



REPORT OF THE TREASURER 2017–18

A 10-YEAR LOOK AT PRINCETON'S FINANCIAL, PHYSICAL, AND HUMAN CAPITAL

Princeton University Highlights

Fiscal years ending June 30

FINANCIAL

(dollars in thousands)

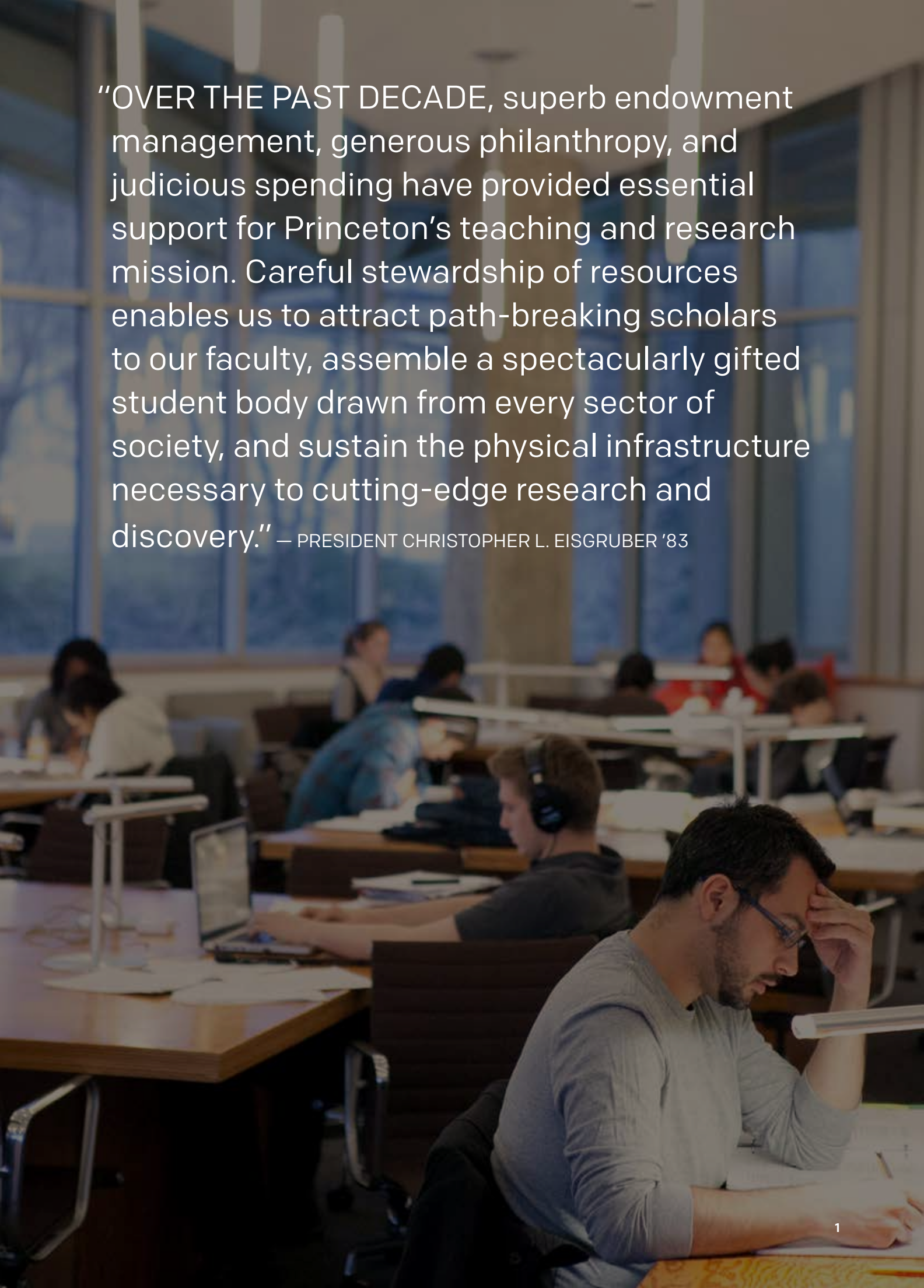
	2018	2017
Principal sources of revenues		
Tuition and fees (net)	\$ 108,265	\$ 108,698
Government grants and contracts	292,217	295,545
Private gifts, grants, and contracts	142,746	102,627
Investment earnings, including unrealized gains or losses	3,236,891	2,630,344
Principal purposes of expenditures		
Academic and research	1,079,486	1,027,947
Student services and support	297,784	288,913
General administration and operations	222,336	245,831
Summary of financial position		
Assets	31,582,051	29,428,995
Liabilities	4,186,498	4,625,492
Net assets	27,395,553	24,803,503
Net assets		
Without donor restrictions	11,881,694	10,649,353
With donor restrictions	15,312,898	13,962,725
Noncontrolling interests	200,961	191,425
Total	\$ 27,395,553	\$24,803,503

STUDENTS

Enrollment		
Undergraduate students	5,260	5,232
Graduate students	2,845	2,747
Degrees conferred		
Bachelor's degrees	1,281	1,280
Advanced and all other degrees	563	520
Annual tuition rate		
Undergraduate	\$ 47,140	\$ 45,320
Graduate	47,140	45,320

FACULTY

Full-time equivalent	1,050	1,042
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"OVER THE PAST DECADE, superb endowment management, generous philanthropy, and judicious spending have provided essential support for Princeton's teaching and research mission. Careful stewardship of resources enables us to attract path-breaking scholars to our faculty, assemble a spectacularly gifted student body drawn from every sector of society, and sustain the physical infrastructure necessary to cutting-edge research and discovery." — PRESIDENT CHRISTOPHER L. EISGRUBER '83



A DECADE IN REVIEW

Letter from the Treasurer



I am pleased to present Princeton University's *Report of the Treasurer* for the fiscal year ended June 30, 2018. The year concluded with Princeton's financial resources stronger than ever by many measures. Net assets, the single most significant measure of financial strength, grew by 10.5 percent and reached a new high-water mark of \$27 billion. These sound results allow Princeton to advance its teaching and research mission, ensure the affordability of a Princeton education, and embody its informal motto "in the nation's service and the service of humanity."

In the pages ahead, we reflect on the past decade — a decade that began with extraordinary challenges in investment performance, liquidity, and spending, but ended with a strong, sustained recovery. Much was learned along the way about prudently stewarding the financial and physical resources of the institution. Over the decade, significant enhancements were made to how we manage liquidity, expenses, and resources, and how we report on them.

The past decade was also a time for modernizing the technology that supports our business operations. Our new Prime financial system, implemented in 2014, provides the accounting structure, reporting, and analytical capability to help us manage our operations efficiently, effectively, and prudently. Routine financial transactions are now fully automated, many paper forms and documents have been eliminated, the majority of payments are electronically processed, and reports and information are multidimensional and flexible.

