asset category, Princeton has competitive advantages that create superior return potential. A broader opportunity set means that the portfolio may be capable of producing high returns more often and in a greater variety of environments. The multi-asset class approach also offers diversification benefits that help to control risk in most environments.

Figure 1
PRINCETON UNIVERSITY POLICY PORTFOLIO
Fiscal Year 2018



PRINCO's Directors, working closely with PRINCO staff, review the Policy Portfolio periodically. The most recent review in June 2017 resulted in no changes to the Policy Portfolio.

Table 1 gives a historical perspective of how the Policy Portfolio has evolved over the past two decades. Clearly evident is the long-standing practice of aggressive positioning. In the first decade shown, nontraditional investments grew as a share of the portfolio, reflecting a deliberately paced expansion after extensive consideration over multiple years. In the last decade, changes have largely reflected incremental adjustments to various asset categories, with a particular focus on optimizing the Endowment's liquidity profile. Diversification into international investments is an important part of our multi-asset class approach. PRINCO believes such investments have the potential to increase long-term expected returns while helping to manage portfolio risk. Relative to the U.S., international markets tend to be less efficient, providing meaningful opportunities to add value through active management.

An important part of PRINCO's approach to international investments is an emphasis on "foreign local" managers. These managers are based outside the U.S., but invest locally in their respective geographies. Over time we have gained more exposure to such managers

Report on Investments

PRINCETON UNIVERSITY INVESTMENT COMPANY

(Continued)

Table 1

PRINCETON UNIVERSITY ENDOWMENT POLICY PORTFOLIO TARGETS*

Every Five Years Since 1998

Asset Class	1998	2003	2008	2013	2018
Domestic Equity	20.0%	18.0%	8.0%	6.5%	10.0%
International Equity:					
Developed Markets	7.5%	7.5%	7.0%	5.5%	6.0%
Emerging Markets	7.5%	7.5%	8.0%	11.0%	10.0%
Independent Return	25.0%	25.0%	25.0%	25.0%	25.0%
Private Equity	15.0%	15.0%	25.0%	23.0%	25.0%
Real Assets	10.0%	12.0%	22.0%	23.0%	19.0%
Total Equity	**85.0%**	**85.0%**	**95.0%**	**94.0%**	**95.0%**
Fixed Income and Cash	15.0%	15.0%	5.0%	6.0%	5.0%
Total	**100%**	**100%**	**100%**	**100%**	**100%**

**Policy Portfolio Targets are pro forma based on current asset definitions.*

both in marketable and nonmarketable categories. Indeed, we have formally articulated efforts in this regard through our "Grand Unifying Theme." This theme, while very important, is not immediately apparent in the Policy Portfolio, as it cuts across several asset categories. On June 30, 2017, about 32 percent of the Endowment (including uncalled commitments) was controlled by managers based outside the U.S.

Table 2 compares PRINCO's long-term Policy Portfolio asset allocation targets with the actual weights as of June 30, 2017. Within relatively small and predetermined ranges, PRINCO's staff and Directors will intentionally over- or underweight more or less compelling asset categories. These deliberate allocation overlays occur most frequently in the marketable asset categories. Within Private Equity and Real Assets, deviations from Policy Portfolio targets can occur without deliberate intent, due to funding and market dynamics. When the Policy Portfolio targets for Private Equity and Real Assets were established, and when they are reviewed, it is with the understanding that allocation deviations in these categories are neither easily nor cheaply controlled with great precision, and therefore will often need to be offset by allocation adjustments in other categories.

That said, the large overweight in Private Equity is unintentional and deserves further comment. With hindsight, we recognize that our commitments to Private Equity funds during fiscal years 2006 through 2008 were too high. Since that time, we have reduced our commitment pace to a sustainable steady-state rate, and are in the process of gliding gradually over multiple years back to the target allocation. Indeed, exposure to the category has declined from 38.2 percent at the end of fiscal 2011 to 33.3 percent at the end of fiscal 2017 despite the category's strong performance. (Private Equity has generated a 13.1 percent annualized return over the past six years relative to an 8.6 percent return for the Endowment excluding Private Equity.) It

Table 2

ASSET ALLOCATION

June 30, 2017

Allocation	FY18 Policy Target	Actual
Domestic Equity	10.0%	6.2%
International Equity:		
Developed Markets	6.0%	5.4%
Emerging Markets	10.0%	8.4%
Independent Return	25.0%	25.0%
Private Equity	25.0%	33.3%
Real Assets	19.0%	16.6%
Fixed Income and Cash	5.0%	5.1%

will, however, take time for exposure to decline to the 25 percent policy target level.

Within Fixed Income and Cash we hold shorter-than-market duration bonds due to a combination of exceptionally low yields offered by U.S. government bonds, increased price risk, and decreased "insurance" functionality.[4]

PERFORMANCE

In a year of rallying public equity markets, the Endowment generated a strong fiscal 2017 investment return of 12.5 percent.[5] Based upon preliminary estimates of the Higher Education Price Index (HEPI), our fiscal 2017 performance translates into a real gain of approximately 8.5 percent.

PRINCO has traditionally used two benchmarks to provide context for investment results. Our primary benchmark, the Policy Portfolio Index ("PPI"), consists of a blend of individual asset category benchmarks weighted by long-term allocation targets. In fiscal 2017, performance matched the PPI, which also produced a 12.5 percent gain. Our results and the PPI both beat the 11.5 percent return of our secondary benchmark—a 65/35 blend of the S&P 500 and the Barclays Government/Credit Bond Index.[6]

This year's strong public equity markets created headwinds for our performance relative to other college and university endowments. The fiscal 2017 median return for this group was 13.2 percent, higher than both our return and that of our benchmarks.[7] Compared with most schools, Princeton has relatively more exposure to Independent Return and Private Equity (as opposed to public securities). These exposures can often hurt relative performance in years when public equity markets are unusually buoyant. Our Independent Return portfolio tends to produce a steadier return stream, while the conservative mark-to-market processes used in Private Equity can create the appearance that investments in the asset class are fundamentally underperforming (which is not necessarily the case).

Absolute performance was strong across asset classes (see Figure 3). Relative performance was mixed, with notable outperformance in both International Equity subcategories, while Domestic Equity and Real Assets lagged benchmarks. More specifically, International Emerging Equity was up 27.6 percent and International Developed Equity was up 24.2 percent, outpacing their benchmarks by 4.8 percent and 4.5 percent, respectively. Domestic Equity gained 17.0 percent, and while managers in the category collectively outperformed the asset class benchmark, the portfolio fell short of the benchmark's return by 1.7 percent due

Figure 2

FISCAL YEAR 2017 PERFORMANCE

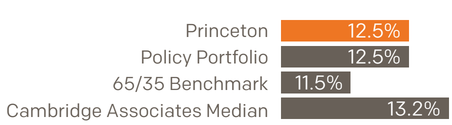
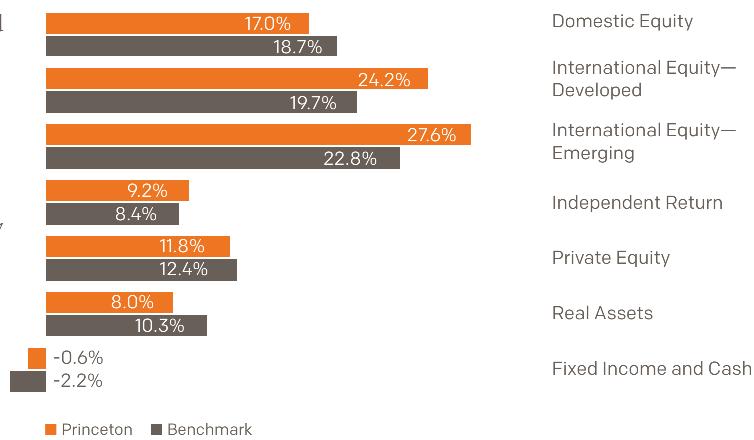


Figure 3

PRINCETON ASSET CLASS RETURNS VS. BENCHMARKS

Fiscal Year 2017



Benchmarks used:
Domestic Equity: Wilshire 5000 Index;
International Equity—Developed: MSCI World ex-U.S. IMI;
International Equity—Emerging: MSCI Emerging Markets IMI;
Independent Return: HFRI Fund Weighted Composite Index + 50 basis points per annum;
Private Equity: Customized Cambridge Associates benchmark;
Real Assets: Blend of Cambridge Associates Real Estate benchmark, a timber component, and an energy component;
Fixed Income and Cash: Barclays Government Bond Index.

4 A key reason for holding high-quality fixed income is that it provides "insurance" against deflation and extended equity market declines. In particular, we expect yields to decline and bond prices to rise in many crisis scenarios. However, given current low yields, there is less room for further declines, reducing the insurance functionality.

5 Reported results exclude the returns on certain short-term assets and other assets, such as faculty and staff mortgages, held primarily for strategic University purposes. The total asset base upon which performance is calculated equaled $23.4 billion at fiscal year-end.

6 The 65% S&P 500/35% Barclays Government/Credit Index portfolio represents what an investor would earn from a 65/35 investment in these equity and fixed income market indices, rebalanced annually. Since its inception in 1987, PRINCO has used this benchmark to represent the returns that might have been earned by institutional investors pursuing more traditional investment approaches.

7 The median college and university endowment returns represent data compiled by Cambridge Associates for over 160 college and university endowments.

to the impact of a biotechnology sector hedge used to balance the Endowment's overall exposure to the sector. Private Equity generated an 11.8 percent return, slightly underperforming its benchmark. Real Assets produced an 8.0 percent return, boosted by private energy and mining while hindered by underperformance in real estate and losses in timber. The Fixed Income and Cash category lost 0.6 percent, reflecting a low-yield environment; our continued shorter-than-market duration posture helped avoid bigger losses this year.

