Princeton University
Report on Federal Awards in Accordance with OMB Uniform Guidance and New Jersey Office of Management and Budget Circular 15-08
For the year ended June 30, 2017
Employer Identification Number 21-0634501
Princeton University  
Report on Federal Awards in Accordance with  
OMB Uniform Guidance and New Jersey Office of Management and Budget Circular 15-08  
For the year ended June 30, 2017  
Table of Contents

<table>
<thead>
<tr>
<th>Section</th>
<th>Page(s)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Report of Independent Auditors</td>
<td>1</td>
</tr>
<tr>
<td>Consolidated Statements of Financial Position as of June 30, 2017 and 2016</td>
<td>2</td>
</tr>
<tr>
<td>Consolidated Statements of Activities for the year ended June 30, 2017 and June 30, 2016</td>
<td>3-4</td>
</tr>
<tr>
<td>Consolidated Statements of Cash Flows for the year ended June 30, 2017 and 2016</td>
<td>5</td>
</tr>
<tr>
<td>Notes to the Consolidated Financial Statements</td>
<td>6 – 26</td>
</tr>
<tr>
<td>Schedule of Expenditures of Federal Awards for the year ended June 30, 2017</td>
<td>27– 33</td>
</tr>
<tr>
<td>Schedule of New Jersey State Awards for the year ended June 30, 2017</td>
<td>34</td>
</tr>
<tr>
<td>Notes to Schedule of Expenditures of Federal and State Awards for the year ended June 30, 2017</td>
<td>35-36</td>
</tr>
<tr>
<td>Report of Independent Auditors on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards</td>
<td>37-38</td>
</tr>
<tr>
<td>Summary of Independent Auditors' Results</td>
<td>41-42</td>
</tr>
<tr>
<td>Schedule of Findings and Questioned Costs</td>
<td>43</td>
</tr>
<tr>
<td>Summary Schedule of Prior Audit Findings</td>
<td>44</td>
</tr>
</tbody>
</table>
To the Trustees of Princeton University:

Report on the Consolidated Financial Statements

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, and the related notes to the financial statements.

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 audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. 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 entity’s preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity’s internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

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

Other Matters

Other Information

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying Schedule of Expenditures of Federal Awards for the year ended June 30, 2017 and Schedule of Expenditures of State of New Jersey Awards for the year ended June 30, 2017 is presented for purposes of additional analysis as required by Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance) and The State of New Jersey Department of the Treasury Circular Letter 15-08 OMB, Single Audit Policy for Recipients of Federal Grants, State Grants and State Aid, respectively, and are not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Expenditures of Federal Awards and the Schedule of Expenditures of State of New Jersey Awards are fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated November 20, 2017 on our consideration of Princeton University’s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters for the year ended June 30, 2017. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting and on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering Princeton University’s internal control over financial reporting and compliance.

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)

<table>
<thead>
<tr>
<th></th>
<th>2017</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Assets</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash</td>
<td>$14,981</td>
<td>$8,003</td>
</tr>
<tr>
<td>Accounts receivable</td>
<td>115,667</td>
<td>103,015</td>
</tr>
<tr>
<td>Receivables associated with investments</td>
<td>14,920</td>
<td>103,974</td>
</tr>
<tr>
<td>Educational and mortgage loans receivable</td>
<td>418,456</td>
<td>395,178</td>
</tr>
<tr>
<td>Contributions receivable</td>
<td>168,867</td>
<td>178,280</td>
</tr>
<tr>
<td>Inventories and deferred charges</td>
<td>12,688</td>
<td>9,442</td>
</tr>
<tr>
<td>Managed investments at market value</td>
<td>23,545,982</td>
<td>21,807,342</td>
</tr>
<tr>
<td>Funds held in trust by others</td>
<td>110,033</td>
<td>144,452</td>
</tr>
<tr>
<td>Other investments</td>
<td>928,747</td>
<td>711,804</td>
</tr>
<tr>
<td>Property, net of accumulated depreciation</td>
<td>4,098,654</td>
<td>3,952,390</td>
</tr>
<tr>
<td><strong>Total assets</strong></td>
<td><strong>$29,428,995</strong></td>
<td><strong>$27,413,880</strong></td>
</tr>
</tbody>
</table>

| **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: non-controlling 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*

## Operating Revenues

<table>
<thead>
<tr>
<th>(dollars in thousands)</th>
<th>Unrestricted</th>
<th>Temporarily Restricted</th>
<th>Permanently Restricted</th>
<th>2017 Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tuition and fees</td>
<td>$353,296</td>
<td></td>
<td></td>
<td>$353,296</td>
</tr>
<tr>
<td>Less scholarships and fellowships</td>
<td>(244,598)</td>
<td></td>
<td></td>
<td>(244,598)</td>
</tr>
<tr>
<td>Net tuition and fees</td>
<td>108,698</td>
<td></td>
<td></td>
<td>108,698</td>
</tr>
<tr>
<td>Government grants and contracts</td>
<td>295,545</td>
<td></td>
<td></td>
<td>295,545</td>
</tr>
<tr>
<td>Private gifts, grants, and contracts</td>
<td>102,627</td>
<td></td>
<td></td>
<td>102,627</td>
</tr>
<tr>
<td>Auxiliary sales and services</td>
<td>93,148</td>
<td></td>
<td></td>
<td>93,148</td>
</tr>
<tr>
<td>Other sources</td>
<td>115,122</td>
<td></td>
<td></td>
<td>115,122</td>
</tr>
<tr>
<td>Investment earnings distributed</td>
<td>489,544</td>
<td>$609,145</td>
<td></td>
<td>1,098,689</td>
</tr>
<tr>
<td>Operating revenues</td>
<td>1,204,684</td>
<td>609,145</td>
<td></td>
<td>1,813,829</td>
</tr>
<tr>
<td>Net assets released from restrictions</td>
<td>637,220</td>
<td>(637,220)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total operating revenues</td>
<td>1,841,904</td>
<td>(28,075)</td>
<td></td>
<td>1,813,829</td>
</tr>
</tbody>
</table>

## Operating Expenses

### Educational and General:

<table>
<thead>
<tr>
<th>(dollars in thousands)</th>
<th>Unrestricted</th>
<th>Temporarily Restricted</th>
<th>Permanently Restricted</th>
<th>2017 Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Academic departments and programs</td>
<td>735,016</td>
<td></td>
<td></td>
<td>735,016</td>
</tr>
<tr>
<td>Academic support</td>
<td>94,302</td>
<td></td>
<td></td>
<td>94,302</td>
</tr>
<tr>
<td>Student services</td>
<td>119,358</td>
<td></td>
<td></td>
<td>119,358</td>
</tr>
<tr>
<td>Library</td>
<td>82,450</td>
<td></td>
<td></td>
<td>82,450</td>
</tr>
<tr>
<td>General administration and institutional support</td>
<td>178,344</td>
<td></td>
<td></td>
<td>178,344</td>
</tr>
<tr>
<td>Other student aid</td>
<td>64,061</td>
<td></td>
<td></td>
<td>64,061</td>
</tr>
<tr>
<td>Plasma Physics Laboratory</td>
<td>112,649</td>
<td></td>
<td></td>
<td>112,649</td>
</tr>
<tr>
<td>Total educational and general</td>
<td>1,386,180</td>
<td></td>
<td></td>
<td>1,386,180</td>
</tr>
<tr>
<td>Auxiliary activities</td>
<td>81,031</td>
<td></td>
<td></td>
<td>81,031</td>
</tr>
<tr>
<td>Interest on indebtedness</td>
<td>148,764</td>
<td></td>
<td></td>
<td>148,764</td>
</tr>
<tr>
<td>Total operating expenses</td>
<td>1,615,975</td>
<td></td>
<td></td>
<td>1,615,975</td>
</tr>
</tbody>
</table>

## Results of Operations

<table>
<thead>
<tr>
<th>(dollars in thousands)</th>
<th>Unrestricted</th>
<th>Temporarily Restricted</th>
<th>Permanently Restricted</th>
<th>2017 Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Results of operations</td>
<td>225,929</td>
<td>(28,075)</td>
<td></td>
<td>197,854</td>
</tr>
</tbody>
</table>