This year also marked the departure of Carolyn Ainslie, our vice president for finance and treasurer for the past 10 years, to become chief financial officer of the Bill & Melinda Gates Foundation. We thank Carolyn for her decade of leadership, inspiration, and service to Princeton. She took great pride in the work we do to support the University's mission, making it possible for students from all backgrounds to work with and learn from outstanding faculty, and for those faculty to conduct innovative and groundbreaking research on a vibrant residential campus.

As we close the books on 2018 and look back at the past decade in this report, we are grateful for the opportunity to help steward Princeton's financial resources and we look forward to continuing to support the University's teaching, research, and service mission in the years ahead.

A handwritten signature in dark ink, reading "Kenneth R. Molinaro".

KENNETH R. MOLINARO

Interim Vice President for Finance and Treasurer

LOOKING BACK AT THE PAST DECADE

■ Fiscal year 2018 marks the 10th anniversary of the global financial crisis. ■ The decade began with a sharp and unprecedented decline in the value of the University's endowment, followed by years of strong and sustained recovery. The global financial crisis had a profound impact on how the University thinks about and manages its resources, liquidity, expenditures, and operations. Many of our current financial management practices and systems originated in the aftermath of the crisis. ■ The decade was highlighted by the culmination of the \$1.9 billion Aspire fundraising campaign, the first 10-year capital plan (\$3.3 billion), \$1.8 billion in debt financings to support both capital and liquidity needs, and the transformation of our core financial systems. In January 2016 the Board of Trustees adopted a strategic framework that identifies major priorities for the University's future, including but not limited to: expanding the undergraduate student body, enhancing socioeconomic diversity, emphasizing service, and investing in environmental and data sciences. ■ In the pages that follow, we show graphically how the University's financial, physical, and human capital have evolved and strengthened over the past decade. ■



FINANCIAL CAPITAL FY 2009-18

Net assets doubled.

The decade began with the University's total net assets down 24 percent in fiscal year 2009. Over a long and mostly steady recovery, net assets rose 105 percent to \$27.4 billion driven by consistently excellent investment returns in combination with prudent management of endowment spending, careful oversight of operating budget results, and successful fundraising. The University's financial resources, as measured by net assets, enable Princeton to pursue its mission of teaching and research at a high level of quality and ensure that Princeton is affordable for students from all socioeconomic backgrounds.

TOTAL NET ASSETS

2009
\$13.4 billion

2018
\$27.4 billion

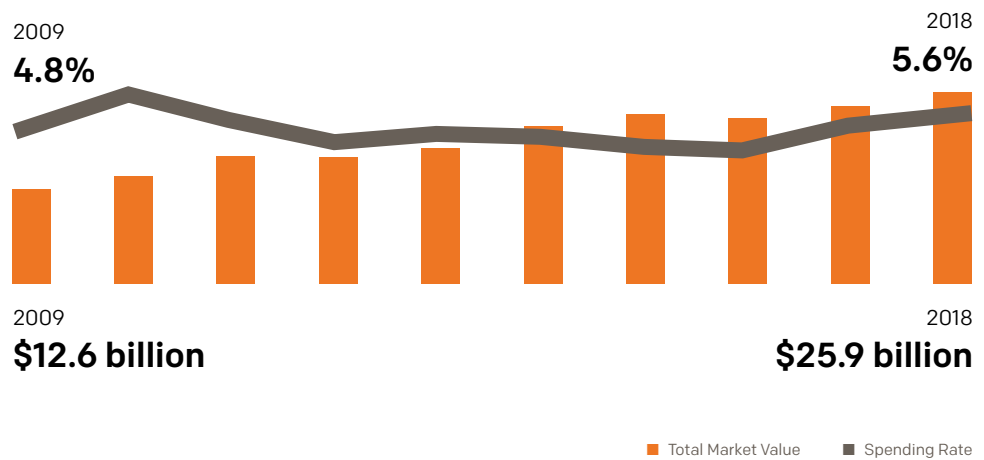
105%



Prudent endowment spending aligned with 120 percent growth.

In fiscal year 2009 and at the height of the global financial crisis, the University's endowment was down 23.5 percent. Over a long and mostly stable recovery, the endowment market value rose 120 percent over 10 years, driven by excellent investment returns combined with new gift additions, all while annual payouts from the endowment ranged from 4.1 percent to 6.0 percent during this period. The University targets annual spending rates between 4.0 percent and 6.25 percent. Spending rates of 5.0 percent and 5.6 percent in the past two years reflect decisions to fund new strategic priorities, including investments in faculty research and other important initiatives.

ENDOWMENT MARKET VALUE & SPENDING RATE

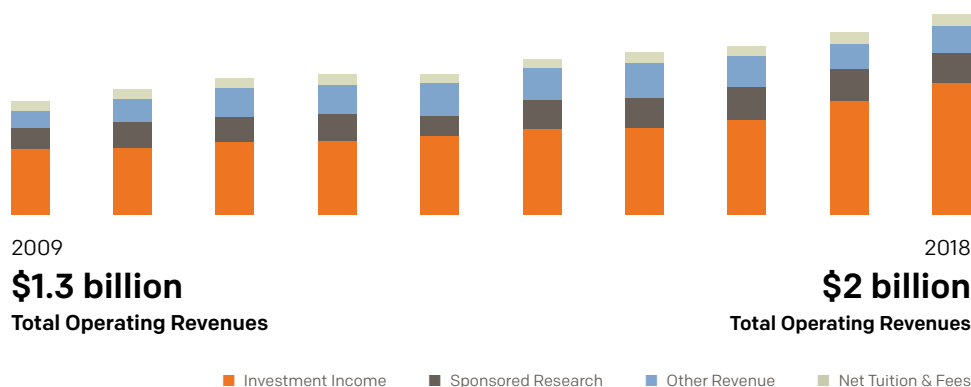


Operating revenues and expenses were consistently in balance.

Over the past decade, the University has consistently maintained a balanced operating budget. Operating margins averaged 6 percent of revenue, as a result of prudent financial management practices and careful stewardship of resources.