Of course, the evaluation of our investment program should focus on the long term, and our long-term results are solid in absolute terms and quite strong on a relative basis (see Figure 4). The Endowment's annualized return over the past 10 years is 7.1 percent, which equates to a HEPI-adjusted real return of 4.6 percent. The 7.1 percent annualized nominal gain compares favorably to all yardsticks, including the 6.7 percent return for the 65/35 benchmark, the 6.0 percent return for the Policy Portfolio Index, and the 4.6 percent median return for college and university endowments (see Figure 4). Over the past 10 years, Princeton's excess performance relative to each of these benchmarks has added approximately $1 billion, $2.5 billion, and $6 billion, respectively, to the Endowment, assuming unchanged levels of spending.

Examining performance over rolling ten-year periods enables an additional long-term perspective. Table 3 compares PRINCO's investment performance over rolling ten-year periods to that of the 65/35 benchmark. Over these rolling periods, the Endowment has consistently outperformed the more conventional and more liquid 65/35 benchmark. The decline in the level of outperformance over time partly reflects that outperformance was unsustainably high in the earlier periods shown, as well as that diversification away from traditional U.S. stocks and bonds has generally been costly in the period since the global financial crisis. Notably, U.S. equities benefited significantly in recent years from equity valuations expanding to lofty levels, while fixed income benefited from bond yields dropping to extremely low levels. It seems unlikely that the 65/35 benchmark will benefit to the same degree from such tailwinds in the decade ahead.

Over the past 10 years, Princeton outperformed within asset categories by an average annualized margin of 1.9 percent, with five of seven asset categories outperforming their respective benchmarks (see Figure 5). Particularly notable is the fact that even over this relatively lengthy period, the easily benchmarked equity categories (Domestic Equity, International Developed Equity, and Emerging Markets) have registered remarkable outperformance.[8] In aggregate, these categories gained almost 9.7 percent annualized over the past 10 years, surpassing a policy-weighted benchmark by over 6 percent annualized.

Independent Return's long-term performance has been strong and consistent,

Figure 4
10-YEAR ANNUALIZED PERFORMANCE
Ending June 30, 2017

Table 3
ANNUALIZED 10-YEAR RETURNS

Fiscal Years	PRINCO	65/35	Difference
1999–2008	14.9%	4.2%	10.7%
2000–2009	9.7%	1.0%	8.7%
2001–2010	7.9%	1.6%	6.3%
2002–2011	9.8%	4.2%	5.6%
2003–2012	9.9%	5.9%	4.0%
2004–2013	10.2%	6.7%	3.5%
2005–2014	10.5%	7.2%	3.3%
2006–2015	10.1%	7.0%	3.1%
2007–2016	8.2%	7.0%	1.2%
2008–2017	7.1%	6.7%	0.4%

with meaningful outperformance over the period. Private Equity generated strong returns over ten years and outperformed. Performance of Real Assets has been disappointing. Losses in Real Estate during the global financial crisis were particularly large, so that despite good performance over the second half of the period, performance over the full 10 years was just break-even. The sharp decline in commodity prices over the last two years also weighed on natural resource returns. Of note, the comparison to the benchmark is made less meaningful by the fact that Real Assets is an inherently difficult asset class to benchmark. Indeed, we have often had to select the "least bad" benchmark. As a result, a substantial amount (albeit far from all) of the long-term underperformance relates to structural differences between the composition of our real estate and energy programs and those of their benchmarks.

Fixed Income and Cash results were slightly below expectations in absolute terms over this period, while also trailing the benchmark. The underperformance is due to holding shorter-than-market duration bonds in recent years, as well as the episodic presence of significant cash balances, held transitionally during periods of portfolio-wide rebalancing.

Long-term oriented investors face several challenges. One of the most difficult is emotional in nature: the ability to muster enough courage to be contrarian. That is, to keep one's head when others are panicked, to leave the party early when others are still having fun, and to remain committed to long-term plans even when they appear to have created an opportunity cost over the short term.

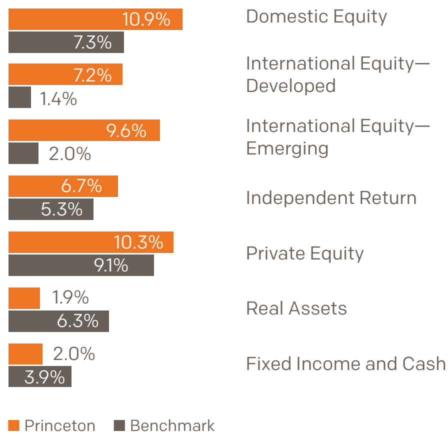
However, for the long-term investor who truly seeks excellence, the challenge is not just an issue of emotions. Rather, the key question is epistemological: How does one know when there is meaningful information in recent short-term results? When does the recent past contain a signal, a lesson among the noise?

This year is not the first we have weathered in which our one-year returns have lagged in comparison with those of other endowments. But over the long term, despite moments of short-term underperformance, we have maintained superior results. In fact, truly superior longer-term performance is likely only possible if an investor is willing to take positions different enough from the crowd such that short-term underperformance is all but inevitable.

We will therefore soldier on with our approach—partnering with great managers who look bottom-up for opportunities that, in aggregate, give us many different ways to earn returns in many different environments.

ANDREW GOLDEN
President, Princeton University Investment Company

Figure 5
PRINCETON ASSET CLASS RETURNS VS. BENCHMARKS
Ten Years Ending June 30, 2017



Benchmarks used:
Domestic Equity: Wilshire 5000 Index;
International Equity—Developed: MSCI World ex-U.S. Index prior to 6/30/10; MSCI World ex-U.S. IMI thereafter;
International Equity—Emerging: MSCI Emerging Markets Index prior to 6/30/10; MSCI Emerging Markets IMI thereafter;
Private Equity: Customized Cambridge Associates benchmark;
Real Assets: Blend of levered NCREIF Property Index, a timber component, and an energy component. Levered NCREIF Property Index changed to Cambridge Associates Real Estate benchmark at 6/30/2010;
Fixed Income and Cash: Barclays Government Bond Index.

8 We describe these categories as "easily benchmarked" because for each there exists an easily investable index alternative that closely parallels our investment approach. No such alternatives exist for the other equity asset categories.

pwc

Report of Independent Auditors

To the Trustees of Princeton University:

We have audited the accompanying consolidated financial statements of Princeton University (the "University"), which comprise the consolidated statements of financial position as of June 30, 2017 and 2016, and the related consolidated statements of activities and consolidated statements of cash flows for the years then ended.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Princeton University as of June 30, 2017 and 2016, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

PricewaterhouseCoopers LLP

November 20, 2017

PricewaterhouseCoopers LLP, PricewaterhouseCoopers Center, 300 Madison Avenue, New York, NY 10017
T: (646) 471 3000, F: (813) 286 6000, www.pwc.com/us

Consolidated Statements of Financial Position

June 30, 2017 and 2016

(dollars in thousands)	2017	2016
Assets		
Cash	$ 14,981	$ 8,003
Accounts receivable	115,667	103,015
Receivables associated with investments	14,920	103,974
Educational and mortgage loans receivable	418,456	395,178
Contributions receivable	168,867	178,280
Inventories and deferred charges	12,688	9,442
Managed investments at market value	23,545,982	21,807,342
Funds held in trust by others	110,033	144,452
Other investments	928,747	711,804
Property, net of accumulated depreciation	4,098,654	3,952,390
Total assets	**$ 29,428,995**	**$ 27,413,880**
Liabilities		
Accounts payable	$ 75,435	$ 103,036
Liabilities associated with investments	16,246	207,828
Deposits, advance receipts, and accrued liabilities	153,491	125,797
Deposits held in custody for others	123,495	121,667
Deferred revenues	38,633	39,099
Liability under planned giving agreements	94,447	90,998
Federal loan programs	4,769	5,574
Indebtedness to third parties	3,637,389	3,495,552
Accrued postretirement benefits	481,587	516,887
Total liabilities	**$ 4,625,492**	**$ 4,706,438**
Net assets		
Unrestricted	$ 10,649,353	$ 9,693,143
Temporarily restricted	11,921,478	11,062,850
Permanently restricted	2,041,247	1,951,449
Net assets: University	**24,612,078**	**22,707,442**
Net assets: noncontrolling interests	191,425	-
Total net assets	**$ 24,803,503**	**$ 22,707,442**
Total liabilities and net assets	**$ 29,428,995**	**$ 27,413,880**

See notes to consolidated financial statements.

Consolidated Statements of Activities

Year ended June 30, 2017

(dollars in thousands)	Unrestricted	Temporarily Restricted	Permanently Restricted	2017 Total
Operating revenues				
Tuition and fees	$ 353,296	-	-	$ 353,296
Less scholarships and fellowships	(244,598)	-	-	(244,598)
Net tuition and fees	108,698	-	-	108,698
Government grants and contracts	295,545	-	-	295,545
Private gifts, grants, and contracts	102,627	-	-	102,627
Auxiliary sales and services	93,148	-	-	93,148
Other sources	115,122	-	-	115,122
Investment earnings distributed	489,544	$ 609,145	-	1,098,689
Operating revenues	1,204,684	609,145	-	1,813,829
Net assets released from restrictions	637,220	(637,220)	-	-
Total operating revenues	**1,841,904**	**(28,075)**	**-**	**1,813,829**
Operating expenses				
Educational and general:				
Academic departments and programs	735,016	-	-	735,016
Academic support	94,302	-	-	94,302
Student services	119,358	-	-	119,358
Library	82,450	-	-	82,450
General administration and institutional support	178,344	-	-	178,344
Other student aid	64,061	-	-	64,061
Plasma Physics Laboratory	112,649	-	-	112,649
Total educational and general	1,386,180	-	-	1,386,180
Auxiliary activities	81,031	-	-	81,031
Interest on indebtedness	148,764	-	-	148,764
Total operating expenses	**1,615,975**	**-**	**-**	**1,615,975**
Results of operations	**225,929**	**(28,075)**	**-**	**197,854**
Nonoperating activities				
Adjustments to planned giving agreements	(975)	12,056	-	11,081
Increase in value of assets held in trust by others	-	1,647	$ 6,406	8,053
Private gifts, noncurrent	77,877	4,144	72,665	154,686
Net realized and unrealized appreciation on investments	1,147,526	1,483,246	879	2,631,651
Distribution of investment earnings	(489,544)	(609,145)	-	(1,098,689)
Reclassifications, transfers, and other nonoperating	(4,603)	(5,245)	9,848	-
Increase from nonoperating activities	730,281	886,703	89,798	1,706,782
Increase in net assets – University	956,210	858,628	89,798	1,904,636
Change in noncontrolling interests	191,425	-	-	191,425
Total increase in net assets	1,147,635	858,628	89,798	2,096,061
Net assets at the beginning of the year	**9,693,143**	**11,062,850**	**1,951,449**	**22,707,442**
Net assets at the end of the year	**$ 10,840,778**	**$ 11,921,478**	**$ 2,041,247**	**$ 24,803,503**

See notes to consolidated financial statements.