## Nonoperating Activities

<table>
<thead>
<tr>
<th>(dollars in thousands)</th>
<th>Unrestricted</th>
<th>Temporarily Restricted</th>
<th>Permanently Restricted</th>
<th>2017 Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Adjustments to planned giving agreements</td>
<td>(975)</td>
<td>12,056</td>
<td></td>
<td>11,081</td>
</tr>
<tr>
<td>Increase in value of assets held in trust by others</td>
<td>-</td>
<td>1,647</td>
<td>$6,406</td>
<td>8,053</td>
</tr>
<tr>
<td>Private gifts, noncurrent</td>
<td>77,877</td>
<td>4,144</td>
<td>72,665</td>
<td>154,686</td>
</tr>
<tr>
<td>Net realized and unrealized appreciation on investments</td>
<td>1,147,526</td>
<td>1,483,246</td>
<td>879</td>
<td>2,631,651</td>
</tr>
<tr>
<td>Distribution of investment earnings</td>
<td>(489,544)</td>
<td>(609,145)</td>
<td>-</td>
<td>(1,098,689)</td>
</tr>
<tr>
<td>Reclassifications, transfers, and other nonoperating</td>
<td>(4,603)</td>
<td>(5,245)</td>
<td>9,848</td>
<td>-</td>
</tr>
<tr>
<td>Increase from nonoperating activities</td>
<td>730,281</td>
<td>886,703</td>
<td>89,798</td>
<td>1,706,782</td>
</tr>
<tr>
<td>Increase in net assets - University</td>
<td>956,210</td>
<td>858,628</td>
<td>89,798</td>
<td>1,904,636</td>
</tr>
<tr>
<td>Change in non-controlling interests</td>
<td>191,425</td>
<td>-</td>
<td>-</td>
<td>191,425</td>
</tr>
<tr>
<td>Total increase in net assets</td>
<td>1,147,635</td>
<td>858,628</td>
<td>89,798</td>
<td>2,096,061</td>
</tr>
<tr>
<td>Net assets at the beginning of the year</td>
<td>9,693,143</td>
<td>11,062,850</td>
<td>1,951,449</td>
<td>22,707,442</td>
</tr>
<tr>
<td>Net assets at the end of the year</td>
<td>$10,840,778</td>
<td>$11,921,478</td>
<td>$2,041,247</td>
<td>$24,803,503</td>
</tr>
</tbody>
</table>

See notes to consolidated financial statements.
# Consolidated Statements of Activities

*Year ended June 30, 2016*

<table>
<thead>
<tr>
<th>(dollars in thousands)</th>
<th>Unrestricted</th>
<th>Temporarily Restricted</th>
<th>Permanently Restricted</th>
<th>2016 Total</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Operating revenues</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Tuition and fees</td>
<td>$ 337,396</td>
<td>-</td>
<td>-</td>
<td>$ 337,396</td>
</tr>
<tr>
<td>Less scholarships and fellowships</td>
<td>(226,235)</td>
<td>-</td>
<td>-</td>
<td>(226,235)</td>
</tr>
<tr>
<td>Net tuition and fees</td>
<td>111,161</td>
<td>-</td>
<td>-</td>
<td>111,161</td>
</tr>
<tr>
<td>Government grants and contracts</td>
<td>290,238</td>
<td>-</td>
<td>-</td>
<td>290,238</td>
</tr>
<tr>
<td>Private gifts, grants, and contracts</td>
<td>92,719</td>
<td>-</td>
<td>-</td>
<td>92,719</td>
</tr>
<tr>
<td>Auxiliary sales and services</td>
<td>90,359</td>
<td>-</td>
<td>-</td>
<td>90,359</td>
</tr>
<tr>
<td>Other sources</td>
<td>169,645</td>
<td>-</td>
<td>-</td>
<td>169,645</td>
</tr>
<tr>
<td>Investment earnings distributed</td>
<td>413,874</td>
<td>$ 519,760</td>
<td>-</td>
<td>933,634</td>
</tr>
<tr>
<td><strong>Operating revenues</strong></td>
<td>1,167,996</td>
<td>519,760</td>
<td>-</td>
<td>1,687,756</td>
</tr>
<tr>
<td>Net assets released from restrictions</td>
<td>575,263</td>
<td>(575,263)</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td><strong>Total operating revenues</strong></td>
<td>1,743,259</td>
<td>(55,503)</td>
<td>-</td>
<td>1,687,756</td>
</tr>
<tr>
<td><strong>Operating expenses</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Educational and general:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Academic departments and programs</td>
<td>768,283</td>
<td>-</td>
<td>-</td>
<td>768,283</td>
</tr>
<tr>
<td>Academic support</td>
<td>116,811</td>
<td>-</td>
<td>-</td>
<td>116,811</td>
</tr>
<tr>
<td>Student services</td>
<td>121,041</td>
<td>-</td>
<td>-</td>
<td>121,041</td>
</tr>
<tr>
<td>Library</td>
<td>83,632</td>
<td>-</td>
<td>-</td>
<td>83,632</td>
</tr>
<tr>
<td>General administration and institutional support</td>
<td>166,422</td>
<td>-</td>
<td>-</td>
<td>166,422</td>
</tr>
<tr>
<td>Other student aid</td>
<td>61,017</td>
<td>-</td>
<td>-</td>
<td>61,017</td>
</tr>
<tr>
<td>Plasma Physics Laboratory</td>
<td>125,610</td>
<td>-</td>
<td>-</td>
<td>125,610</td>
</tr>
<tr>
<td><strong>Total educational and general</strong></td>
<td>1,442,816</td>
<td>-</td>
<td>-</td>
<td>1,442,816</td>
</tr>
<tr>
<td>Auxiliary activities</td>
<td>84,638</td>
<td>-</td>
<td>-</td>
<td>84,638</td>
</tr>
<tr>
<td>Interest on indebtedness</td>
<td>143,286</td>
<td>-</td>
<td>-</td>
<td>143,286</td>
</tr>
<tr>
<td><strong>Total operating expenses</strong></td>
<td>1,670,740</td>
<td>-</td>
<td>-</td>
<td>1,670,740</td>
</tr>
<tr>
<td><strong>Results of operations</strong></td>
<td>72,519</td>
<td>(55,503)</td>
<td>-</td>
<td>17,016</td>
</tr>
</tbody>
</table>

| **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*

<table>
<thead>
<tr>
<th>Net Increase (Decrease) in Cash</th>
<th>2017</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Change in net assets</td>
<td>$ 2,096,061</td>
<td>$(628,533)</td>
</tr>
<tr>
<td>Adjustments to reconcile change in net assets to net cash used by operating activities:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Depreciation expense</td>
<td>158,542</td>
<td>149,653</td>
</tr>
<tr>
<td>Amortization of bond issuance costs and premiums</td>
<td>(14,023)</td>
<td>(5,878)</td>
</tr>
<tr>
<td>Property gifts-in-kind</td>
<td>(2,623)</td>
<td>(1,777)</td>
</tr>
<tr>
<td>Adjustments to planned giving agreements</td>
<td>(11,081)</td>
<td>4,136</td>
</tr>
<tr>
<td>Net realized and unrealized losses (gains) on investments</td>
<td>(2,509,376)</td>
<td>17,300</td>
</tr>
<tr>
<td>Loss on disposal of fixed assets</td>
<td>638</td>
<td>1,260</td>
</tr>
<tr>
<td>Decrease in value of assets held in trust by others</td>
<td>34,419</td>
<td>9,711</td>
</tr>
<tr>
<td>Contributions received for long-term investment</td>
<td>(72,665)</td>
<td>(83,791)</td>
</tr>
<tr>
<td>Change in non-controlling interest</td>
<td>(191,425)</td>
<td>-</td>
</tr>
<tr>
<td>Changes in operating assets and liabilities:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Receivables</td>
<td>(26,517)</td>
<td>(12,997)</td>
</tr>
<tr>
<td>Inventory and deferred charges</td>
<td>(3,246)</td>
<td>1,009</td>
</tr>
<tr>
<td>Accounts payable</td>
<td>(11,580)</td>
<td>420</td>
</tr>
<tr>
<td>Deposits, advance receipts, and accrued liabilities</td>
<td>27,694</td>
<td>772</td>
</tr>
<tr>
<td>Deposits held in custody for others</td>
<td>1,828</td>
<td>(37,049)</td>
</tr>
<tr>
<td>Deferred revenue</td>
<td>(466)</td>
<td>(421)</td>
</tr>
<tr>
<td>Accrued postretirement benefits</td>
<td>(35,300)</td>
<td>100,762</td>
</tr>
<tr>
<td>Net cash used by operating activities</td>
<td>(559,120)</td>
<td>(485,423)</td>
</tr>
</tbody>
</table>