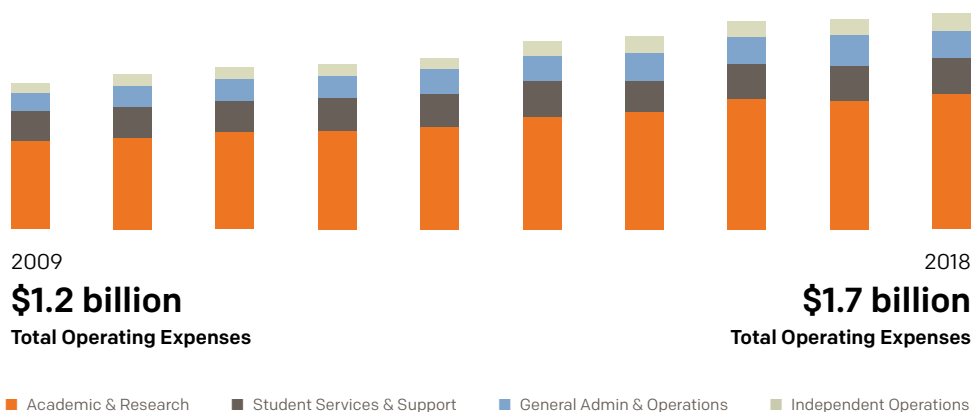
OPERATING REVENUES

Operating revenues grew 60 percent, primarily driven by increases in endowment spending, particularly in 2017 and 2018 when the payout was increased by 17 percent and 19 percent, respectively, in support of the University's strategic priorities. Government and private sponsored grants grew 39 percent. Net tuition, which comprises only 5 percent of the operating revenue, grew by 23 percent in total, for an average increase of 2.3 percent per year, and nearly flat when adjusted for inflation.



OPERATING EXPENSES

Operating expenses grew 48 percent, or 4.8 percent on an average annual basis, generally consistent with increases in higher education inflation and the University's board-approved operating budget priorities over this time. The major expenditure categories of academic and research, student services and support, and general administration and operations grew in relatively equivalent proportions.



Expanding research funding and collaboration.

Research is fundamental to the mission of the University. Over the past decade, Princeton succeeded in expanding its overall sponsored funding and expenditures in research by 39 percent. The largest percentage increase, 69 percent, was in support from non-government sponsors, such as foundations and industry. Revenues at the Princeton Plasma Physics Laboratory (PPPL), operated under contract with the U.S. Department of Energy, grew 58 percent.

RESEARCH EXPENDITURES



2009
\$240 million
Total Research Expenditures



2018
\$333 million
Total Research Expenditures

39%

■ Government ■ PPPL ■ Non-Government

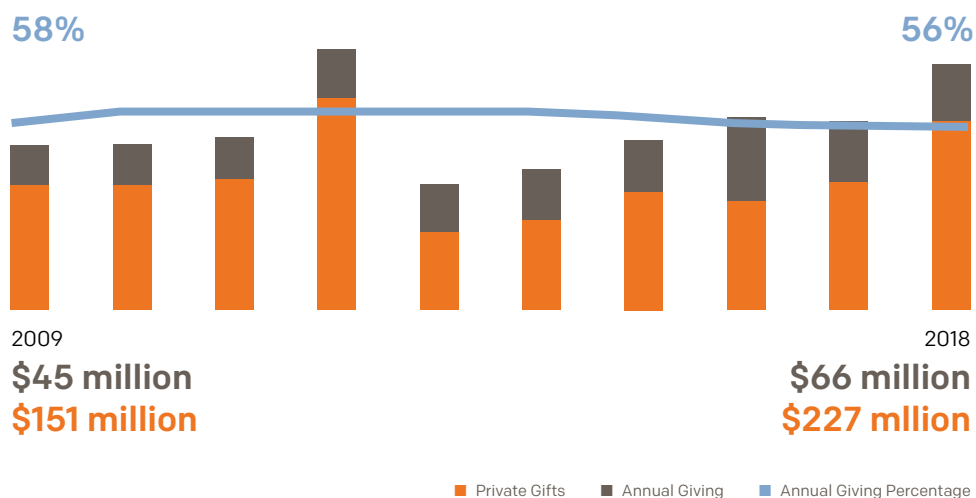




A strong tradition of fundraising.

Princeton has a long tradition of successful fundraising and a high rate of participation among alumni and friends. The fundraising spike in fiscal year 2012 marked the end of the Aspire campaign, which raised \$1.9 billion. Fiscal year 2018 proved a worthy match, with nearly \$300 million in total giving. Annual Giving has been a vital source of unrestricted funding that supports the annual operating budget, with participation rates for undergraduate alumni of well over 50 percent.

ANNUAL GIVING & PRIVATE GIFTS



51%

49%

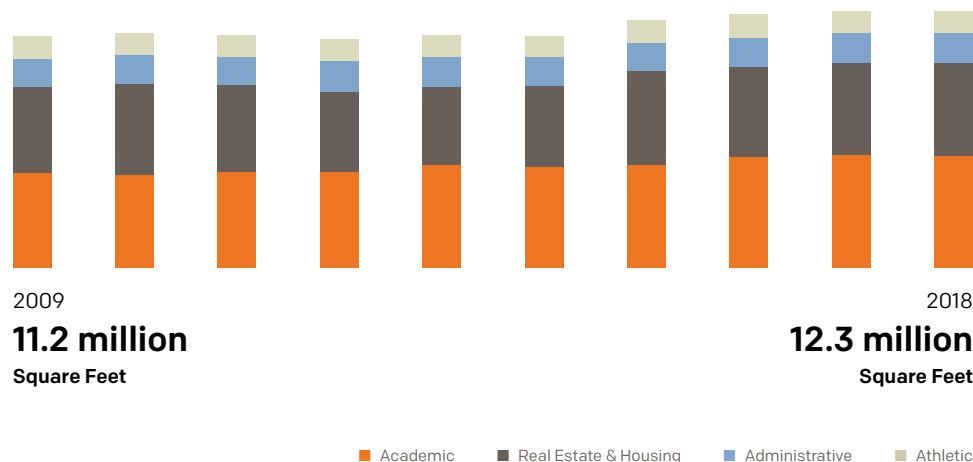


PHYSICAL CAPITAL FY 2009-18

Expanding physical space to support mission priorities.

As part of its 10-year capital plan (2008-2017), the University added 1.1 million square feet of space on a net basis, an 11 percent increase. Major academic and research projects had the highest rate of expansion at just under 1 million square feet and included the new Frick Chemistry Laboratory, the Andlinger Center for Energy and the Environment, Peretsman-Scully Hall, and the Princeton Neuroscience Institute.

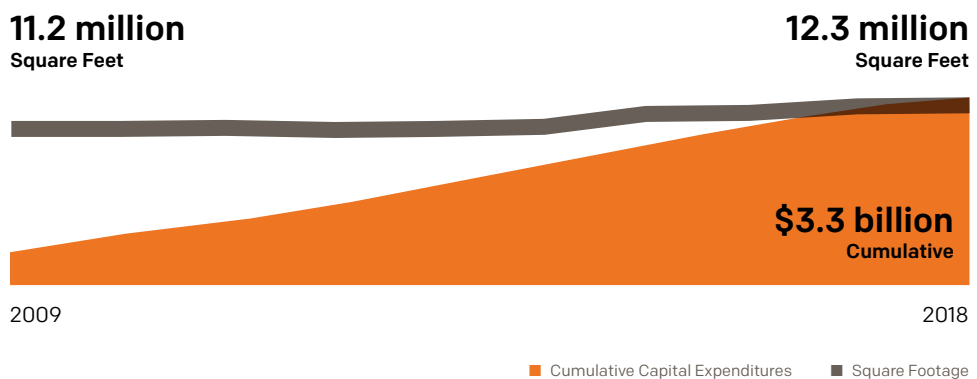
SQUARE FOOTAGE



Investing in capital improvements and renewal.