Consolidated Statements of Activities

Year ended June 30, 2016

(dollars in thousands)	Unrestricted	Temporarily Restricted	Permanently Restricted	2016 Total
Operating revenues				
Tuition and fees	$ 337,396	-	-	$ 337,396
Less scholarships and fellowships	(226,235)	-	-	(226,235)
Net tuition and fees	111,161	-	-	111,161
Government grants and contracts	290,238	-	-	290,238
Private gifts, grants, and contracts	92,719	-	-	92,719
Auxiliary sales and services	90,359	-	-	90,359
Other sources	169,645	-	-	169,645
Investment earnings distributed	413,874	$ 519,760	-	933,634
Operating revenues	1,167,996	519,760	-	1,687,756
Net assets released from restrictions	575,263	(575,263)	-	-
Total operating revenues	**1,743,259**	**(55,503)**	**-**	**1,687,756**
Operating expenses				
Educational and general:				
Academic departments and programs	768,283	-	-	768,283
Academic support	116,811	-	-	116,811
Student services	121,041	-	-	121,041
Library	83,632	-	-	83,632
General administration and institutional support	166,422	-	-	166,422
Other student aid	61,017	-	-	61,017
Plasma Physics Laboratory	125,610	-	-	125,610
Total educational and general	1,442,816	-	-	1,442,816
Auxiliary activities	84,638	-	-	84,638
Interest on indebtedness	143,286	-	-	143,286
Total operating expenses	**1,670,740**	**-**	**-**	**1,670,740**
Results of operations	**72,519**	**(55,503)**	**-**	**17,016**
Nonoperating activities				
Adjustments to planned giving agreements	(1,038)	(3,098)	-	(4,136)
Decrease in value of assets held in trust by others	-	(312)	$ (9,398)	(9,710)
Private gifts, noncurrent	63,886	23,655	83,791	171,332
Net realized and unrealized appreciation on investments	47,818	89,428	887	138,133
Distribution of investment earnings	(413,874)	(519,760)	-	(933,634)
Reclassifications, transfers, and other nonoperating	(5,144)	(6,931)	4,541	(7,534)
Increase (decrease) from nonoperating activities	(308,352)	(417,018)	79,821	(645,549)
Increase (decrease) in net assets	(235,833)	(472,521)	79,821	(628,533)
Net assets at the beginning of the year	**9,928,976**	**11,535,371**	**1,871,628**	**23,335,975**
Net assets at the end of the year	**$ 9,693,143**	**$ 11,062,850**	**$ 1,951,449**	**$ 22,707,442**

See notes to consolidated financial statements.

Consolidated Statements of Cash Flows

Years ended June 30, 2017 and 2016

(dollars in thousands)	2017	2016
Cash flows from operating activities		
Change in net assets	$ 2,096,061	$ (628,533)
Adjustments to reconcile change in net assets to net cash used by operating activities:		
Depreciation expense	158,542	149,653
Amortization of bond issuance costs and premiums	(14,023)	(5,878)
Property gifts-in-kind	(2,623)	(1,777)
Adjustments to planned giving agreements	(11,081)	4,136
Net realized and unrealized losses (gains) on investments	(2,509,376)	17,300
Loss on disposal of fixed assets	638	1,260
Decrease in value of assets held in trust by others	34,419	9,711
Contributions received for long-term investment	(72,665)	(83,791)
Change in noncontrolling interest	(191,425)	-
Changes in operating assets and liabilities:		
Receivables	(26,517)	(12,997)
Inventory and deferred charges	(3,246)	1,009
Accounts payable	(11,580)	420
Deposits, advance receipts, and accrued liabilities	27,694	772
Deposits held in custody for others	1,828	(37,049)
Deferred revenue	(466)	(421)
Accrued postretirement benefits	(35,300)	100,762
Net cash used by operating activities	**(559,120)**	**(485,423)**
Cash flows from investing activities		
Purchases of property, plant, and equipment	(326,162)	(368,296)
Proceeds from disposal of property, plant, and equipment	7,322	6,454
Purchases of investments	(12,620,331)	(14,041,165)
Proceeds from maturities/sales of investments	13,263,020	14,618,756
Net cash provided by investing activities	**323,849**	**215,749**
Cash flows from financing activities		
Issuance of indebtedness to third parties	716,377	415,100
Payment of debt principal	(560,518)	(215,083)
Contributions received for long-term investment	72,665	83,791
Transactions on planned giving agreements	14,530	(14,795)
Net additions (reductions) under federal loan programs	(805)	(2,880)
Net cash provided by financing activities	**242,249**	**266,133**
Net increase (decrease) in cash	**6,978**	**(3,541)**
Cash at the beginning of the year	**8,003**	**11,544**
Cash at the end of the year	**$ 14,981**	**$ 8,003**
Supplemental disclosures		
Interest paid	$ 162,484	$ 152,060

See notes to consolidated financial statements.

Notes to Consolidated Financial Statements

Years ended June 30, 2017 and 2016

1. NATURE OF OPERATIONS

Princeton University (the "University") is a private, not-for-profit, nonsectarian institution of higher learning. When originally chartered in 1746 as the College of New Jersey, it became the fourth college in British North America. It was renamed Princeton University in 1896. First located in Elizabeth, and briefly in Newark, the school moved to Princeton in 1756.

The student body numbers approximately 5,232 undergraduates and 2,747 graduate students in more than 90 departments and programs. The University offers instruction in the liberal arts and sciences and in professional programs of the School of Architecture, the School of Engineering and Applied Science, and the Woodrow Wilson School of Public and International Affairs. The faculty numbers approximately 1,250, including visitors and part-time appointments.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements of Princeton University (now legally known as "The Trustees of Princeton University") are prepared on the accrual basis and include the accounts of its wholly owned subsidiaries, foundation, and investments controlled by the University. Financial information conforms to the statements of accounting principles of the Financial Accounting Standards Board (FASB) and to the American Institute of Certified Public Accountants *Audit and Accounting Guide for Not-for-Profit Entities*. Relevant pronouncements include FASB Accounting Standards Codification (ASC) 958-310, *Not-for-Profit Entities—Receivables*, and ASC 958-205, *Not-for-Profit Entities—Presentation of Financial Statements*.

Unconditional promises to give are recognized as revenues in the year made, not in the year in which the cash is received. The amounts are discounted based on timing of expected collections. Amounts received from donors to planned giving programs are shown in part as a liability for the present value of annuity payments to the donor; the balance is shown as a gift of either temporarily or permanently restricted net assets.

External financial statements of not-for-profit organizations require the preparation of a statement of financial position, a statement of activities, and a statement of cash flows. The classification of the organization's net assets and its revenues and expenses into three categories according to the existence or absence of donor-imposed restrictions—permanently restricted, temporarily restricted, or unrestricted—is also required. Changes, including reclassification and transfers, in each category are reflected in the statement of activities, certain of which are further categorized as nonoperating. Such nonoperating activities primarily reflect transactions of a long-term investment or capital nature, contributions receivable in future periods, contributions subject to donor-imposed restrictions, gains and losses on investments in excess of the University's spending rule, and other nonrecurring activities. Temporarily restricted gift revenue expended in the same fiscal year is recorded as unrestricted revenue.

Other significant accounting policies are described elsewhere in these notes.

The preparation of the University's financial statements in conformity with generally accepted accounting principles (GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the dates of the consolidated statements of financial position, and the reported amounts of revenue and expense included in the consolidated statements of activities. Actual results could differ from such estimates.

Certain prior-year balances have been reclassified to conform to the current-year presentation.

New Authoritative Pronouncements

In May 2014, the FASB issued Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers (Topic 606)* and *Other Assets and Deferred Costs—Contracts with Customers (Subtopic 340-40)*. This ASU implements a single framework for revenue recognition ensuring that revenue is recognized in a manner that reflects the consideration to which the entity expects to be entitled in exchange for goods and services. The ASU is effective for fiscal years beginning after December 15, 2017. The University is evaluating the impact of the new standard on the University consolidated financial statements.

In February 2016, the FASB issued ASU 2016-02, *Leases* (Topic 842). The new ASU establishes a right-of-use (ROU) model that requires a lessee to record an ROU asset and a lease liability on the balance sheet for all leases with terms longer than 12 months. The ASU is effective for fiscal years beginning after December 15, 2018, with early adoption permissible. The University is evaluating the impact of the new standard on the University consolidated financial statements.

In August 2016, the FASB issued ASU 2016-14, *Presentation of Financial Statements for Not-for-Profit Entities*. The ASU amends the financial reporting requirements in Topic 958, *Not-for-Profit Entities*. Changes include revisions to the classification of net assets and expanded liquidity disclosures. The ASU is effective for fiscal years beginning after December 15, 2017, with early adoption permissible. The University is evaluating the impact of the new standard on the University consolidated financial statements.