## Cash flows from investing activities

<table>
<thead>
<tr>
<th>Net cash provided by investing activities</th>
<th>2017</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Purchases of property, plant, and equipment</td>
<td>(326,162)</td>
<td>(368,296)</td>
</tr>
<tr>
<td>Proceeds from disposal of property, plant, and equipment</td>
<td>7,322</td>
<td>6,454</td>
</tr>
<tr>
<td>Purchases of investments</td>
<td>(12,620,331)</td>
<td>(14,041,165)</td>
</tr>
<tr>
<td>Proceeds from maturities/sales of investments</td>
<td>13,263,020</td>
<td>14,618,756</td>
</tr>
<tr>
<td>Net cash provided by investing activities</td>
<td>323,849</td>
<td>215,749</td>
</tr>
</tbody>
</table>

## Cash flows from financing activities

<table>
<thead>
<tr>
<th>Net cash provided by financing activities</th>
<th>2017</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Issuance of indebtedness to third parties</td>
<td>716,377</td>
<td>415,100</td>
</tr>
<tr>
<td>Payment of debt principal</td>
<td>(560,518)</td>
<td>(215,083)</td>
</tr>
<tr>
<td>Contributions received for long-term investment</td>
<td>72,665</td>
<td>83,791</td>
</tr>
<tr>
<td>Transactions on planned giving agreements</td>
<td>14,530</td>
<td>(14,795)</td>
</tr>
<tr>
<td>Net additions (reductions) under federal loan programs</td>
<td>(805)</td>
<td>(2,880)</td>
</tr>
<tr>
<td>Net cash provided by financing activities</td>
<td>242,249</td>
<td>266,133</td>
</tr>
</tbody>
</table>

## Net increase (decrease) in cash

<table>
<thead>
<tr>
<th>Cash at the end of the year</th>
<th>2017</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash at the beginning of the year</td>
<td>8,003</td>
<td>11,544</td>
</tr>
<tr>
<td>Cash at the end of the year</td>
<td>$14,981</td>
<td>$8,003</td>
</tr>
</tbody>
</table>

## Supplemental disclosures

<table>
<thead>
<tr>
<th>Interest paid</th>
<th>2017</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Interest paid</td>
<td>$162,484</td>
<td>$152,060</td>
</tr>
</tbody>
</table>

See notes to consolidated financial statements,
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 non-recurring 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 which reflects the consideration to which the entity expects to be entitled to in exchange for goods and services. The ASU is effective for fiscal years beginning after December 15, 2017. The University is evaluating the impact 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 a 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.
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)  

<table>
<thead>
<tr>
<th>Asset Category</th>
<th>2017</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Domestic equity</td>
<td>$2,034.0</td>
<td>$2,218.3</td>
</tr>
<tr>
<td>International equity</td>
<td>3,401.3</td>
<td>3,108.2</td>
</tr>
<tr>
<td>Independent return</td>
<td>6,288.5</td>
<td>5,763.1</td>
</tr>
<tr>
<td>Private equity</td>
<td>7,495.3</td>
<td>7,049.1</td>
</tr>
<tr>
<td>Real assets</td>
<td>3,346.4</td>
<td>3,053.2</td>
</tr>
<tr>
<td>Fixed Income</td>
<td>580.5</td>
<td>416.0</td>
</tr>
<tr>
<td>Cash and other</td>
<td>400.0</td>
<td>199.4</td>
</tr>
<tr>
<td><strong>Gross managed investments¹</strong></td>
<td>$23,546.0</td>
<td>$21,807.3</td>
</tr>
<tr>
<td><strong>Receivables (liabilities) associated with investments—net</strong></td>
<td>(1.4)</td>
<td>(103.8)</td>
</tr>
<tr>
<td><strong>Non-controlling interests</strong></td>
<td>(191.4)</td>
<td>-</td>
</tr>
<tr>
<td><strong>Net managed investments</strong></td>
<td>$23,353.2</td>
<td>$21,703.5</td>
</tr>
</tbody>
</table>

¹Includes 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:

<table>
<thead>
<tr>
<th></th>
<th>2017</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Princeton University</td>
<td>$23,201.0</td>
<td>$21,554.4</td>
</tr>
<tr>
<td>Stanley J. Seeger Hellenic Fund</td>
<td>45.1</td>
<td>42.1</td>
</tr>
<tr>
<td>Deposits held in custody for others</td>
<td>107.1</td>
<td>107.0</td>
</tr>
<tr>
<td><strong>Net managed investments</strong></td>
<td><strong>$23,353.2</strong></td>
<td><strong>$21,703.5</strong></td>
</tr>
</tbody>
</table>

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

<table>
<thead>
<tr>
<th></th>
<th>2017</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net realized and unrealized gains (losses)</td>
<td>$2,509,376</td>
<td>$(17,300)</td>
</tr>
<tr>
<td>Interest, dividends, and other income</td>
<td>122,275</td>
<td>155,433</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$2,631,651</strong></td>
<td><strong>$138,133</strong></td>
</tr>
</tbody>
</table>

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:

<table>
<thead>
<tr>
<th>2017 (dollars in millions)</th>
<th>Long Notional¹</th>
<th>Short Notional¹</th>
<th>Net Derivative Assets (Liabilities)</th>
<th>Gains (Losses)²</th>
</tr>
</thead>
<tbody>
<tr>
<td>Index Futures</td>
<td>$ 168.9</td>
<td>170.9</td>
<td>0.3</td>
<td>24.5</td>
</tr>
<tr>
<td>Equity Swaps</td>
<td>$ 380.0</td>
<td>359.5</td>
<td>(44.5)</td>
<td>(118.8)</td>
</tr>
<tr>
<td>Options Contracts</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>(1.0)</td>
</tr>
<tr>
<td>Forward Contracts</td>
<td>-</td>
<td>$ 1,103.6</td>
<td>(24.0)</td>
<td>6.3</td>
</tr>
<tr>
<td>Total</td>
<td>$ 548.9</td>
<td>$ 1,634.0</td>
<td>(68.2)</td>
<td>(89.1)</td>
</tr>
</tbody>
</table>

2016 (dollars in millions)

<table>
<thead>
<tr>
<th>2016 (dollars in millions)</th>
<th>Long Notional¹</th>
<th>Short Notional¹</th>
<th>Net Derivative Assets (Liabilities)</th>
<th>Gains (Losses)²</th>
</tr>
</thead>
<tbody>
<tr>
<td>Index Futures</td>
<td>$ 219.8</td>
<td>-</td>
<td>$ (4.4)</td>
<td>$ 4.6</td>
</tr>
<tr>
<td>Equity Swaps</td>
<td>249.9</td>
<td>$ 207.5</td>
<td>39.9</td>
<td>66.9</td>
</tr>
<tr>
<td>Forward Contracts</td>
<td>-</td>
<td>1,693.3</td>
<td>10.2</td>
<td>2.5</td>
</tr>
<tr>
<td>Total</td>
<td>$ 469.7</td>
<td>$ 1,906.8</td>
<td>45.7</td>
<td>74.0</td>
</tr>
</tbody>
</table>

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:

<table>
<thead>
<tr>
<th>2017 (dollars in millions)</th>
<th># of Contracts</th>
<th>Gross Derivative Assets</th>
<th>Gross Derivative Liabilities</th>
<th>Collateral (Held) Pledged</th>
<th>Net</th>
</tr>
</thead>
<tbody>
<tr>
<td>Counterparty A</td>
<td>10</td>
<td>$ 1.1</td>
<td>$ (45.9)</td>
<td>$ 45.1</td>
<td>-</td>
</tr>
<tr>
<td>Counterparty B</td>
<td>3</td>
<td>-</td>
<td>(1.7)</td>
<td>-</td>
<td>$ (1.7)</td>
</tr>
<tr>
<td>Counterparty C</td>
<td>3</td>
<td>-</td>
<td>(9.6)</td>
<td>-</td>
<td>(9.6)</td>
</tr>
<tr>
<td>Counterparty D</td>
<td>6</td>
<td>-</td>
<td>(20.1)</td>
<td>5.9</td>
<td>(14.3)</td>
</tr>
<tr>
<td>Counterparty E</td>
<td>1</td>
<td>7.9</td>
<td>-</td>
<td>-</td>
<td>7.9</td>
</tr>
<tr>
<td>Total</td>
<td>23</td>
<td>$ 9.0</td>
<td>$ (77.3)</td>
<td>$ 51.0</td>
<td>$ (17.7)</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>2016 (dollars in millions)</th>
<th># of Contracts</th>
<th>Gross Derivative Assets</th>
<th>Gross Derivative Liabilities</th>
<th>Collateral (Held) Pledged</th>
<th>Net</th>
</tr>
</thead>
<tbody>
<tr>
<td>Counterparty A</td>
<td>14</td>
<td>$ 29.3</td>
<td>$ (7.5)</td>
<td>$ (13.0)</td>
<td>$ 8.8</td>
</tr>
<tr>
<td>Counterparty B</td>
<td>6</td>
<td>12.6</td>
<td>(1.0)</td>
<td>(10.7)</td>
<td>0.9</td>
</tr>
<tr>
<td>Counterparty C</td>
<td>6</td>
<td>6.3</td>
<td>-</td>
<td>(7.0)</td>
<td>-</td>
</tr>
<tr>
<td>Counterparty D</td>
<td>10</td>
<td>6.6</td>
<td>(0.7)</td>
<td>-</td>
<td>5.9</td>
</tr>
<tr>
<td>Total</td>
<td>36</td>
<td>$ 54.8</td>
<td>$ (9.2)</td>
<td>$ (30.7)</td>
<td>$ 15.6</td>
</tr>
</tbody>
</table>

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.
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:

<table>
<thead>
<tr>
<th>(dollars in millions)</th>
<th>2017</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Working capital</td>
<td>$ 459.4</td>
<td>$ 354.4</td>
</tr>
<tr>
<td>Planned giving investments</td>
<td>175.5</td>
<td>160.8</td>
</tr>
<tr>
<td>Proceeds from debt</td>
<td>215.0</td>
<td>114.4</td>
</tr>
<tr>
<td>Strategic real estate investments</td>
<td>32.6</td>
<td>47.2</td>
</tr>
<tr>
<td>Other</td>
<td>46.3</td>
<td>35.0</td>
</tr>
<tr>
<td>Total</td>
<td>$ 928.8</td>
<td>$ 711.8</td>
</tr>
</tbody>
</table>

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 values (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.

<table>
<thead>
<tr>
<th>(dollars in millions)</th>
<th>2017</th>
<th>Quoted Prices in Active Markets for Identical Observable Inputs (Level 1)</th>
<th>Significant Other Observable Inputs (Level 2)</th>
<th>Significant Unobservable Inputs (Level 3)</th>
<th>NAV as Practical Expedient</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Assets at fair value</strong></td>
<td></td>
<td>Total</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Domestic equity</td>
<td>$ 2,034.0</td>
<td>$ 102.5</td>
<td>$(22.5)</td>
<td>$ 1.2</td>
<td>$ 1,952.8</td>
</tr>
<tr>
<td>International equity</td>
<td>3,401.3</td>
<td>497.8</td>
<td>$(25.2)</td>
<td>219.1</td>
<td>2,709.6</td>
</tr>
<tr>
<td>Independent return</td>
<td>6,288.5</td>
<td>-</td>
<td>-</td>
<td>4.2</td>
<td>6,284.3</td>
</tr>
<tr>
<td>Private equity</td>
<td>7,495.3</td>
<td>2.3</td>
<td>$(11.7)</td>
<td>146.9</td>
<td>7,357.8</td>
</tr>
<tr>
<td>Real assets</td>
<td>3,346.4</td>
<td>163.6</td>
<td>(9.1)</td>
<td>4.9</td>
<td>3,187.0</td>
</tr>
<tr>
<td>Fixed income</td>
<td>580.5</td>
<td>580.5</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Cash and other</td>
<td>400.0</td>
<td>364.7</td>
<td>35.3</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td><strong>Total managed</strong></td>
<td>$ 23,546.0</td>
<td>1,711.4</td>
<td>(33.2)</td>
<td>376.3</td>
<td>21,491.5</td>
</tr>
<tr>
<td><strong>Investments (gross)</strong></td>
<td>110.0</td>
<td>-</td>
<td>-</td>
<td>110.0</td>
<td>-</td>
</tr>
<tr>
<td><strong>Other investments</strong></td>
<td>928.8</td>
<td>721.0</td>
<td>-</td>
<td>207.8</td>
<td>-</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>$ 24,584.8</td>
<td>$ 2,432.4</td>
<td>$(33.2)</td>
<td>$ 694.1</td>
<td>$ 21,491.5</td>
</tr>
</tbody>
</table>
Notes to Consolidated Financial Statements

(Continued)

Fair Value Measurements at Reporting Date Using
Quoted Prices in Active Markets for Identical Observable Inputs (Level 1)
Significant Other Observable Inputs (Level 2)
Significant Unobservable Inputs (Level 3)
NAV as Practical Expedient

(dollars in millions)

2016

<table>
<thead>
<tr>
<th></th>
<th>Total</th>
<th>Assets (Level 1)</th>
<th>Observe</th>
<th>Observe</th>
<th>Unobserve</th>
<th>NAV</th>
</tr>
</thead>
<tbody>
<tr>
<td>Assets at fair value</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Managed investments (gross):</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Domestic equity</td>
<td>$ 2,218.3</td>
<td>$ 109.8</td>
<td>$ 7.2</td>
<td>$ 1.2</td>
<td>$ 2,100.1</td>
<td></td>
</tr>
<tr>
<td>International equity</td>
<td>3,108.2</td>
<td>436.7</td>
<td>6.6</td>
<td>210.8</td>
<td>2,454.1</td>
<td></td>
</tr>
<tr>
<td>Independent return</td>
<td>5,763.1</td>
<td>-</td>
<td>-</td>
<td>5.4</td>
<td>5,757.7</td>
<td></td>
</tr>
<tr>
<td>Private equity</td>
<td>7,049.1</td>
<td>1.5</td>
<td>4.5</td>
<td>240.4</td>
<td>6,802.7</td>
<td></td>
</tr>
<tr>
<td>Real assets</td>
<td>3,053.2</td>
<td>127.7</td>
<td>31.8</td>
<td>7.5</td>
<td>2,886.2</td>
<td></td>
</tr>
<tr>
<td>Fixed income</td>
<td>416.0</td>
<td>416.0</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td></td>
</tr>
<tr>
<td>Cash and other</td>
<td>199.4</td>
<td>250.8</td>
<td>(51.4)</td>
<td>-</td>
<td>-</td>
<td></td>
</tr>
<tr>
<td>Total managed</td>
<td>$ 21,807.3</td>
<td>$ 1,342.5</td>
<td>(1.3)</td>
<td>465.3</td>
<td>20,000.8</td>
<td></td>
</tr>
<tr>
<td>Investments (gross)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Funds held in trust by others</td>
<td>144.5</td>
<td>-</td>
<td>-</td>
<td>144.5</td>
<td>-</td>
<td></td>
</tr>
<tr>
<td>Other investments</td>
<td>711.8</td>
<td>505.7</td>
<td>-</td>
<td>206.1</td>
<td>-</td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>$ 22,663.6</td>
<td>$ 1,848.2</td>
<td>(1.3)</td>
<td>$ 815.9</td>
<td>$ 20,000.8</td>
<td></td>
</tr>
</tbody>
</table>