Over the past decade, the University invested \$3.3 billion in major new academic construction projects, as well as student housing projects such as Butler College and Lakeside Graduate Student Housing. Princeton is also committed to renovating and renewing existing spaces and maintaining infrastructure at a high level of quality. The University targets annual spending of approximately 2 percent of the plant replacement value for this purpose.

CAPITAL EXPENDITURES & SQUARE FOOTAGE

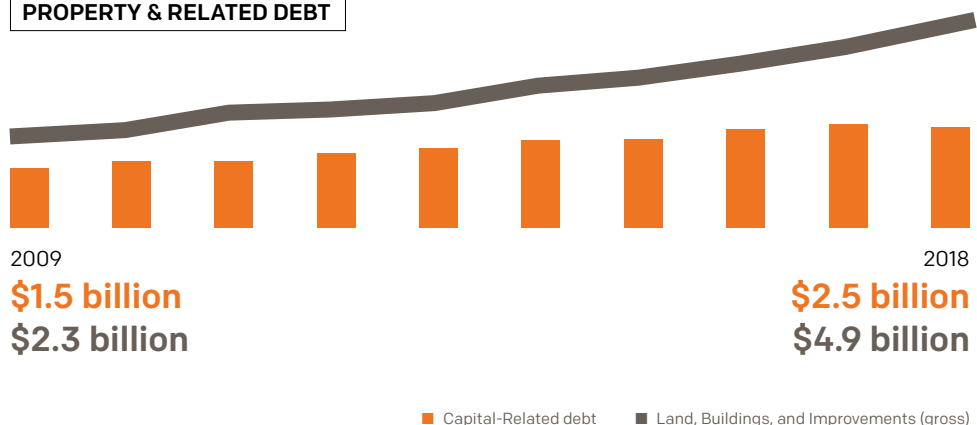


Strategic use of debt to finance capital.

The 10-year capital plan was funded from a combination of gifts, operating revenues including rental and housing income, and strategic reserves. Debt financing has been used to spread the cost of capital investments over the useful life of the asset. Over the decade, \$1 billion in debt was added, net of amortizing payments, to fund capital expenditures. At the end of 2018, the University had \$2.5 billion of outstanding debt for capital purposes and \$4.9 billion in land, buildings, and improvements.



PROPERTY & RELATED DEBT





Princeton's total debt profile.

In response to the impact of the global financial crisis, Princeton issued \$1 billion of taxable debt in 2009 for operational liquidity purposes. This allowed the University to avoid liquidating investments at distressed prices to fund the endowment payouts in 2009 and 2010. This proved to be an effective strategy as market values steadily recovered. In fiscal 2018, \$250 million of the liquidity debt was repaid ahead of schedule. In addition to the capital and liquidity debt, Princeton had \$49 million in bank debt outstanding, at the end of fiscal 2018, for funding its parent loan program and other purposes.

TOTAL DEBT BY TYPE



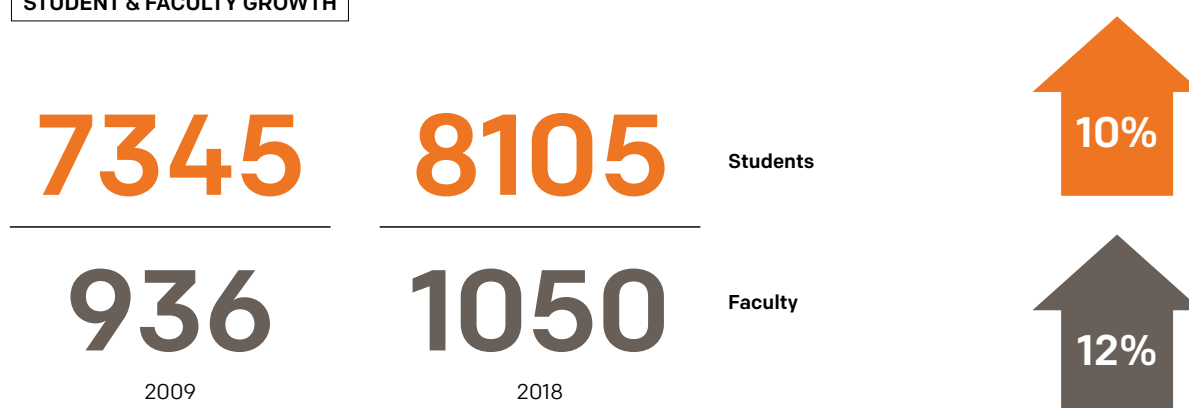


HUMAN CAPITAL FY 2009–18

Expanding student enrollment.

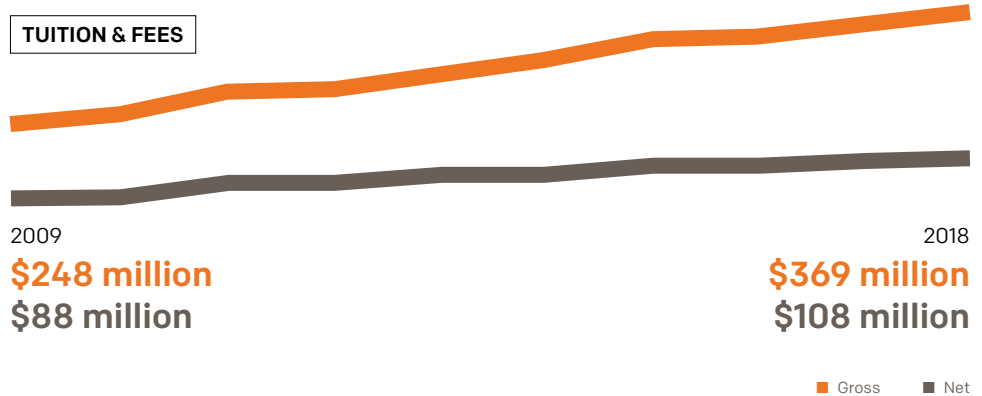
Over the past decade student enrollment grew 10.3 percent. Undergraduate student growth was most significant in the early part of the decade, completing an expansion in enrollment of 500 undergraduates that began in the mid-2000s. Graduate student enrollment grew with expansion in new areas of scholarship and research such as neuroscience and quantitative computational biology. Faculty full-time equivalents grew 12.2 percent and the ratio of undergraduate students to faculty held relatively steady at 5:1.