In March 2017, the FASB issued ASU 2017-07, *Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost*. The ASU requires that in instances where an operating measure is included in the Consolidated Statement of Activities, the service cost component of the net periodic cost be included as a component of the operating measure. Other components of net periodic costs are to be presented separately from the service cost component in the nonoperating section of the Consolidated Statement of Activities. The ASU is effective for fiscal years beginning after December 15, 2017, with early adoption permissible. The University is evaluating the impact of the new standard on the University consolidated financial statements.

In August 2016, the FASB issued ASU 2016-15, *Classification of Certain Cash Receipts and Cash Payments*. The ASU amends the financial reporting requirements in Topic 230, *Statement of Cash Flows*. Changes include revisions to the classification of cash flows related to certain transactions, including the presentation of cash flows related to the settlement of debt instruments with coupon rates that are insignificant in relation to the effective interest rate of the borrowing and distributions received from equity method investees. The ASU is effective for fiscal years beginning after December 15, 2017, with early adoption permissible. The University is evaluating the impact of the new standard on the University consolidated financial statements.

3. INVESTMENTS

Managed Investments

All managed investments are reported at fair value. The fair value of marketable equity, debt, and certain derivative securities (which includes both domestic and foreign issues) is generally based upon a combination of published current market prices and exchange rates. The fair value of restricted securities and other investments for which published market prices are not available is based on estimated values using discounted cash flow analysis and other industry standard methodologies. Where applicable, independent appraisers and engineers assist in the valuation. The fair value of limited partnerships and similar investment vehicles is based on the net asset value of such investments and is generally estimated by external investment managers, including general partners or valuation committees. These valuations necessarily involve assumptions and methods that are reviewed, evaluated, and adjusted, if necessary, by the University. Changes in assumptions could have a significant effect on the fair values of these investments. Actual results could differ from these estimates and could have a material impact on the financial statements. These investments are generally less liquid than other investments, and the values reported may differ from the values that would have been reported had a ready market for these securities existed. Securities transactions are reported on a trade-date basis. Realized gains and losses are calculated using the specific identification cost method.

A summary of managed investments by asset category at fair value at June 30, 2017 and 2016 is presented below. The managed investment categories are presented on a "manager-mandate" basis, that is, all of the assets and market value of the underlying funds and accounts are included in the asset class that is the primary focus of the fund or account. (Many funds and accounts have contractual flexibility to invest across more than one asset class.)

(dollars in millions)	2017	2016
Managed investments:		
Domestic equity	$ 2,034.0	$ 2,218.3
International equity	3,401.3	3,108.2
Independent return	6,288.5	5,763.1
Private equity	7,495.3	7,049.1
Real assets	3,346.4	3,053.2
Fixed income	580.5	416.
Cash and other	400.0	199.4
Gross managed investments[1]	**$ 23,546.0**	**$ 21,807.3**
Receivables (liabilities) associated with investments—net	(1.4)	(103.8)
Noncontrolling interests	(191.4)	-
Net managed investments	**$ 23,353.2**	**$ 21,703.5**

[1] Includes derivative financial instruments at fair value

The Princeton University Investment Company (Princo) manages investments for a foundation that the University controls, the Stanley J. Seeger Hellenic Fund, and deposits held in custody for others. The investment balances managed by Princo for these entities as of June 30, included in the University's consolidated financial statements, are as follows:

(dollars in millions)	2017	2016
Princeton University	$ 23,201.0	$ 21,554.4
Stanley J. Seeger Hellenic Fund	45.1	42.1
Deposits held in custody for others	107.1	107.0
Net managed investments	**$ 23,353.2**	**$ 21,703.5**

The composition of net investment return from managed and other investments for the years ended June 30 was as follows:

(dollars in thousands)	2017	2016
Net realized and unrealized gains (losses)	$ 2,509,376	$ (17,300)
Interest, dividends, and other income	122,275	155,433
Total	**$ 2,631,651**	**$ 138,133**

Princeton University investments together with the Stanley J. Seeger Hellenic Fund and deposits held in custody for others are invested in a single unitized pool. The market value of each unit was $11,273.97 and $10,521.24 at June 30, 2017 and 2016, respectively. The average value of a unit during the years ending June 30, 2017 and 2016, was $10,863.01 and $10,473.19, respectively.

The average invested market balance in the unitized pool during the years ending June 30, 2017 and 2016, was $22.489 billion and $21.494 billion, respectively.

The University follows a spending rule for its unitized investments, including funds functioning as endowment, that provides for regular increases in spending while preserving the long-term purchasing power of the endowment. Earnings available for spending are shown in operating revenue, and the balance is shown as nonoperating revenue. Amounts distributed per unit under that rule were $525.53 and $449.17 for fiscal years 2017 and 2016, respectively.

The University invests in various investment instruments. Investment securities, in general, are exposed to various risks, such as interest rate, credit, and overall market volatility. Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the financial statements.

Derivative Financial Instruments

As part of its investment strategy, the University enters into transactions utilizing a variety of financial instruments and strategies, including futures, swaps, options, short sales, and forward foreign currency contracts. These financial instruments and strategies allow the University to fine-tune the asset allocation of the investment portfolio. In the case of forward currency exchange contracts, options, and swap contracts, these instruments are traded through securities and commodities exchanges. These financial instruments are executed with creditworthy banks and brokerage firms, are subject to an enforceable master netting arrangement or similar agreement, and are presented at fair value on a net basis on the consolidated statements of financial position.

Investment-related derivative exposures at June 30 are as follows:

2017

(dollars in millions)	Long Notional[1]	Short Notional[1]	Net Derivative Assets (Liabilities)	Gains (Losses)[2]
Index Futures	$ 168.9	170.9	0.3	24.5
Equity Swaps	$ 380.0	359.5	(44.5)	(118.8)
Options Contracts	-	-	-	(1.0)
Forward Contracts	-	$ 1,103.6	(24.0)	6.3
Total	**$ 548.9**	**$ 1,634.0**	**$ (68.2)**	**$ (89.1)**

2016

(dollars in millions)	Long Notional[1]	Short Notional[1]	Net Derivative Assets (Liabilities)	Gains (Losses)[2]
Index Futures	$ 219.8	-	$ (4.4)	$ 4.6
Equity Swaps	249.9	$ 207.5	39.9	66.9
Forward Contracts	-	1,699.3	10.2	2.5
Total	**$ 469.7**	**$ 1,906.8**	**$ 45.7**	**$ 74.0**

[1] Notional amounts are representative of the volume and activity of each derivative type during the years ended June 30, 2017 and June 30, 2016

[2] Gains and losses on derivatives are recorded under "Net realized and unrealized appreciation on investments" in the Consolidated Statement of Activities

Investment-related derivative assets, liabilities, and collateral by counterparty at June 30, are as follows:

2017

(dollars in millions)	# of Contracts	Fair Value Gross Derivative Assets	Gross Derivative Liabilities	Collateral (Held) Pledged	Net
Counterparty A	10	$ 1.1	$ (45.9)	$ 45.1	-
Counterparty B	3	-	(1.7)	-	$ (1.7)
Counterparty C	3	-	(9.6)	-	(9.6)
Counterparty D	6	-	(20.1)	5.9	(14.3)
Counterparty E	1	7.9	-	-	7.9
Total	**23**	**$ 9.0**	**$ (77.3)**	**$ 51.0**	**$ (17.7)**

2016

(dollars in millions)	# of Contracts	Fair Value Gross Derivative Assets	Gross Derivative Liabilities	Collateral (Held) Pledged	Net
Counterparty A	14	$ 29.3	$ (7.5)	$ (13.0)	$ 8.8
Counterparty B	6	12.6	(1.0)	(10.7)	0.9
Counterparty C	6	6.3	-	(7.0)	-
Counterparty D	10	6.6	(0.7)	-	5.9
Total	**36**	**$ 54.8**	**$ (9.2)**	**$ (30.7)**	**$ 15.6**

Funds Held in Trust by Others

The University is the income beneficiary of various trusts that are held and controlled by independent trustees. In addition, the University is the income beneficiary of entities that qualify as supporting organizations under Section 509(a)(3) of the U.S. Internal Revenue Code. Funds held in trust by others are recognized at the estimated fair value of the assets or the present value of the future cash flows when the irrevocable trust is established or the University is notified of its existence. Funds held in trust by others, stated at fair value, amounted to $110.0 million in 2017 and $144.4 million in 2016.

Notes to Consolidated Financial Statements

(Continued)

Other Investments

Other investments include working capital (consisting primarily of U.S. Treasury bonds), a small number of funds that must be separately invested due to donor or legal restrictions, planned giving investments, proceeds from debt, and local real estate holdings expected to be liquidated strategically over several years. A summary of other investments at fair value at June 30, 2017 and 2016, is as follows:

(dollars in millions)	2017	2016
Working capital	$ 459.4	$ 354.4
Planned giving investments	175.5	160.8
Proceeds from debt	215.0	114.4
Strategic real estate investments	32.6	47.2
Other	46.3	35.0
Total	**$ 928.8**	**$ 711.8**

4. FAIR VALUE MEASUREMENTS

ASC 820, *Fair Value Measurements and Disclosures*, defines fair value, establishes a framework for measuring fair value in GAAP, and expands disclosure about fair value measurements. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability (exit price) in an orderly transaction between market participants at the measurement date. Fair value should be based on assumptions that market participants would use when pricing an asset or liability, including assumptions about risk and the risks inherent in valuation techniques and the inputs to valuations. Fair value measurements assume that the transaction occurs in the principal market for the asset or liability (the market with the most volume and activity for the asset or liability from the perspective of the reporting entity), or in the absence of a principal market, the most advantageous market for the asset or liability (the market in which the reporting entity would be able to maximize the amount received or minimize the amount paid). The University applies fair value measurements to certain assets and liabilities, including the University's managed investments, other investments, and funds held in trust by others, in accordance with the requirements described above.