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 non-controlling 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:

Fair Value Measurements Using Significant Unobservable Inputs (Level 3)

(dollars in millions)

June 30, 2016

<table>
<thead>
<tr>
<th></th>
<th>Purchases</th>
<th>Sales and settlements</th>
<th>Transfers into Level 3</th>
<th>Transfers out of Level 3</th>
<th>June 30, 2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Assets at fair value</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Managed investments (gross):</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Domestic equity</td>
<td>$ 1.2</td>
<td>(0.1)</td>
<td>$ 0.1</td>
<td>-</td>
<td>$ 1.2</td>
</tr>
<tr>
<td>International equity</td>
<td>210.8</td>
<td>25.3</td>
<td>$ 0.2 (17.2)</td>
<td>-</td>
<td>219.1</td>
</tr>
<tr>
<td>Independent return</td>
<td>5.4</td>
<td>(0.5)</td>
<td>(0.7)</td>
<td>-</td>
<td>4.2</td>
</tr>
<tr>
<td>Private equity</td>
<td>240.4</td>
<td>(13.3)</td>
<td>3.4 (22.9)</td>
<td>$ (60.7)</td>
<td>146.9</td>
</tr>
<tr>
<td>Real assets</td>
<td>7.5</td>
<td>(2.2)</td>
<td>(0.4)</td>
<td>-</td>
<td>4.9</td>
</tr>
<tr>
<td>Fixed income</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Cash and other</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Total Managed</td>
<td>$ 465.3</td>
<td>9.2</td>
<td>3.6 (41.1)</td>
<td>(60.7)</td>
<td>376.3</td>
</tr>
<tr>
<td>Investments (gross)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Funds held in trust by others</td>
<td>144.5</td>
<td>7.0</td>
<td>1.6 (43.1)</td>
<td>-</td>
<td>110.0</td>
</tr>
<tr>
<td>Other investments</td>
<td>206.1</td>
<td>12.5</td>
<td>2.3 (13.1)</td>
<td>-</td>
<td>207.8</td>
</tr>
<tr>
<td>Total Level 3 investments</td>
<td>$ 815.9</td>
<td>$ 28.7</td>
<td>$ 7.5 (97.3)</td>
<td>(60.7)</td>
<td>$694.1</td>
</tr>
</tbody>
</table>
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.
### Notes to Consolidated Financial Statements

(Continued)

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

(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, 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.

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:

<table>
<thead>
<tr>
<th></th>
<th>2017 (dollars in thousands)</th>
<th>Temporary</th>
<th>Permanently</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Unrestricted</td>
<td>Restricted</td>
<td>Restricted</td>
<td></td>
</tr>
<tr>
<td>Donor-restricted endowment funds</td>
<td>$ 9,702,394</td>
<td>$ 11,678,195</td>
<td>$ 1,864,500</td>
<td>$ 23,245,089</td>
</tr>
<tr>
<td>Board-designated endowment funds</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>$ 9,702,394</td>
</tr>
<tr>
<td>Total</td>
<td>$ 9,702,394</td>
<td>$ 11,678,195</td>
<td>$ 1,864,500</td>
<td>$ 23,245,089</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>2016 (dollars in thousands)</th>
<th>Temporary</th>
<th>Permanently</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Unrestricted</td>
<td>Restricted</td>
<td>Restricted</td>
<td></td>
</tr>
<tr>
<td>Donor-restricted endowment funds</td>
<td>$ (535)</td>
<td>$ 10,796,205</td>
<td>$ 1,750,003</td>
<td>$ 12,545,673</td>
</tr>
<tr>
<td>Board-designated endowment funds</td>
<td>$ 9,049,775</td>
<td>-</td>
<td>-</td>
<td>$ 9,049,775</td>
</tr>
<tr>
<td>Total</td>
<td>$ 9,049,240</td>
<td>$ 10,796,205</td>
<td>$ 1,750,003</td>
<td>$ 21,595,448</td>
</tr>
</tbody>
</table>

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

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

(Continued)

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:

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

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:

<table>
<thead>
<tr>
<th>(dollars in thousands)</th>
<th>2017</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Land</td>
<td>$114,599</td>
<td>$114,272</td>
</tr>
<tr>
<td>Buildings and improvements</td>
<td>4,441,228</td>
<td>4,123,404</td>
</tr>
<tr>
<td>Construction in progress</td>
<td>225,521</td>
<td>331,167</td>
</tr>
<tr>
<td>Equipment and systems</td>
<td>362,733</td>
<td>361,528</td>
</tr>
<tr>
<td>Rare books</td>
<td>112,375</td>
<td>104,083</td>
</tr>
<tr>
<td>Library books, periodicals, and bindings</td>
<td>292,190</td>
<td>286,816</td>
</tr>
<tr>
<td>Fine art objects</td>
<td>137,053</td>
<td>132,202</td>
</tr>
<tr>
<td>Total property</td>
<td>5,685,699</td>
<td>5,453,452</td>
</tr>
<tr>
<td>Accumulated depreciation</td>
<td>(1,587,045)</td>
<td>(1,501,062)</td>
</tr>
<tr>
<td>Total</td>
<td>$4,098,654</td>
<td>$3,952,390</td>
</tr>
</tbody>
</table>

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)  

<table>
<thead>
<tr>
<th>Taxable Revenue Bonds</th>
<th>2017</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>2009 Series A, 4.95% and 5.70%, due March 2019 and March 2009, net of unamortized discount of $2,416 and $2,526</td>
<td>$997,584</td>
<td>$997,474</td>
</tr>
<tr>
<td>2016 Series A, 1.85%, 2.61%, 3.63%, due July 2021, July 2026, July 2046</td>
<td>100,000</td>
<td>100,000</td>
</tr>
<tr>
<td>2017 Series A, 3.84% due July 2048</td>
<td>150,000</td>
<td>-</td>
</tr>
</tbody>
</table>
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, and for the purpose of advance refunding and defeasance of a portion of the Series 2008 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:

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

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 Accumulated Postretirement Benefit Obligation (APBO) in accordance with ASC 715, which was initially elected in 1993 and amortized 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:

<table>
<thead>
<tr>
<th></th>
<th>2017</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Service cost</td>
<td>$25,302</td>
<td>$18,434</td>
</tr>
<tr>
<td>Interest cost</td>
<td>17,948</td>
<td>17,022</td>
</tr>
<tr>
<td>Unrecognized loss amortization</td>
<td>3,421</td>
<td>-</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$46,671</strong></td>
<td><strong>$35,456</strong></td>
</tr>
</tbody>
</table>

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

<table>
<thead>
<tr>
<th></th>
<th>2017</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Retirees</td>
<td>$136,047</td>
<td>$150,327</td>
</tr>
<tr>
<td>Active employees eligible to retire</td>
<td>119,080</td>
<td>129,857</td>
</tr>
<tr>
<td>Other active participants</td>
<td>183,943</td>
<td>203,226</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$439,070</strong></td>
<td><strong>$483,410</strong></td>
</tr>
</tbody>
</table>

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

An assumed discount rate of 4.00 percent and 3.75 percent was 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:

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

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

16. COMMITMENTS AND CONTINGENCIES

At 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 at June 30, 2017, for space and equipment were as follows:

<table>
<thead>
<tr>
<th>(dollars in thousands)</th>
<th>Lease Payments</th>
</tr>
</thead>
<tbody>
<tr>
<td>2018</td>
<td>$ 6,525</td>
</tr>
<tr>
<td>2019</td>
<td>6,525</td>
</tr>
<tr>
<td>2020</td>
<td>6,765</td>
</tr>
<tr>
<td>2021</td>
<td>5,542</td>
</tr>
<tr>
<td>2022</td>
<td>4,320</td>
</tr>
<tr>
<td>Thereafter</td>
<td>9,280</td>
</tr>
<tr>
<td>Total</td>
<td>$ 38,957</td>
</tr>
</tbody>
</table>