STUDENT & FACULTY GROWTH



Holding the line on net tuition.

Access and affordability have been the cornerstones of Princeton's tuition and financial aid policies since the early 2000s. While total gross tuition revenue increased 49 percent over the past decade, this was mostly driven by an increase in student enrollment. Net of student financial aid however, total tuition and fee revenues increased only 23 percent or 2.3 percent per year. On an inflation adjusted basis, tuition increases were nearly flat over the decade.

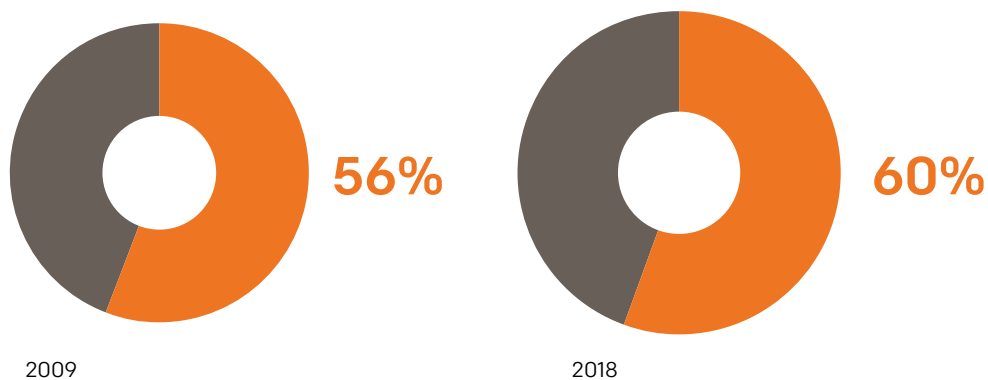




A commitment to affordability.

Princeton continued to increase its financial aid budgets as necessary, to meet the full demonstrated financial needs of undergraduate students through grants rather than loans. Over this period the percent of undergraduate students on aid grew from 56 percent to 60 percent, and the average grant per student is currently \$53,100 which covers 100 percent of Princeton tuition. In the last decade, the average amount of need-based grant increased by more than 90 percent, about twice as much as the amount of tuition increase for the same period.

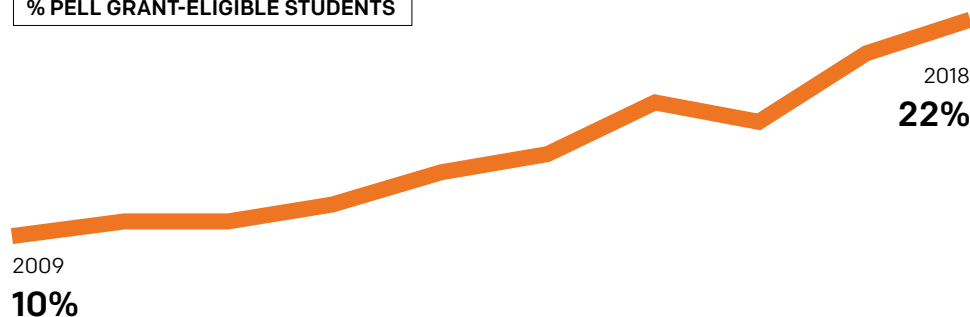
UNDERGRADUATE STUDENTS ON AID



A commitment to socioeconomic diversity.

Princeton is fully committed to increasing the diversity of its student body. A concerted effort has been made to identify and attract more qualified students from low-income families. Over the past decade, Federal Pell Grant-eligible students have grown dramatically from 10 percent with the class that entered in academic year (AY) 2009 to 22 percent in the class that entered in AY 2018. Our most recently admitted class that entered in AY 2019 is 20 percent Pell Grant-eligible.

% PELL GRANT-ELIGIBLE STUDENTS



Financial Statement Overview

Letter from the Controller

Fiscal year 2018 was another financially strong year for Princeton University, with respect to both investment and operating performance, as well as the growth of its financial resources. Net assets for the year ended June 30, 2018 increased by \$2.6 billion, or 10.5 percent, primarily due to strong investment and operating results. The return of 14.2 percent from the managed investment portfolio maintains Princeton's ranking in the highest-performing tier of large university endowments over the long term. The University increased its endowment spending rate to 5.6 percent in 2018, in accordance with its board-approved spending framework, so as to fund various new strategic initiatives in the areas of expanded enrollment and aid, emerging academic fields and innovation. An operating surplus of \$294 million, or 14.6 percent of total operating revenues, was achieved primarily through the increased endowment payout combined with the prudent management of operating expenses and stewardship of financial resources.



Fiscal 2018 was also a year of change for the University financial statements, with the early adoption of ASU 2016-14, which requires the University to reclassify its net assets from three categories to two, and enhances disclosures about the composition of net assets, liquidity, and expenses by both natural and functional classifications. During the fiscal year, the University also changed the presentation of expenses in the Consolidated Statement of Activities from a functional to a natural expense classification for comparability with peers and industry practice. The presentation of functional expenses was moved from the Consolidated Statement of Activities to the footnotes, and the functional categories were changed from seven to four total categories to better reflect how the University manages its budgets and operations.

Revenues from tuition and fees, net of scholarships and fellowships, decreased by 0.4 percent in fiscal 2018, reflecting growth in financial aid to support a more socioeconomically diverse student body. The aid increase exceeded the modest tuition and fee increase. Revenues from long-term gifts and pledges of \$227 million were consistent with Princeton's long history of successful fundraising. Annual Giving, which is vital to the University's annual operations and financial aid capacity, raised \$69 million, the second highest total in Annual Giving history and a testament to the unwavering generosity of loyal alumni, of whom 56 percent

participated. Revenues from government sponsors remained consistent from fiscal years 2017 to 2018, reflecting the competitiveness of Princeton's faculty in attracting research awards in the context of constrained federal funding. Total operating revenues of \$2.0 billion in fiscal 2018 grew 11.0 percent.

Total operating expenses of \$1.7 billion in fiscal 2018 increased only 2.0 percent, primarily due to decreased employee benefit costs from lower per capita medical and prescription claims, the expiration of a significant patent and royalty sharing with the inventor, and reduced legal expenses. In addition, interest expense was flat in fiscal 2018 due to the prepayment of \$250 million in liquidity debt during the fiscal year in conjunction with a bond refinancing.

The University successfully pursued its regular practice of issuing debt for capital expenditure and property renewal purposes. Princeton's bonds and notes continue to attract high demand as a safe haven for conservative investors. In connection with a \$357 million tax-exempt bond refunding issue, Princeton again received the highest attainable credit ratings from both Moody's Investors Service and Standard & Poor's agencies, affirming the University's stellar credit standing.