The University maximizes the use of observable inputs and minimizes the use of unobservable inputs when measuring fair value. Fair value is based on actively quoted market prices, if available. In the absence of actively quoted market prices, price information from external sources, including broker quotes and industry publications, is used. If pricing information from external sources is not available, or if observable pricing is not indicative of fair value, judgment is required to develop the estimates of fair value using discounted cash flow and other income valuation approaches.

The University utilizes the following fair value hierarchy, which prioritizes, into three broad levels, the inputs to valuation techniques used to measure fair value:

Level 1: Quoted prices (unadjusted) in active markets for identical assets and liabilities that the University has the ability to access at the measurement date. Instruments categorized in Level 1 primarily consist of a broadly traded range of equity and debt securities.

Level 2: Inputs other than quoted prices included within Level 1 that are either directly or indirectly observable for the asset or liability, including quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in inactive markets, inputs other than quoted prices that are observable for the asset or liability, and inputs that are derived from observable market data by correlation or other means.

Level 3: Unobservable inputs for the asset or liability, including situations where there is little, if any, market activity for the asset or liability. Instruments categorized in Level 3 consist primarily of limited partnership interests and other similar investment vehicles.

The fair value hierarchy gives the highest priority to quoted prices in active markets (Level 1) and the lowest priority to unobservable data (Level 3). In some cases, the inputs used to measure fair value might fall in different levels of the fair value hierarchy. The lowest level input that is significant to a fair value measurement in its entirety determines the applicable level in the fair value hierarchy. Assessing the significance of a particular input to the fair value measurement in its entirety requires judgment, considering factors specific to the asset or liability. Fair value measurements are categorized as Level 3 when a significant amount of price or other inputs that are considered to be unobservable are used in their valuations.

Investments in investee funds that are valued using the net asset value (NAV) of the underlying investee fund as a practical expedient have been excluded from the fair value hierarchy and are shown as a separate column in the fair value leveling table. Where the University has the ability to redeem its investment with the investee at net asset value per share (or its equivalent) using the practical expedient, such investments have been excluded from the fair value hierarchy. Certain of these investments may be subject to modest holdback provisions to cover audit and other potential expenses or adjustments in the event of a complete withdrawal.

The University has various processes and controls in place to ensure investment fair value is reasonable and performs due diligence procedures on its investments, including an assessment of applicable accounting policies, a review of the valuation procedures employed, and consideration of redemption features and price transparency. The University holds direct real estate investments categorized as Level 3. Valuation for material directly held real estate investments is determined from periodic valuations prepared by independent appraisers or broker opinions.

The following tables present the University's assets that are measured at fair value for each hierarchy level, at June 30, 2017 and 2016.

		Fair Value Measurements at Reporting Date Using			
(dollars in millions) **2017**	**Total**	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**	**NAV as Practical Expedient**
Assets at fair value					
Managed investments (gross):					
Domestic equity	$ 2,034.0	$ 102.5	$ (22.5)	$ 1.2	$ 1,952.8
International equity	3,401.3	497.8	(25.2)	219.1	2,709.6
Independent return	6,288.5	-	-	4.2	6,284.3
Private equity	7,495.3	2.3	(11.7)	146.9	7,357.8
Real assets	3,346.4	163.6	(9.1)	4.9	3,187.0
Fixed income	580.5	580.5	-	-	-
Cash and other	400.0	364.7	35.3	-	-
Total managed investments (gross)	23,546.0	1,711.4	(33.2)	376.3	21,491.5
Funds held in trust by others	110.0	-	-	110.0	-
Other investments	928.8	721.0	-	207.8	-
Total	**$ 24,584.8**	**$ 2,432.4**	**$ (33.2)**	**$ 694.1**	**$ 21,491.5**

(dollars in millions) 2016	Total	Fair Value Measurements at Reporting Date Using: Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	NAV as Practical Expedient
Assets at fair value					
Managed investments (gross):					
Domestic equity	$ 2,218.3	$ 109.8	$ 7.2	$ 1.2	$ 2,100.1
International equity	3,108.2	436.7	6.6	210.8	2,454.1
Independent return	5,763.1	-	-	5.4	5,757.7
Private equity	7,049.1	1.5	4.5	240.4	6,802.7
Real assets	3,053.2	127.7	31.8	7.5	2,886.2
Fixed income	416.0	416.0	-	-	-
Cash and other	199.4	250.8	(51.4)	-	-
Total managed investments (gross)	21,807.3	1,342.5	(1.3)	465.3	20,000.8
Funds held in trust by others	144.5	-	-	144.5	-
Other investments	711.8	505.7	-	206.1	-
Total	**$ 22,663.6**	**$ 1,848.2**	**$ (1.3)**	**$ 815.9**	**$ 20,000.8**

Assets and liabilities of a majority-owned and -controlled investment fund have been consolidated for reporting purposes at June 30, 2017 and 2016. Gross managed investments, specifically the independent return asset class, includes consolidated investment fund assets of $1,046.2 million and $995.4 million at June 30, 2017 and 2016, respectively, and liabilities associated with investments includes consolidated investment fund liabilities of $7.5 million and $180.6 million at June 30, 2017 and 2016, respectively. The portion of consolidated net assets not owned by the University is reported as a noncontrolling interest.

The following tables present the net change in the assets measured at fair value on a recurring basis and included in the Level 3 fair value category for the years ended June 30, 2017 and 2016:

(dollars in millions)	Fair Value Measurements Using Significant Unobservable Inputs (Level 3): June 30, 2016	Total Gains or Losses Included in Changes in Net Assets	Purchases	Sales and Settlements	Transfers into Level 3	Transfers out of Level 3	June 30, 2017
Assets at fair value							
Managed investments (gross):							
Domestic equity	$ 1.2	$ (0.1)	-	$ 0.1	-	-	$ 1.2
International equity	210.8	25.3	$ 0.2	(17.2)	-	-	219.1
Independent return	5.4	(0.5)	-	(0.7)	-	-	4.2
Private equity	240.4	(13.3)	3.4	(22.9)	-	$(60.7)	146.9
Real assets	7.5	(2.2)	-	(0.4)	-	-	4.9
Fixed income	-	-	-	-	-	-	-
Cash and other	-	-	-	-	-	-	-
Total managed investments (gross)	465.3	9.2	3.6	(41.1)	-	(60.7)	376.3
Funds held in trust by others	144.5	7.0	1.6	(43.1)	-	-	110.0
Other investments	206.1	12.5	2.3	(13.1)	-	-	207.8
Total Level 3 investments	**$ 815.9**	**$ 28.7**	**$ 7.5**	**$ (97.3)**	**-**	**(60.7)**	**$ 694.1**

	Fair Value Measurements Using Significant Unobservable Inputs (Level 3)						
(dollars in millions)	June 30, 2015	Total Gains or Losses Included in Changes in Net Assets	Purchases	Sales and Settlements	Transfers into Level 3	Transfers out of Level 3	June 30, 2016
Assets at fair value							
Managed investments (gross):							
Domestic equity	$ 2.4	$ (1.2)	-	-	-	-	$ 1.2
International equity	181.5	18.3	$ 11.2	$ (0.2)	-	-	210.8
Independent return	7.9	1.1	-	(3.6)	-	-	5.4
Private equity	244.2	7.6	10.6	(22.0)	-	-	240.4
Real assets	9.6	(4.1)	-	(0.5)	$ 2.5	-	7.5
Fixed income	-	-	-	-	-	-	-
Cash and other	-	-	-	-	-	-	-
Total managed investments (gross)	445.6	21.7	21.8	(26.3)	2.5	-	465.3
Funds held in trust by others	154.2	(11.5)	1.8	-	-	-	144.5
Other investments	224.3	(17.0)	3.7	(4.9)	-	-	206.1
Total Level 3 investments	**$ 824.1**	**$ (6.8)**	**$ 27.3**	**$ (31.2)**	**$ 2.5**	**-**	**$ 815.9**

The University assesses the valuation hierarchy for each asset or liability measured on an annual basis. From time to time, assets or liabilities will be transferred within hierarchy levels as a result of changes in valuation methodologies, liquidity, and/or redemption terms. One transfer out of Level 3 to NAV assets occurred in the year ended June 30, 2017. The University's policy is to recognize transfers at the beginning of the reporting period.

Realized gains of $5.8 million and $5.7 million related to Level 3 investments and unrealized gains of $22.9 million and unrealized losses of $12.5 million related to Level 3 investments are included in net realized and unrealized appreciation on investments in the consolidated statements of activities for the years ended June 30, 2017 and 2016, respectively.

The following tables and disclosures set forth the significant terms of the agreements with investment managers or funds by major category at June 30, 2017 and 2016. The information is presented on a "manager-mandate" basis.