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 at 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.
Supplementary Information
Princeton University  
Schedule of Expenditures of Federal Awards  
For the year ended June 30, 2017

<table>
<thead>
<tr>
<th>Federal Grantor/Pass-Through Grantor/Program or Cluster Title</th>
<th>CFDA Number</th>
<th>Pass-through Entity Identifying Number</th>
<th>Passed to Subrecipients</th>
<th>Federal Expenditures</th>
</tr>
</thead>
<tbody>
<tr>
<td>Research and Development Cluster</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Department of Energy Direct Programs</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Office of Science Financial Assistance Program</td>
<td>81.049</td>
<td>301,650</td>
<td></td>
<td>7,955,327</td>
</tr>
<tr>
<td>Conservation Research and Development</td>
<td>81.086</td>
<td></td>
<td></td>
<td>321,713</td>
</tr>
<tr>
<td>Renewable Energy Research and Development</td>
<td>81.087</td>
<td></td>
<td></td>
<td>15,591</td>
</tr>
<tr>
<td>Fossil Energy Research and Development</td>
<td>81.089</td>
<td>88,003</td>
<td></td>
<td>476,711</td>
</tr>
<tr>
<td>Stewardship Science Grant Program</td>
<td>81.112</td>
<td></td>
<td></td>
<td>741,757</td>
</tr>
<tr>
<td>Advanced Research Projects Agency - Energy</td>
<td>81.135</td>
<td></td>
<td></td>
<td>396,258</td>
</tr>
<tr>
<td>Subtotal Department of Energy Direct Programs</td>
<td></td>
<td></td>
<td></td>
<td>389,653</td>
</tr>
<tr>
<td>Department of Energy Pass-Through Programs From:</td>
<td></td>
<td></td>
<td></td>
<td>9,906,357</td>
</tr>
<tr>
<td>Lawrence Berkeley National Laboratory</td>
<td>81.049</td>
<td>DE-AC02-05CH11231</td>
<td></td>
<td>484,484</td>
</tr>
<tr>
<td>NEI Corporation</td>
<td>81.049</td>
<td>DE-SC0015735</td>
<td></td>
<td>60,000</td>
</tr>
<tr>
<td>Physical Sciences Inc.</td>
<td>81.049</td>
<td>DE-SC0015104</td>
<td></td>
<td>69,612</td>
</tr>
<tr>
<td>Radiation Monitoring Devices, Inc.</td>
<td>81.049</td>
<td>DE-SC0015938</td>
<td></td>
<td>30,000</td>
</tr>
<tr>
<td>Southwest Sciences, Inc.</td>
<td>81.049</td>
<td>DE-SC001288</td>
<td></td>
<td>132,208</td>
</tr>
<tr>
<td>Temple University</td>
<td>81.049</td>
<td>DE-SC0012575</td>
<td></td>
<td>112,296</td>
</tr>
<tr>
<td>The Johns Hopkins University</td>
<td>81.049</td>
<td>DE-FG02-08ER46544</td>
<td></td>
<td>132,024</td>
</tr>
<tr>
<td>University of New Hampshire</td>
<td>81.049</td>
<td>DE-SC007168</td>
<td></td>
<td>41,430</td>
</tr>
<tr>
<td>University of Notre Dame</td>
<td>81.049</td>
<td>DE-SC0014363</td>
<td></td>
<td>125,387</td>
</tr>
<tr>
<td>Washington University</td>
<td>81.049</td>
<td>DE-SC0001036</td>
<td></td>
<td>201,977</td>
</tr>
<tr>
<td>CSI Technologies</td>
<td>81.089</td>
<td>DE-07811212-6503</td>
<td></td>
<td>56,395</td>
</tr>
<tr>
<td>Purdue University</td>
<td>81.089</td>
<td>DE- FE0011822</td>
<td></td>
<td>(2,685)</td>
</tr>
<tr>
<td>The Pennsylvania State University</td>
<td>81.089</td>
<td>DE-FE002354</td>
<td></td>
<td>98,974</td>
</tr>
<tr>
<td>University of South Carolina</td>
<td>81.089</td>
<td>DE-FE0012005</td>
<td></td>
<td>35,987</td>
</tr>
<tr>
<td>University of Virginia</td>
<td>81.089</td>
<td>DE-FE0026582</td>
<td></td>
<td>82,056</td>
</tr>
<tr>
<td>Cornell University</td>
<td>81.112</td>
<td>DE-NA0001836</td>
<td></td>
<td>53,843</td>
</tr>
<tr>
<td>Rice University</td>
<td>81.112</td>
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The accompanying footnotes are an integral part of the Schedule of Expenditures of Federal Awards
Princeton University  
Schedule of Expenditures of Federal Awards  
For the year ended June 30, 2017

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The accompanying footnotes are an integral part of the Schedule of Expenditures of Federal Awards
Princeton University
Schedule of Expenditures of Federal Awards
For the year ended June 30, 2017

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<th>CFDA Number</th>
<th>Pass-through Entity Identifying Number</th>
<th>Passed to Subrecipients</th>
<th>Federal Expenditures</th>
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The accompanying footnotes are an integral part of the Schedule of Expenditures of Federal Awards.
Princeton University
Schedule of Expenditures of Federal Awards
For the year ended June 30, 2017

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The accompanying footnotes are an integral part of the Schedule of Expenditures of Federal Awards.
## Schedule of Expenditures of Federal Awards

**For the year ended June 30, 2017**

<table>
<thead>
<tr>
<th>Federal Grantor/Pass-Through Grantor/Program or Cluster Title</th>
<th>CFDA Number</th>
<th>Pass-through Entity Identifying Number</th>
<th>Passed to Subrecipients</th>
<th>Federal Expenditures</th>
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The accompanying footnotes are an integral part of the Schedule of Expenditures of Federal Awards

32
# Princeton University
## Schedule of Expenditures of Federal Awards
### For the year ended June 30, 2017

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<tr>
<th>Federal Grantor/Pass-Through Grantor/Program or Cluster Title</th>
<th>CFDA Number</th>
<th>Pass-through Entity Identifying Number</th>
<th>Passed to Subrecipients</th>
<th>Federal Expenditures</th>
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</tbody>
</table>

The accompanying footnotes are an integral part of the Schedule of Expenditures of Federal Awards.
### Princeton University
**Schedule of Expenditures of State of New Jersey Awards**
**Year Ended June 30, 2017**