ACCOUNTING PRINCIPLES

Princeton University's consolidated financial statements, which follow herein, are presented

in accordance with generally accepted accounting principles set forth by the Financial Accounting Standards Board (FASB) as supplemented by the American Institute of Certified Public Accountants (AICPA) audit and accounting guide for not-for-profit entities. In addition to general accounting guidance, the statements reflect the impact of specific reporting requirements of not-for-profit organizations prescribed by FASB Accounting Standards Codification (ASC) 958, *Not-for-Profit Entities*, on the topics of accounting for contributions and the format of external financial statements. Compliance with AICPA guidance includes consolidating wholly owned subsidiaries and significant trusts in which the University is a beneficiary, as well as reporting tuition discounts, primarily fellowships and scholarships, as reductions of tuition and fee revenue. The consolidated financial statements are fully comparable, including prior-year data on the Consolidated Statements of Activities.

FINANCIAL REPORTS

The principal objectives of the accounting standards are to provide consistency among the financial statements of not-for-profit organizations and to make them comparable to those of the for-profit sector. The standards require not-for-profit organizations to provide, for their external financial reports, a statement of financial position, a statement of activities, and a statement of cash flows. The organization's resources are classified within two categories of net assets, that is, gross assets less liabilities, based solely on the existence or absence of donor-imposed restrictions. As noted previously, this is a change from prior years' financial statements, which classified resources among three categories of net assets. During fiscal 2018 the University adopted ASU 2016-14, which requires reclassification of net assets from three categories to two. Amounts for each of the two classes of net assets—net assets with donor restrictions and net assets without donor restrictions—are displayed in a statement of financial position,

Table 1
ASSETS AND LIABILITIES
(\$ in millions)

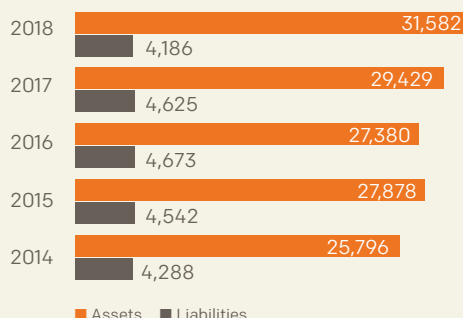


Table 2
MANAGED AND OTHER INVESTMENTS
(\$ in millions)



and the changes in each category are displayed in a statement of activities.

Net assets with donor restrictions consist of resources that may not be spent, mainly true endowment funds. They are generally the result of gifts and bequests with donor stipulations that they be invested to provide a permanent source of income. They may also include gifts-in-kind, such as works of art or real property. Net assets with donor restrictions also include those that, again by donor stipulation, must be invested only for a certain period of time or that may be used in a future period for a specified purpose. Net assets with donor restrictions also include the accumulated income and gains on endowment funds, absent explicit donor stipulations to the contrary, until appropriated for expenditure. Net assets without donor restrictions may be expended for any purpose and result from gifts, other institutional resources, and income and gains on those funds.



Financial Statement Overview

(Continued)

Statement of Financial Position

The Consolidated Statement of Financial Position is a snapshot of the University's resources and obligations at the close of the fiscal year and is comparable to the document commonly referred to as the balance sheet. Assets on the statement, which totaled \$31.6 billion as of June 30, 2018 (see Table 1), are presented in decreasing order of liquidity, from cash to property, the least liquid asset.

As of June 30, 2018, managed and other investments totaling \$26.5 billion accounted for 84 percent of total assets, an increase of 8.1 percent from the prior year primarily due to managed investment returns of 14.2 percent less spending appropriations of 5.55 percent (see Table 2). Property (net of accumulated depreciation) totaling \$4.1 billion accounted for an additional 13 percent of total assets. Other significant assets were contributions receivable, which totaled \$274 million, and educational and mortgage loans receivable, which totaled \$437 million.

Liabilities, which totaled \$4.2 billion as of June 30, 2018 (see Table 1), are presented in order of anticipated time of liquidation. Indebtedness to third parties totaling \$3.3 billion, which primarily includes loans to finance the construction, renovation, and maintenance of University facilities and bonds issued for working capital and general corporate purposes, accounted for 79 percent of total liabilities as of June 30, 2018. Also included are the liabilities under unitrust agreements totaling \$95 million, which represent the estimated amounts payable to donors under the University's planned giving programs. The accounting rules require donees to record a liability for the present value of the expected lifetime payments to donors, and to recognize the net amount received as a contribution in the year of receipt.

Net assets, which totaled \$27.4 billion as of June 30, 2018, are calculated as total assets less total liabilities, and are classified into two categories—net assets with donor restrictions and net assets without donor restrictions, as discussed above (see Table 3). Net assets

Table 3

NET ASSETS

(\$ in millions)

2018	11,882	15,313
2017	10,650	13,963
2016	9,693	13,014
2015	9,929	13,407
2014	8,354	13,154

■ Noncontrolling Interests ■ Without Donor Restrictions
■ With Donor Restrictions

without donor restrictions, which totaled \$11.9 billion as of June 30, 2018, include gifts and other institutional resources that are not subject to explicit donor-imposed restrictions. In accordance with the accounting rules, certain net assets without donor restrictions have been partially earmarked, or designated, according to their intended use by the University. Net assets with donor restrictions, which totaled \$15.3 billion, include promises to give that are receivable in future years as well as donor-restricted contributions whose purpose has not yet been fulfilled, the accumulated income and gains on true endowment assets that have been reinvested, endowment gifts that cannot be spent, and funds held in perpetual trust by others. Noncontrolling interests of \$201 million pertain to the share of controlled and consolidated investment funds that are not owned by the University.

Statement of Activities

The Consolidated Statement of Activities is a summary of the income and expenses for the year, classified according to the existence or absence of the restrictions described above. Sources such as tuition, sponsored research, and auxiliary activities are normally shown as income without donor restrictions, whereas income from certain gifts or sponsored agreements may be includible in either of the two classes of income, depending upon the donor's specifications. Gifts to the endowment, for example, are designated as with donor restrictions.