(dollars in millions)	June 30 Fair Value	Unfunded Commitments	Redemption Frequency (If Currently Eligible)	Redemption Notice Period
2017				
Managed investments (gross)				
Domestic equity (a)	$ 2,034.0	$ 122.9	daily—annually	4–90 days
International equity—developed (b)	1,121.8	-	daily—annually	7–90 days
International equity—emerging (c)	2,279.5	220.3	daily—annually	7–90 days
Independent return (d)	6,288.5	619.9	monthly—annually	30–90 days
Fixed income and cash (e)	980.5	-	daily	1 day
Marketable asset classes	**$ 12,704.3**	**$ 963.1**		
Private equity (f)	7,495.3	2,680.3		
Real assets (g)	3,346.4	1,660.6		
Nonmarketable asset classes	**$ 10,841.7**	**$ 4,340.9**		
Total gross managed investments		**$ 23,546.0**	**$ 5,304.0**	

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(Continued)

(dollars in millions)	June 30 Fair Value	Unfunded Commitments	Redemption Frequency (If Currently Eligible)	Redemption Notice Period
2016				
Managed investments (gross)				
Domestic equity (a)	$ 2,218.3	$ 181.2	daily—annually	4–90 days
International equity—developed (b)	1,028.8	-	daily—annually	7–90 days
International equity—emerging (c)	2,079.4	233.4	daily—annually	7–90 days
Independent return (d)	5,763.1	503.0	monthly—annually	30–90 days
Fixed income and cash (e)	615.4	-	daily	1 day
Marketable asset classes	**$ 11,705.0**	**$ 917.6**		
Private equity (f)	7,049.1	2,716.4		
Real assets (g)	3,053.2	1,837.9		
Nonmarketable asset classes	**$ 10,102.3**	**$4,554.3**		
Total gross managed investments	**$ 21,807.3**	**$ 5,471.9**		

(a) Domestic Equity: This asset class includes funds and accounts primarily invested in equities traded on domestic exchanges or in domestic over-the-counter markets. The fair values of the investments in this asset class have been estimated using the net asset value per share of the investee funds, or, in the case of custodied accounts, the fair value of the securities held. Investments representing approximately 3 percent of the market value of this asset class are invested in nonredeemable assets.

(b) International Equity—Developed: This asset class includes funds primarily invested in public equity and debt securities traded in countries with developed economies other than the United States. The fair values of the investments in this asset class have been estimated using the net asset value per share of the investee funds. Investments representing approximately 10 percent of the market value of this asset class are invested in nonredeemable assets.

(c) International Equity—Emerging: This asset class includes funds primarily invested in public equity and debt securities traded in countries with emerging economies. The fair values of the investments in this asset class have been estimated using the net asset value per share of the investee funds or, in the case of custodied accounts, the fair value of the securities held, at prevailing exchange rates. Investments representing approximately 9 percent of the market value of this asset class are invested in nonredeemable assets.

(d) Independent Return: This asset class includes funds invested in equity and debt securities and financial instruments such as options, swaps, futures, and other derivatives. Funds in this asset class may hold both long and short positions in any of these instruments and pursue a variety of investment strategies based upon the fund's investment mandate and the current opportunity set. In general terms, approximately 31 percent of independent return market value is invested in funds principally focused on long/short equity investments, 25 percent is invested in event-driven/arbitrage strategies, and 44 percent is invested in funds that opportunistically engage in both strategies. Investments representing approximately 18 percent of the market value of this asset class are invested in nonredeemable assets.

(e) Fixed Income and Cash: On a combined basis, these asset classes include primarily U.S. government and U.S. government-guaranteed securities held in separate accounts at the custodial bank. Virtually all of the investments in these asset classes can be liquidated on a daily basis.

(f) Private Equity: This asset class includes funds invested primarily in buyouts or venture capital. The fair values of the investments in this asset class have generally been estimated using partners' capital statements issued by the funds, which reflect the University's ownership interest. Generally, investments in this asset class are not redeemable. Distributions from investee funds in the portfolio are received as the underlying investments of the funds are liquidated.

(g) Real Assets: This asset class includes funds invested primarily in real estate, energy, and timber. The fair values of the investments in this asset class have been estimated using partners' capital statements issued by the funds, which reflect the University's ownership interest. Generally, investments in this asset class are not redeemable. However, a small portion, $270.0 million at June 30, 2017, and $175.0 million at June 30, 2016, was invested in redeemable funds. More broadly, distributions from investee funds are received as the underlying investments of the funds are liquidated.

Investments in the marketable asset classes are generally redeemable, having been made in entities that allow the University to request withdrawals in specified circumstances. However, approximately $1.5 billion of the marketable asset classes are invested in "nonredeemable assets," which are not eligible for redemption by the University. Nonredeemable assets are specific investments within a fund designated by the fund manager as ineligible for withdrawal. Due to the illiquid nature of nonredeemable assets, it is impossible for the University to predict when these assets will liquidate and the proceeds be distributed to investors.

In addition to nonredeemable assets, the University may be limited in its ability to effect a withdrawal if a fund manager invokes a "gate" provision restricting redemptions from its fund. Gates are generally triggered when aggregate fund withdrawal requests exceed a contractually predetermined threshold. No withdrawal requests were impacted by a gate in the year ended June 30, 2017.

The University is obligated under certain agreements to fund capital calls periodically up to specified commitment amounts. At June 30, 2017, the University had unfunded commitments of $5.3 billion. Such commitments are generally called over periods of up to 10 years and contain fixed expiration dates or other termination clauses.

5. ENDOWMENT

The University's endowment consists of approximately 4,300 individual funds established for a variety of purposes. The endowment includes both donor-restricted endowment funds and funds designated by the University to function as endowments. As required by GAAP, net assets associated with endowment funds, including funds designated by the University to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

ASC 958-205-45-28, *Not-for-Profit Entities—Presentation of Financial Statements—Other Presentation Matters—Classification of Donor-Restricted Endowment Funds Subject to the Uniform Prudent Management of Institutional Funds Act,* provides guidance on the net asset classification of donor-restricted endowment funds for a not-for-profit organization that is subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA), which was enacted in the state of New Jersey in June 2009.

Notes to Consolidated Financial Statements

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Interpretation of relevant law—The University interprets the UPMIFA as requiring the preservation of the fair value at the original gift date of the donor-restricted endowment funds, absent explicit donor stipulations to the contrary. As a result of this interpretation, the University classifies as permanently restricted net assets: (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the University in a manner consistent with the standard of prudence prescribed by UPMIFA. The University 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 the appreciation of investments
(6) Other resources of the University
(7) The investment policies of the University

Endowment net asset composition by type of fund as of June 30, 2017 and 2016, was:

2017 *(dollars in thousands)*	**Unrestricted**	**Temporarily Restricted**	**Permanently Restricted**	**Total**
Donor-restricted endowment fund	-	$ 11,678,195	$ 1,864,500	$ 13,542,695
Board-designated endowment funds	$ 9,702,394	-	-	9,702,394
Total	**$ 9,702,394**	**$ 11,678,195**	**$ 1,864,500**	**$ 23,245,089**

2016 *(dollars in thousands)*	**Unrestricted**	**Temporarily Restricted**	**Permanently Restricted**	**Total**
Donor-restricted endowment funds	$ (535)	$ 10,796,205	$ 1,750,003	$ 12,545,673
Board-designated endowment funds	9,049,775	-	-	9,049,775
Total	**$ 9,049,240**	**$ 10,796,205**	**$ 1,750,003**	**$ 21,595,448**

Changes in endowment net assets for the years ended June 30, 2017 and 2016, were:

2017 *(dollars in thousands)*	**Unrestricted**	**Temporarily Restricted**	**Permanently Restricted**	**2017 Total**
Endowment net assets, beginning of the year	$ 9,049,240	$ 10,796,205	$ 1,750,003	$ 21,595,448
Investment return:				
Net realized and unrealized appreciation	1,224,826	1,478,221	879	2,703,926
Contributions	18,298	7,590	61,296	87,184
Appropriation of endowment assets for expenditure	(479,704)	(604,121)	-	(1,083,825)
Reclassifications, transfers, and board designations	(110,266)	300	52,322	(57,644)
Endowment net assets, end of the year	**$ 9,702,394**	**$ 11,678,195**	**$ 1,864,500**	**$ 23,245,089**

Notes to Consolidated Financial Statements

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2016 *(dollars in thousands)*	**Unrestricted**	**Temporarily Restricted**	**Permanently Restricted**	**2016 Total**
Endowment net assets, beginning of the year	$ 9,278,348	$ 11,219,923	$ 1,649,703	$ 22,147,974
Investment return:				
Net realized and unrealized appreciation	73,178	81,036	887	155,101
Reclassification for funds with deficiencies	(535)	535	-	-
Total investment return	**$ 72,643**	**$ 81,571**	**$ 887**	**$ 155,101**
Contributions	13,699	1,056	94,872	109,627
Appropriation of endowment assets for expenditure	(404,369)	(511,904)	-	(916,273)
Reclassifications, transfers, and board designations	88,919	5,559	4,541	99,019
Endowment net assets, end of the year	**$ 9,049,240**	**$ 10,796,205**	**$ 1,750,003**	**$ 21,595,448**

Funds with Deficiencies—From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor of UPMIFA requires the University to retain as a fund of perpetual duration. Deficiencies of this nature that are reported in unrestricted net assets were $0.0 and $0.5 million at June 30, 2017 and 2016, respectively. Deficiencies can result from unfavorable market fluctuations that occur shortly after the investment of new permanently restricted contributions while continued appropriations are deemed prudent by the Board of Trustees.

In accordance with the terms of donor gift instruments, the University is permitted to reduce the balance of restricted endowments below the original amount of the gift. Subsequent investment gains are then used to restore the balance up to the fair market value of the original amount of the gift. Subsequent gains above that amount are recorded in temporarily restricted net assets.

Return objectives and risk parameters—The University has adopted investment and spending policies for endowment assets that attempt to support the University's current and future operating needs, while preserving intergenerational equity. Endowment assets include those assets of donor-restricted funds that the University must hold in perpetuity or for donor-specified periods as well as University-designated funds. Under these policies, the endowment assets are invested in a manner that is intended to produce returns that exceed both the annual rate of spending and university inflation.

Strategies employed for achieving objectives—The vast majority of the endowment assets are actively managed by Princo, which is structured as a University office, but maintains its own Board of Directors, and operates under the final authority of the University's Board of Trustees (the "Trustees").

In pursuit of the investment return objectives, Princo maintains an equity-biased portfolio and seeks to partner with best-in-class investment management firms across diverse asset categories.

Spending policy and how the investment objectives relate to spending policy—Each year the Trustees decide upon an amount to be spent from the endowment for the following fiscal year. In their deliberations, the Trustees use a spending framework that is designed to enable sizable amounts to be spent in a reasonably stable fashion, while allowing for reinvestment sufficient to preserve purchasing power in perpetuity. The framework targets annual spending rates of between 4.0 percent and 6.25 percent.