<table>
<thead>
<tr>
<th>State Grantor / Program Title</th>
<th>Grant No./Reference Number</th>
<th>Award Amount</th>
<th>Grant Period</th>
<th>Current Year Expenditures</th>
<th>Life to Date Expenditures</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Research &amp; Development:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>New Jersey Department of Health and Senior Services</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>New Jersey Commission on Brain Injury Research</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>NJ Commission on Brain Injury Research CBIR15FELL004</td>
<td>67,000</td>
<td>6/1/2015-5/31/2018</td>
<td>33,315</td>
<td>65,915</td>
<td></td>
</tr>
<tr>
<td>Total New Jersey Commission on Brain Injury Research</td>
<td>349,432</td>
<td></td>
<td>133,783</td>
<td>299,375</td>
<td></td>
</tr>
<tr>
<td><strong>New Jersey Commission on Cancer Research (NJCCR):</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>NJ Commission on Cancer Research DFHS15PPC006</td>
<td>100,000</td>
<td>1/1/2015-1/31/2017</td>
<td>25,744</td>
<td>100,000</td>
<td></td>
</tr>
<tr>
<td>NJ Commission on Cancer Research DFHS15PPC021</td>
<td>100,000</td>
<td>1/1/2015-12/31/2016</td>
<td>30,402</td>
<td>100,000</td>
<td></td>
</tr>
<tr>
<td>NJ Commission on Cancer Research DFHS15PPC023</td>
<td>50,000</td>
<td>1/1/2015-12/31/2016</td>
<td>-</td>
<td>10,426</td>
<td></td>
</tr>
<tr>
<td>NJ Commission on Cancer Research DFHS15PPC026</td>
<td>100,000</td>
<td>1/1/2015-12/31/2016</td>
<td>-</td>
<td>35,567</td>
<td></td>
</tr>
<tr>
<td>NJ Commission on Cancer Research DFHS15PPC027</td>
<td>100,000</td>
<td>1/1/2015-12/31/2017</td>
<td>46,261</td>
<td>79,495</td>
<td></td>
</tr>
<tr>
<td>NJ Commission on Cancer Research DFHS15PPC044</td>
<td>100,000</td>
<td>1/1/2015-12/31/2016</td>
<td>-</td>
<td>49,696</td>
<td></td>
</tr>
<tr>
<td>NJ Commission on Cancer Research DFHS16PPC007</td>
<td>100,000</td>
<td>1/1/2016-12/31/2017</td>
<td>52,037</td>
<td>75,538</td>
<td></td>
</tr>
<tr>
<td>NJ Commission on Cancer Research DFHS16PPC004</td>
<td>100,000</td>
<td>1/1/2016-12/31/2016</td>
<td>54,870</td>
<td>81,830</td>
<td></td>
</tr>
<tr>
<td>NJ Commission on Cancer Research DFHS16PPC011</td>
<td>100,000</td>
<td>1/1/2017-12/31/2018</td>
<td>26,660</td>
<td>26,660</td>
<td></td>
</tr>
<tr>
<td>NJ Commission on Cancer Research DFHS16PPC012</td>
<td>100,000</td>
<td>1/1/2017-12/31/2018</td>
<td>26,660</td>
<td>26,660</td>
<td></td>
</tr>
<tr>
<td>NJ Commission on Cancer Research DFHS16PPC026</td>
<td>100,000</td>
<td>1/1/2016-12/31/2017</td>
<td>45,091</td>
<td>45,091</td>
<td></td>
</tr>
<tr>
<td>NJ Commission on Cancer Research DFHS16PPC056</td>
<td>50,000</td>
<td>1/1/2016-12/31/2017</td>
<td>26,427</td>
<td>35,234</td>
<td></td>
</tr>
<tr>
<td>NJ Commission on Cancer Research DHFS16PPC073</td>
<td>50,000</td>
<td>1/1/2016-12/31/2017</td>
<td>24,200</td>
<td>39,165</td>
<td></td>
</tr>
<tr>
<td>Total New Jersey Commission on Cancer Research</td>
<td>1,150,000</td>
<td></td>
<td>358,352</td>
<td>705,382</td>
<td></td>
</tr>
<tr>
<td><strong>New Jersey Commission on Spinal Cord Research</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>NJ Commission on Spinal Cord Research CSCR15ERG017</td>
<td>200,000</td>
<td>6/28/2015-6/30/2018</td>
<td>83,664</td>
<td>105,571</td>
<td></td>
</tr>
<tr>
<td>NJ Commission on Spinal Cord Research CSCR17TTT008</td>
<td>4,000</td>
<td>3/1/2017-2/28/2018</td>
<td>989</td>
<td>989</td>
<td></td>
</tr>
<tr>
<td>Total New Jersey Commission on Spinal Cord Research</td>
<td>752,914</td>
<td></td>
<td>301,977</td>
<td>360,711</td>
<td></td>
</tr>
<tr>
<td><strong>NJ Department of Human Services</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Division of Developmental Disabilities 02LP17C</td>
<td>50,000</td>
<td>7/1/2016-6/30/2017</td>
<td>48,854</td>
<td>48,854</td>
<td></td>
</tr>
<tr>
<td>Total New Jersey Department of Human Services</td>
<td>50,000</td>
<td></td>
<td>48,854</td>
<td>48,854</td>
<td></td>
</tr>
<tr>
<td>Total Research and Development</td>
<td>2,302,346</td>
<td></td>
<td>842,966</td>
<td>1,414,322</td>
<td></td>
</tr>
<tr>
<td><strong>Other Programs:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>New Jersey Department of State</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>New Jersey Council on the Arts</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>NJ State Council on the Arts 1705X020017</td>
<td>30,000</td>
<td>7/1/2016-6/30/2017</td>
<td>30,000</td>
<td>30,000</td>
<td></td>
</tr>
<tr>
<td>Total Other Programs</td>
<td>30,000</td>
<td></td>
<td>30,000</td>
<td>30,000</td>
<td></td>
</tr>
<tr>
<td><strong>Student Financial Aid:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>New Jersey Higher Education Student Assistance Authority</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>New Jersey Tuition Grant Aid NONE</td>
<td>627,705</td>
<td>INDEFINITE</td>
<td>627,705</td>
<td>627,705</td>
<td></td>
</tr>
<tr>
<td>Total Student Financial Aid</td>
<td>627,705</td>
<td></td>
<td>627,705</td>
<td>627,705</td>
<td></td>
</tr>
<tr>
<td>Total New Jersey State Awards</td>
<td>2,960,051</td>
<td></td>
<td>1,500,671</td>
<td>2,072,027</td>
<td></td>
</tr>
</tbody>
</table>

The accompanying footnotes are an integral part of the Schedule of Expenditures of State of New Jersey Awards.
1. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards and Schedule of Expenditures of State of New Jersey Awards (the “Schedules”) have been prepared in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance) and the State of New Jersey Department of the Treasury Circular 15-08 OMB, Single Audit Policy for Recipients of Federal Grants, State Grants and State Aid, as applicable. The purpose of the Schedules is to present a summary of the activities of Princeton University (the “University”) for the year ended June 30, 2017, which have been financed by the U.S. Government and the State of New Jersey, respectively. For purposes of the Schedules, federal and state awards include all federal and state financial assistance relationships entered into directly between the University and the federal government or the State of New Jersey and sub awards from nonfederal and nonstate organizations made under federally or state sponsored agreements. Negative amounts listed on the Schedule of Expenditures of Federal Awards represent adjustments, in the normal course of business, to amounts included on the prior year’s Schedule of Expenditures of Federal Awards. The pass-through entity identifying number on the Schedule of Expenditures of Federal Awards represents the identification number assigned by the prime to the applicable program. CFDA numbers and pass-through numbers are provided when applicable. Certain awards reference an internal management identifier when no sponsor identifier is available. Because the Schedules present only a selected portion of the activities of the University, they are not intended to and do not present either the financial position, changes in net assets or cash flows of the University.

Consistent with the provisions of OMB Uniform Guidance, the Schedule of Expenditures of Federal Awards does not include expenditures of the Princeton Plasma Physics Laboratory (“PPPL”) that were funded by Department of Energy (“DOE”) contract. The PPPL, a national laboratory operated and managed by the University under contract directly with DOE, represents a government-owned, contractor operated (GOCO) facility. GOCOs are excluded from the provisions of the OMB Uniform Guidance (section 200.38 – Federal award).

The accounting principles followed by the University in preparing the Schedules are as follows:

*Sponsored Research (Research and Development) and Other Awards*—Expenditures for direct costs are recognized as incurred using the accrual method of accounting and the cost accounting principles contained in the Uniform Guidance. Under those cost principles, expenditures also include a portion of costs associated with general University activities (indirect costs) which are allocated to federal and state awards under negotiated formulas commonly referred to as facilities and administrative cost rates. The University did not elect to use 10% de minimis rate.

*Student Financial Assistance*—Expenditures are recognized on the accrual basis for both awards made to students and allowable administrative expenses of running such programs.
2. Facility and Administrative Costs

The University’s Federal negotiated predetermined cost rates for the year ended June 30, 2017 were as follows:

<table>
<thead>
<tr>
<th>Princeton University Sponsored Activity</th>
<th>Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>On - Campus</td>
<td>61.0%</td>
</tr>
<tr>
<td>Off - Campus</td>
<td>26.0%</td>
</tr>
</tbody>
</table>

Indirect cost rates for New Jersey state awards are determined by New Jersey state agencies on a proposal basis.