Figure 1
OPERATING REVENUES
Fiscal Year 2018

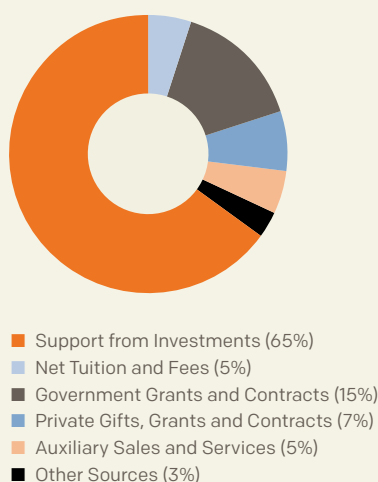
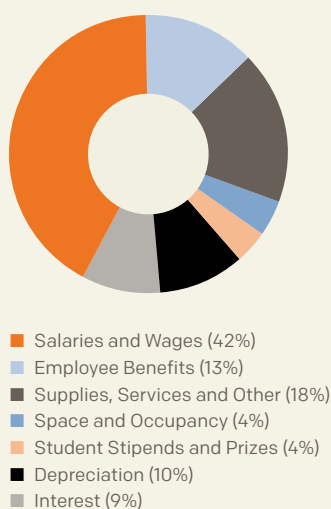


Figure 2
OPERATING EXPENSES BY NATURAL CLASSIFICATION
Fiscal Year 2018

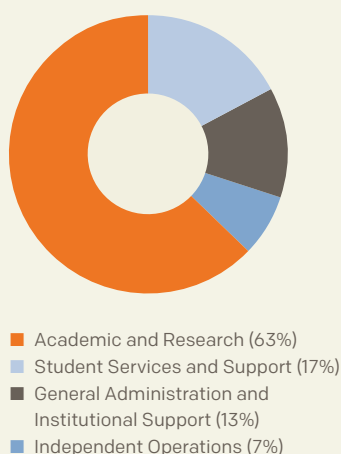


Income from donor-restricted sources is reclassified to income without donor restrictions when the circumstances of the restriction have been fulfilled. All expenditures are made from net assets without donor restrictions, since funds cannot be spent until all restrictions on their use have been removed.

The Consolidated Statement of Activities is presented in two sections, operating and nonoperating, which reflect the principles of the University's operating budget. Items of income reported in the operating section, which totaled \$2.013 billion for the year ended June 30, 2018, include all receipts without donor restrictions as well as the endowment earnings made available for spending under the spending rule. The major components of operating revenues and their relative proportions are shown in Figure 1.

Virtually all expenses, which totaled \$1.718 billion, are considered to be associated with operating activity, and are reported on the Consolidated Statement of Activities by natural classification. The major components of operating expenses by natural category and their relative proportions are shown in Figure 2.

Figure 3
OPERATING EXPENSES BY FUNCTIONAL CATEGORY
Fiscal Year 2018



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

Financial Statement Overview

(Continued)

For the year ended June 30, 2018, the University produced a surplus from operating activities in the amount of \$294 million, calculated as total operating revenues less total operating expenses, as illustrated in Table 4.

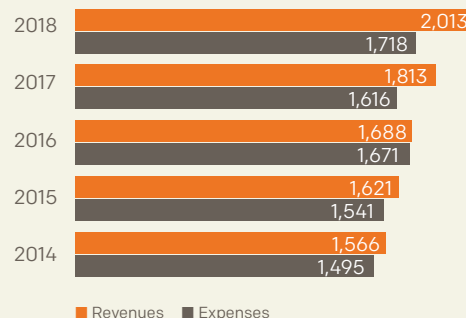
Major items of income that are considered nonoperating, which amounted to a net gain of \$2.3 billion for the year ended June 30, 2018, include unrealized appreciation on investments and endowment income earned in the current year to be used in the current and succeeding years, in accordance with operating budget policy. The distribution of investment income for spending under the University's spending policy is shown as a transfer from nonoperating activities to operating revenue. Unrestricted gift income from Annual Giving and expendable gifts restricted for departmental use are shown as operating income, whereas income from promises to give (pledges) is considered a nonoperating source of income.

The Consolidated Statement of Activities concludes with a reconciliation of the change in each class of net assets for the year to the balance of net assets shown on the Consolidated Statement of Financial Position. The total change in net assets for the year ended June 30, 2018, for all classes of net assets was an increase of \$2.6 billion.

Statement of Cash Flows

The Consolidated Statement of Cash Flows is intended to be the bridge from the change in net assets for the year to the change in the cash balance from one year-end to the next. Several items shown as expenses in the Consolidated Statement of Activities, such as depreciation, do not require an outlay of cash, whereas the purchase of capital assets, which does require the expenditure of cash, is added directly to assets on the Consolidated Statement of Financial Position and is reflected on the Consolidated Statement of Activities only as depreciation expense. Other items that affect cash balances but are not required to be included in the Consolidated Statement of Activities include the purchase and sale of

Table 4
OPERATING ACTIVITIES
\$ in Millions



investments, proceeds from borrowing and the repayment of loan principal, and the net change in accounts receivable and payable.

The reconciling items on the Consolidated Statement of Cash Flows are grouped into three categories. Operating activities, which used \$803 million in net cash for the year ended June 30, 2018, are those items of income and expense that occur during the normal course of providing services as an educational institution. Cash flows from operating activities also include investment earnings distributions of interest and dividends. Investing activities, which provided \$1,035 million in net cash, include the acquisition and disposal of capital assets such as buildings and equipment, and the purchase and sale of investments. Financing activities, which used \$224 million in net cash, include the proceeds from long-term borrowing to finance capital additions, renewal, and replacement, and the repayment of principal on such indebtedness, as well as the disbursement of funds for new educational and mortgage loans and the collection of principal payments on such loans. Also included are contributions restricted for long-term purposes such as endowments.

CONTRIBUTIONS

In accordance with FASB ASC 958-310, *Not-for-Profit Entities—Receivables*, donors' unconditional promises to give are required

to be recorded by donees as revenue and as amounts receivable in the year received. Where collection is not expected within one year, the amount recorded is determined on a present-value basis. Conditional promises to give are recognized when they become unconditional, that is, when the conditions imposed by the donor have been substantially met.

Contributions must be classified among those that are with donor restrictions or without donor restrictions, as dictated solely by the donor. For the year ended June 30, 2018, contributions classified as with donor restrictions totaled \$254 million, and those classified as without donor restrictions totaled \$116 million. The classification of contributions is essential for the proper presentation of revenue in the Consolidated Statement of Activities and of net assets in the Consolidated Statement of Financial Position, previously discussed.

ENDOWMENT MANAGEMENT

A significant portion of the operating budget is financed from endowment earnings (see Figure 1). Consequently, the University's investment portfolio is managed for a total return and accounted for under a consistently applied formula.

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

The University follows an endowment spending rule that provides for an annual increase in the amount of Primary Pool earnings allocated for spending, provided that the resulting spending rate, expressed as a

percentage of the market value, remains within a policy band as further discussed in the Report on Investments, which follows. For the Primary Pool's year ended June 30, 2018, the interest and dividends per unit (net of service charges) were \$78.42. The unit earnings allocated for spending were \$625.38 in fiscal year 2018 and \$525.53 in fiscal year 2017. The market value of a unit was \$12,187.80 at June 30, 2018, and \$11,273.97 at June 30, 2017.