The endowment must seek investment returns sufficient to meet spending policy targets as well as to maintain future purchasing power without deterioration of corpus resulting from university inflation.

6. EDUCATIONAL AND MORTGAGE LOANS

Educational loans include donor-restricted and federally sponsored educational loans that bear mandated interest rates and repayment terms, and are subject to significant restrictions on their transfer and disposition. These loans totaled $64.0 million and $65.0 million at June 30, 2017 and 2016, respectively.

Through a program designed to attract and retain excellent faculty and senior staff, the University provides home acquisition and financing assistance on residential properties in the area surrounding the University. Notes receivable from faculty and staff and co-ownership interests in the properties are included in mortgage loans and are collateralized by mortgages on those properties. These loans and interests totaled $354.7 million and $330.6 million at June 30, 2017 and 2016, respectively.

Allowance for Doubtful Loans

Management assesses the adequacy of the allowance for doubtful loans by performing evaluations of the loan portfolio, including such factors as the differing economic risks associated with each loan category, the financial condition of borrowers, the economic environment, the level of delinquent loans, and the value of any collateral associated with the loans. In addition to general economic conditions and other factors described above, a detailed review of the aging of loans receivable is considered in management's assessment. The level of the allowance is adjusted according to the results of management's analysis.

Loans less than 120 days delinquent are deemed to have a minimal delay in payment and are generally not written off. Loans delinquent by 120 days or more are subject to standard collection practices, including litigation. Only loans that are deemed uncollectible are written off, and this occurs only after several unsuccessful collection attempts, including placement at an external collection agency. Considering the other factors discussed herein, management considers the allowance for doubtful loans at June 30, 2017 and 2016, to be prudent and reasonable.

Educational and mortgage loans receivable at June 30, 2017 and 2016, are reported net of allowances for doubtful loans of $0.3 million and $0.4 million, respectively.

7. PROMISES TO GIVE

At June 30, 2017 and 2016, the University had received from donors unconditional promises to give contributions of amounts receivable in the following periods:

(dollars in thousands)	2017	2016
Less than one year	$ 81,163	$ 75,600
One to five years	88,038	90,335
More than five years	19,869	23,441
Total	**189,070**	**189,376**
Less unamortized discount and reserve	20,203	11,096
Net amount	**$ 168,867**	**$ 178,280**

The amounts promised have been recorded after discounting the future cash flows to the present value. Current-year promises are included in revenue as additions to temporarily or permanently restricted net assets, as determined by the donors, and are included in contributions receivable at fair value based on observable ASC 820 Level 2 inputs.

In addition, at June 30, 2017, the University had received from donors promises to give totaling $6.3 million, conditioned upon the raising of matching gifts from other sources and other criteria. These amounts will be recognized as income in the periods in which the conditions have been fulfilled.

8. PROPERTY

Land additions are reported at estimated market value at the date of gift, or on a cost basis. Buildings and improvements are stated at cost. Expenditures for operation and maintenance of physical plant are expensed as incurred.

Items classified as property at June 30, 2017 and 2016, consisted of the following:

(dollars in thousands)	2017	2016
Land	$ 114,599	$ 114,272
Buildings and improvements	4,441,228	4,123,404
Construction in progress	225,521	331,167
Equipment and systems	362,733	361,528
Rare books	112,375	104,063
Library books, periodicals, and bindings	292,190	286,816
Fine art objects	137,053	132,202
Total property	**5,685,699**	**5,453,452**
Accumulated depreciation	(1,587,045)	(1,501,062)
Total	**$ 4,098,654**	**$ 3,952,390**

Equipment, library books, periodicals, and bindings are stated at cost, net of accumulated depreciation. Equipment includes items purchased with federal government funds; an indeterminate portion of those items are expected to be transferred to the University at the termination of the respective grant or contract.

In addition to making purchases with University funds, the University, since its inception, has received a substantial number of fine art objects and rare books from individual gifts and bequests. Art objects and rare books acquired through June 30, 1973, are carried at insurable values at that date because it is not practicable to determine the historical cost or market value at the date of gift. Art objects and rare books acquired subsequent to June 30, 1973, are recorded at cost or fair value at the date of gift. Works of art, literary works, historical treasures, and artifacts that are part of a collection are protected, preserved, and held for public exhibition, education, and research in furtherance of public service. Collections are not capitalized, and contributed collection items are not recognized as revenues in the University's financial statements.

The University uses componentized depreciation for buildings and building improvements used for research. The costs of research facilities are separated into building shell, service system, and fixed equipment components that are separately depreciated.

Annual depreciation is calculated on the straight-line method over useful lives ranging from 15 to 50 years for buildings and improvements, 30 years for library books, and 10 and 15 years for equipment. Art objects and rare books having cultural, aesthetic, or historical value are not depreciated.

9. CONDITIONAL ASSET RETIREMENT OBLIGATIONS

Under ASC 410-20, *Asset Retirement and Environmental Obligations—Asset Retirement Obligations,* companies must accrue costs related to legal obligations to perform certain activities in connection with the retirement, disposal, or abandonment of assets. The obligation to perform the asset retirement activity is not conditional even though the timing or method may be conditional.

The University has identified asbestos abatement as a conditional asset retirement obligation. Asbestos abatement was estimated using site-specific surveys where available and a per-square-foot estimate based on historical cost where surveys were unavailable. The estimate is recorded as a liability and as an increase to the asset, and the capitalized portion is depreciated over the remaining useful life of the asset. The asset retirement obligation included in accrued liabilities was $11.6 million and $13.2 million at June 30, 2017 and 2016, respectively, and accretion expense on the asset retirement obligation was $0.3 million for the years ended June 30, 2017 and 2016.

10. INCOME TAXES

ASC 740, *Income Taxes,* prescribes the minimum recognition threshold a tax position must meet in connection with accounting for uncertainties in income tax positions taken or expected to be taken by an entity before being measured and recognized in the financial statements. The University continues to evaluate its tax positions pursuant to the principles of ASC 740, and has determined that there is no material impact on the University's financial statements.

The University is a not-for-profit organization as described in Section 501(c)(3) of the Internal Revenue Code and is exempt from income taxes on related income. The University files U.S. federal and various state and local tax returns. The statute of limitations on the University's U.S. federal tax returns remains open for the years ended June 30, 2014, through the present.

11. DEFERRED REVENUES

Deferred revenues primarily represent advance receipts relating to the University's real estate leasing activities. Such amounts are amortized over the term of the related leases.

12. INDEBTEDNESS TO THIRD PARTIES

At June 30, 2017 and 2016, the University's debt consisted of taxable bonds, taxable notes, loans through the New Jersey Educational Facilities Authority (NJEFA), commercial paper, various parent loans, and a note as follows:

(dollars in thousands)	2017	2016
Taxable Revenue Bonds		
2009 Series A, 4.95% and 5.70%, due March 2019 and March 2039, net of unamortized discount of $2,416 and $2,526	$ 997,584	$ 997,474
2016 Series A, 1.85%, 2.61%, 3.63%, due July 2021, July 2026, July 2046	100,000	100,000
2017 Series A, 3.84% due July 2048	150,000	-

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Taxable Notes	**2017**	**2016**
2012, 3.37%, due July 2042	170,000	170,000
2013, 4.73%, due July 2044	75,000	75,000
NJEFA Revenue Bonds		
2003 Series D, 3.73%, due July 2019, including unamortized premium of $1,369 and $2,054	23,049	34,364
2007 Series E, 4.53%, due July 2037, including unamortized premium of $0 and $3,609	-	271,274
2007 Series F, 4.39%, due July 2030, including unamortized premium of $0 and $559	-	62,904
2008 Series J, 4.39%, due July 2038, including unamortized premium of $3,305 and $3,463	212,485	218,563
2008 Series K, 4.36%, due July 2023, including unamortized premium of $0 and $3,466	16,655	109,231
2010 Series B, 4.03%, due July 2040, including unamortized premium of $9,326 and $9,732	229,901	235,657
2011 Series B, 4.09%, due July 2041, including unamortized premium of $13,088 and $13,634	239,893	245,534
2014 Series A, 3.77%, due July 2044, including unamortized premium of $17,329 and $17,971	212,054	215,386
2015 Series A, 2.32% due July 2035, including unamortized premium of $27,263 and $28,779	171,933	182,294
2015 Series D, 3.40% due July 2045, including unamortized premium of $18,474 and $19,133	165,749	169,133
2016 Series A, 2.53% due July 2035 including unamortized premium of $20,979 and $22,145	130,479	131,645
2016 Series B, 1.77% due July 2027 including unamortized premium of $26,216 and $28,837	142,106	146,657
2017 Series B, 2.91% due July 2036, including unamortized premium of $53,680	395,920	-
2017 Series C, 3.50% due July 2047, including unamortized premium of $21,361	162,456	-
NJEFA Capital Improvement Fund Bonds		
2005 Series A, 4.12%, 2000 Series A, 5.72%, due September 2020	-	574
2006 Series A, 4.42%, 2000 Series A, 5.72%, due September 2020	-	165
2014 Series B, 3.67%, due September 2033, including unamortized premium of $189 and $200	2,986	3,102
2016 Series A, 2.53%, due September 2020	627	-
Commercial Paper		
Taxable, 1.04% and 0.12% with maturities up to one year	3,000	64,800
Tax-exempt (NJEFA), 0.08% with maturities up to one year	-	29,000
Parent Loans, 0.56% to 5.40% with maturities up to nine years	47,103	44,343
Notes	546	735
Total Borrowings	**$3,649,526**	**$3,507,835**
Unamortized debt issuance costs	(12,137)	(12,283)
Total Borrowings Net of Unamortized Issuance Costs	**$3,637,389**	**$3,495,552**

In March 2017, the University issued the 2017 Series A Taxable Bonds for general corporate purposes.