3. Federal Perkins Loan Program

Amounts reported in the schedule of expenditures of federal awards for the Federal Perkins Loan Program (84.038) represent the Perkins Revolving Loan Fund outstanding at the beginning of the year, an administrative cost allowance and loans made during the year. The balance of Federal Perkins loans outstanding as of June 30, 2017 was $4,008,205. The University did not receive a federal capital contribution nor make any matching contribution to the Federal Perkins Loan fund in 2017. An administrative cost allowance associated with expenditures related to Federal Work Study and Federal SEOG is included in the schedule of expenditures of federal awards where applicable.

4. Federal Direct Loan Program

The University participates in the Federal Direct Loan Program (84.268), which includes subsidized and unsubsidized Federal Stafford Loans (“Stafford”) and Federal PLUS Loans (“PLUS”). Even though the University is not the recipient of the funds and loans under the Federal Direct Loan Program, which are made to students, such programs are considered a component of the student financial assistance program at the University. It is not practical to estimate the outstanding balance of loans under this program.
Report of Independent Auditors on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards

To the Trustees of Princeton University:

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, the consolidated financial statements of Princeton University (the “University”) which comprise the consolidated statements of financial position as of June 30, 2017 and the related consolidated statements of activities and cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated November 20, 2017.

Internal Control Over Financial Reporting

In planning and performing our audit of the consolidated financial statements, we considered the University’s internal control over financial reporting (“internal control”) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the University’s internal control. Accordingly, we do not express an opinion on the effectiveness of the University’s internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity’s financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the University's consolidated financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.
Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity’s internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the entity’s internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

PricewaterhouseCoopers LLP

New York, New York
November 20, 2017
Report of Independent Auditors on Compliance with Requirements that Could Have a Direct and Material Effect on Each Major Federal and State Program and on Internal Control Over Compliance in Accordance With OMB Uniform Guidance and New Jersey Department of Treasury Circular Letter 15-08-Office of Management and Budget

To the Trustees of Princeton University:

Report on Compliance for Each Major Federal and State Program

We have audited Princeton University's (the “University”) compliance with the types of compliance requirements described in the OMB Compliance Supplement and The New Jersey Department of the Treasury Circular Letter 15-08 Office of Management and Budget, Single Audit Policy for Recipients of Federal Grants, State Grants and State Aid, that could have a direct and material effect on each of the University’s major federal and state programs respectively, for the year ended June 30, 2017. The University’s major federal and state programs are identified in the summary of auditor’s results section of the accompanying schedule of findings and questioned costs.

Management’s Responsibility

Management is responsible for compliance with federal and state statutes, regulations, and the terms and conditions of its federal and state awards to its federal and state programs.

Auditors’ Responsibility

Our responsibility is to express an opinion on compliance for each of the University’s major federal and state programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance), and The New Jersey Department of the Treasury Circular Letter 15-08 Office of Management and Budget, Single Audit Policy for Recipients of Federal Grants, State Grants and State Aid. Those standards, the Uniform Guidance and The New Jersey Department of the Treasury Circular Letter 15-08 Office of Management and Budget, require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal and state program occurred. An audit includes examining, on a test basis, evidence about the University’s compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal and state program. However, our audit does not provide a legal determination of the University’s compliance.
Opinion on Each Major Federal and State Program

In our opinion, the University complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal and state programs for the year ended June 30, 2017.

Report on Internal Control Over Compliance

Management of the University is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the University’s internal control over compliance with the types of requirements that could have a direct and material effect on each major federal and state program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal and state program and to test and report on internal control over compliance in accordance with the Uniform Guidance and The New Jersey Department of the Treasury Circular Letter 15-08 Office of Management and Budget, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the University’s internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal or state program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal or state program will not be prevented, or detected and corrected, on a timely basis. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal or state program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing is based on the requirements of the Uniform Guidance and The New Jersey Department of the Treasury Circular Letter 15-08 Office of Management and Budget. Accordingly, this report is not suitable for any other purpose.

New York, New York
March 8, 2018
Section I—Summary of Independent Auditors’ Results

Financial Statements

Type of independent auditors’ report issued: Unmodified

Internal control over financial reporting:
  Material weakness(es) identified? Yes No

Significant deficiencies(s) identified that are not considered to be material weaknesses? Yes No

Noncompliance material to financial statements noted? Yes No

Federal Awards

Internal Control over major programs:
  Material weakness(es) identified? Yes No

Significant deficiencies(s) identified that are not considered to be material weaknesses
  Yes No

Type of independent auditors’ report issued on compliance for major programs: Unmodified

State of New Jersey Awards

Internal Control over major programs:
  Material weakness(es) identified? Yes No

Significant deficiencies(s) identified that are not considered to be material weaknesses
  Yes No

Type of independent auditors’ report issued on compliance for major programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with:

  2 CFR section 200.516 (a)? Yes No

  State of New Jersey OMB Circular 15-08? Yes No

Identification of major programs:

<table>
<thead>
<tr>
<th>CFDA Number(s)</th>
<th>Name of Federal Program or Cluster</th>
</tr>
</thead>
<tbody>
<tr>
<td>Federal:</td>
<td></td>
</tr>
<tr>
<td>Various</td>
<td>Research and Development Cluster</td>
</tr>
<tr>
<td>Various</td>
<td>Student Financial Assistance Cluster</td>
</tr>
<tr>
<td>State:</td>
<td></td>
</tr>
<tr>
<td>Various</td>
<td>Student Financial Assistance Cluster</td>
</tr>
</tbody>
</table>
Dollar threshold used to distinguish between Type A and Type B programs:

<table>
<thead>
<tr>
<th></th>
<th>Federal Awards:</th>
<th>State of New Jersey Awards:</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Federal</strong></td>
<td>$3,000,000</td>
<td>$750,000</td>
</tr>
<tr>
<td><strong>State</strong></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Federal:**

Auditee qualified as low-risk auditee?  
[X] Yes  [ ] No

**State:**

Auditee qualified as low-risk auditee?  
[X] Yes  [ ] No
Section II — Financial Statement Findings

The audit disclosed no items required to be reported in this section.

Section III—Federal Award Findings and Questioned Costs

The audit disclosed no items required to be reported in this section.

Section IV—State of New Jersey Award Findings and Questioned Costs

The audit disclosed no items required to be reported in this section.
Federal Programs

Finding 2016 - 001: Equipment and Real Property Management

Applies to CFDA #: 12.431, 12.800, 43.001, 47.041, 47.049, 81.049, and 93.397

Condition: Of the 25 items selected it was noted that 5 items were either not in locations noted on the property listing or the asset tags had not been properly affixed to the items. Additionally, of the 6 items selected for testing compliance with federal regulations regarding disposed equipment and real property management, it was noted that the 6 items were written off and recorded as disposals as a result of the equipment inventory count during the year, however, the original disposal documentation and evidence of assessment/determination of fair value at the time of disposal was not retained.

Status: Closed - The University implemented a new PeopleSoft asset management system in February 2018 and has revised capital equipment policies and procedures to more clearly provide guidance for equipment property management and disposition of equipment.

Finding 2016 - 002: Procurement and Suspension and Debarment

Applies to CFDA #: 12.910, 16.RD, 43.001, 47.041, 47.049, 93.242, 93.397, 93.853 and 93.865

Condition: Of the sample of 40 vendors and subrecipients selected from the Research and Development Cluster, it was noted that for 25 vendors, documentation evidencing that a search for suspension and debarment occurred prior to doing business with the vendor was not retained, and in these cases the vendor contract did not include a suspension and debarment clause nor was a certification obtained as an alternative to the search.

Status: Closed – The University continues to utilize the Total Supplier Management System (TSM) and has implemented procedures to ensure the results of debarment searches are documented, retained and updated on an ongoing basis by Procurement Services staff.

State Programs

No findings in prior years which require an update in this report.