The proceeds of NJEFA loans are used primarily to finance the costs of acquisition, construction, renovation, and installation of capital assets of the University.

In April 2017, the University issued the NJEFA 2017 Series B Bonds and the 2017 Series C Bonds. The 2017 Series B Bonds were issued for the purpose of the current refunding and defeasance of the 2007 Series E and 2007 Series F Bonds, and for the purpose of advance refunding and defeasance of a portion of the 2008 Series K Bonds. The 2017 Series C Bonds were issued for the purpose of funding new construction and renovations, and for the refunding of all or a portion of the taxable and tax-exempt commercial paper notes. The University is authorized by the Trustees to issue new debt up to $350 million annually. The University intends to issue additional debt in the future.

The full faith and credit of the University is pledged in all loan agreements with the NJEFA.

In fiscal 1999, the University entered into a loan facility with a national bank to fund its parent loan program, which is currently authorized by the Trustees up to $100 million. Fixed or variable rates may be selected on a pass-through basis to the borrowers; terms may be as long as 14 years.

In fiscal year 1998, a commercial paper program was authorized as an initial step of financing to provide construction funds for approved capital projects. The commercial paper proceeds are primarily used to finance construction expenditures until permanent financing from gifts or other sources is made available. The program is currently authorized to a maximum level of $300 million.

Principal payments for each of the next five years and thereafter on debt outstanding at June 30, 2017, excluding commercial paper, are as follows:

(dollars in thousands)	**Principal Payments**
2018	$ 90,929
2019	596,623
2020	93,793
2021	104,704
2022	86,421
Thereafter	2,463,892
Subtotal	**3,436,362**
Unamortized premium	210,164
Net long-term debt	**$ 3,646,526**

The University has committed bank lines of credit totaling $300 million, under which the University may borrow on an unsecured basis at agreed-upon rates. There were $16.3 million and $18.3 million in letters of credit outstanding under these credit facilities at June 30, 2017 and 2016, respectively.

13. EMPLOYEE BENEFIT PLANS

All faculty and staff who meet specific employment requirements participate in a defined contribution plan, which invests in the Teachers Insurance and Annuity Association and College Retirement Equities Fund and Vanguard Fiduciary Trust Funds. The University's contributions were $59.2 million and $52.3 million for the years ended June 30, 2017 and 2016, respectively. The University also provides deferred compensation arrangements for certain officers, faculty, and staff. Accrued benefits of $481.6 million and $516.9 million for the years ended June 30, 2017 and 2016, respectively, include the Accumulated Postretirement Benefit Obligation and deferred compensation.

Postretirement Benefits Other Than Pensions

ASC 715, *Compensation—Retirement Benefits*, requires the recognition of a defined benefit postretirement plan's funded status as either an asset or a liability on the statement of financial position. Actuarial gains or losses and prior service costs or credits that arise during the period must be recognized as a component of unrestricted net assets. The University calculates its APBO in accordance with ASC 715. In 1993, the University elected to amortize the APBO over 20 years. The University continues to recognize the cost of providing postretirement benefits for employees over the period of their working years.

The University provides single-coverage health insurance to its retirees who meet certain eligibility requirements. Participants may purchase additional dependent or premium coverage. The accounting for the plan anticipates future cost-sharing changes to the written plan that are consistent with the University's expressed intent to increase retiree contributions in line with medical costs.

The benefit costs for the years ended June 30, 2017 and 2016, consisted of the following:

(dollars in thousands)	**2017**	**2016**
Service cost	$ 25,302	$ 18,434
Interest cost	17,948	17,022
Unrecognized loss amortization	3,421	-
Total	**$ 46,671**	**$ 35,456**

The APBO at June 30, 2017 and 2016, consisted of actuarially determined obligations to the following categories of employees:

(dollars in thousands)	**2017**	**2016**
Retirees	$ 136,047	$ 150,327
Active employees eligible to retire	119,080	129,857
Other active participants	183,943	203,226
Total	**$ 439,070**	**$ 483,410**

As of June 30, 2017 and 2016, the APBO was unfunded.

Assumed discount rates of 4.00 percent and 3.75 percent were used to calculate the APBO at June 30, 2017 and 2016, respectively. The assumed health care cost trend rate used to calculate the APBO at June 30, 2017 was 6.0 percent, declining by 0.13 percent per year until the long-term trend rate of 5.0 percent is reached for medical claims. For prescription drug claims, the assumed health care cost trend rate used to calculate the APBO at June 30, 2017 was 8.25 percent, declining by 0.41 percent per year until the long-term trend rate of 5.0 percent is reached. The assumed health care cost trend rate used to calculate the APBO at June 30, 2016 was 6.2 percent, declining by 0.24 percent per year until the long-term trend rate of 5.0 percent is reached, for medical claims. For prescription drug claims, the assumed health care cost trend rate used to calculate the APBO at June 30, 2016 was 9.0 percent, declining by 0.08 percent per year until the long-term trend rate of 5.0 percent is reached. An increase of 1 percent in the cost trend rate would raise the APBO to $536.2 million and $594.4 million and cause the service and interest cost components of the net periodic cost to be increased by $13.5 million and $10.3 million for the years ended June 30, 2017 and 2016, respectively. A decrease of 1 percent in the cost trend rate would decrease the APBO to $364.6 million and $398.9 million and cause the service and interest cost components of the net periodic cost to be decreased by $9.7 million and $7.5 million for the years ended June 30, 2017 and 2016, respectively.

Postretirement plan benefit payments for fiscal years 2018 through 2022 are expected to range from $9.2 million to $12.6 million per year, with aggregate expected payments of $78.8 million for fiscal years 2023 through 2027. These amounts reflect the total benefits expected to be paid from the plan, net of the participants' share of the cost and federal subsidies. Expected benefit payments are based on the same assumptions used to measure the benefit obligations and include estimated future employee service.

The University provides Medicare retiree drug coverage through an employer group waiver plan (EGWP). Under EGWP, the cost of drug coverage is offset through direct federal subsidies, brand-name drug discounts, and reinsurance reimbursements. The net effect of these subsidies has been recognized in the calculation of the University's postretirement benefit obligation as of June 30, 2017 and 2016.

14. NET ASSETS

Net assets are categorized as unrestricted, temporarily restricted, and permanently restricted. Unrestricted net assets are derived from gifts and other institutional resources that are not subject to explicit donor-imposed restrictions. The unrestricted category also includes income and gains on these funds. Included in the total is the net investment in plant and equipment. Certain net assets classified as unrestricted for external reporting purposes are designated for specific purposes or uses under the internal operating budget practices of the University. Restricted net assets are generally established by donors in support of schools or departments of the University, often for specific purposes such as professorships, research, faculty support, scholarships and fellowships, athletics, the library, the art museum, building construction, and other specific purposes. Temporarily restricted net assets include gifts, pledges, trusts and remainder interests, and income and gains that can be expended but for which restrictions have not yet been met. Such restrictions include purpose restrictions and time restrictions imposed by donors or implied by the nature of the gift, or by the interpretations of law. Temporary restrictions are normally released upon the passage of time or the incurrence of expenditures that fulfill the donor-specified purpose. Permanently restricted net assets include gifts, pledges, trusts and remainder interests, and income and gains that are required by donor-imposed restrictions to be permanently retained. Investment earnings are spent for general or specific purposes in accordance with donor wishes, based on the University's endowment spending rule.

15. NATURAL CLASSIFICATION OF EXPENSES

Operating expenses incurred for the years ended June 30 were as follows:

(dollars in thousands)	2017	2016
Salaries and wages	$ 680,790	$ 649,132
Employee benefits	161,632	273,827
Purchased services	165,069	177,730
Supplies and materials	117,479	113,116
Space and occupancy	68,965	68,442
Sub-recipient agreements	33,957	24,761
Other expenses	16,716	9,776
Other student aid	64,061	61,017
Depreciation	158,542	149,653
Interest	148,765	143,286
Total	**$ 1,615,976**	**$ 1,670,740**

Certain prior-year balances have been reclassified to conform to the current-year presentation.

16. COMMITMENTS AND CONTINGENCIES

As of June 30, 2017, the University had authorized major renovation and capital construction projects for more than $1,980.6 million. Of the total, approximately $267.0 million had not yet been expended.

Minimum operating lease commitments as of June 30, 2017 for space and equipment were as follows:

(dollars in thousands)	**Lease Payments**
2018	$ 6,525
2019	6,525
2020	6,765
2021	5,542
2022	4,320
Thereafter	9,280
Total	**$ 38,957**

The University has entered into certain agreements to guarantee the debt of others. Under these agreements, if the principal obligor defaults on the debt, the University may be required to satisfy all or part of the remaining obligation. The total amount of these guarantees was $21.9 million as of June 30, 2017.

The University is subject to certain legal claims that have arisen in the normal course of operations. In the opinion of management, the ultimate outcome of these actions will not have a material effect on the University's financial position, statement of activities, or cash flows.

17. SUBSEQUENT EVENTS

The University has evaluated subsequent events through November 20, 2017, which is the date the financial statements were issued, and determined that there were no subsequent events requiring adjustment or disclosure in the consolidated financial statements.

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Officers of the University[2]

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[1] As of 1/16/2018. The years in parentheses refer to the end of the term as trustee. An asterisk indicates a graduate degree.

[2] As of 1/1/2018.

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Front Cover: **Lewis Center for the Arts** *(completed in 2017)*:
The Lewis Center for the Arts supports academic programs in theater, dance, visual arts, and music with new teaching, rehearsal, and administrative spaces. Performance venues include a black box theater, a dance theater, and a large music rehearsal room. New landscaped plazas, pathways, streetscapes, and green spaces enhance this area of campus.

Back Cover: **Firestone Library, William Elfers '41 Reading Room**

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