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

CONCLUSION

Princeton hopes that the readers of these financial statements find the presentations and explanations helpful in interpreting the financial state of the University. Princeton stewards extraordinary financial resources and is responsible for protecting and preserving them over a very long time horizon. This long-term view allows Princeton to weather any near-term financial challenge, such as the global recession experienced a decade ago. The University is committed to utilizing its financial resources in a thoughtful, prudent, and consistent manner in support of its current educational and research programs, while preserving their value for future generations.

Angela Ward

ANGELA WARD
Acting Controller



Report on Investments

PRINCETON UNIVERSITY INVESTMENT COMPANY



As of June 30, 2018, Princeton's Endowment stood at \$25.9 billion, an increase of approximately \$2.1 billion from the previous year.¹ The vast majority of the Endowment, \$25.4 billion, is actively managed by the Princeton University Investment Company ("PRINCO").² While PRINCO maintains its own Board of Directors (the "Directors"), it is a University office operating under the final authority of the University's Board of Trustees (the "Trustees").

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

Against a backdrop of buoyant equity markets, the portion of the Endowment actively managed by PRINCO generated a 14.2 percent investment return during fiscal 2018, a strong result both in absolute terms and compared to the Endowment's benchmarks.

Of course, the evaluation of our investment program should focus on the long term, and our long-term results are solid in absolute terms and quite strong on a relative basis. The Endowment's annualized return over the past 10 years is 8.0 percent, which equates to a real return of 5.7 percent when adjusted for the Higher Education Price Index (HEPI), a measure of University inflation. As discussed further below, the 8.0 percent annualized nominal gain compares favorably to most performance yardsticks.

SPENDING

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

important step toward the goal of higher long-term average spending was to raise the upper boundary of the spending target range to 6.25 percent. Notably, this marked the second time that the Trustees have raised the upper boundary of the spending range in recent memory, having previously moved the boundary from 5.00 percent to 5.75 percent in 2006.

In fiscal 2018, the Endowment spending distribution, in aggregate, equaled \$1.3 billion, an increase of \$212 million from the prior year. Spending per Endowment unit equated to 5.6 percent of market value at the start of fiscal 2018.

ASSET ALLOCATION

Asset allocation involves deciding what share of the portfolio should be placed within each of the various broad asset categories. The decisions attempt to balance the merits of equities versus fixed income, domestic versus foreign investments, and publicly traded versus nonmarketable assets.

Princeton's long-term asset allocation decisions are embodied by a Policy Portfolio

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

2 The pool actively managed by PRINCO excludes University mortgages, loans, and other assets held primarily for strategic University purposes. "Endowment net assets" as reported in the notes to the Consolidated Financial Statements in the amount of \$25.4 billion as of June 30, 2018, further excludes agency funds in custody for others

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

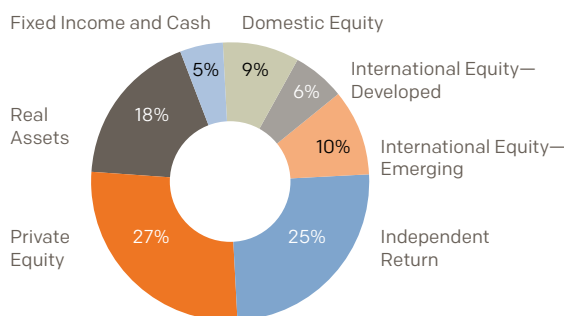
that describes the asset categories in which Princeton will invest, a set of target weights that indicate how the portfolio will be positioned in “normal” market conditions, and a range of weightings within which exposures can be adjusted in response to mid-term opportunities arising from significant market disequilibria or to other unusual circumstances. Figure 1 depicts the Policy Portfolio targets.

Readily manifest is PRINCO’s bias toward equities or equity-like assets—95 percent of the portfolio is allocated toward these investments. Also striking is the relatively small portion (only 9 percent) of the portfolio dedicated directly to Domestic Equities. Large portions of the portfolio are allocated to other high expected-return categories. Independent Return, Private Equity, and Real Assets bear further description. Independent Return is broadly defined as consisting of investment vehicles that seek high absolute returns that are typically independent of broad market trends. Private Equity and Real Assets include investments in private companies, venture capital opportunities, real estate, and natural resources. These areas can offer attractive opportunities for skilled, patient investors.

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

PRINCO’s Directors, working closely with PRINCO staff, review the Policy Portfolio periodically. During the most recent review in May 2018, we modified three asset class Policy targets. We increased the Private Equity Policy target to 27 percent (from 25 percent), offset by reducing the Real Assets target to 18 percent (from 19 percent), and the Domestic

Figure 1
PRINCETON UNIVERSITY POLICY PORTFOLIO⁴
Fiscal Year 2019



Equity target to 9 percent (from 10 percent). Private Equity is the Endowment’s highest return potential category and one where we have a robust roster of top-tier managers capable of creating substantial value through skill. The decreases to the Real Assets and Domestic Equity targets do not reflect decreased enthusiasm toward these asset classes, but rather involve optimally offsetting the Private Equity target increase.

Table 1 (next page) gives a historical perspective of how the Policy Portfolio has evolved over the past two decades. Clearly evident is the long-standing practice of aggressive positioning. In the first decade shown, nontraditional investments grew as a share of the portfolio, reflecting a deliberately paced expansion after extensive consideration over multiple years. In the last decade, changes have largely reflected incremental adjustments to various asset categories, with a particular focus on optimizing the Endowment’s liquidity profile.

Diversification into international investments is an important part of our multi-asset class approach. PRINCO believes such investments have the potential to increase long-term expected returns while helping to manage portfolio risk. Relative to the U.S., international markets tend to be less efficient, providing meaningful opportunities to add value through active management.

⁴ Policy targets and ranges represent those adopted as of May 2018, which went into effect on July 1, 2018



Report on Investments

PRINCETON UNIVERSITY INVESTMENT COMPANY

(Continued)

Table 1

PRINCETON UNIVERSITY ENDOWMENT POLICY PORTFOLIO TARGETS⁵

Every Five Years Since 1999

Asset Class	1999	2004	2009	2014	2019
Domestic Equity	20.0%	17.0%	7.5%	8.0%	9.0%
International Equity:					
Developed Markets	7.5%	8.5%	6.5%	6.0%	6.0%
Emerging Markets	7.5%	8.5%	9.0%	11.0%	10.0%
Independent Return	25.0%	25.0%	25.0%	24.0%	25.0%
Private Equity	15.0%	15.0%	23.0%	23.0%	27.0%
Real Assets	10.0%	14.0%	23.0%	23.0%	18.0%
Total Equity	85.0%	88.0%	94.0%	95.0%	95.0%
Fixed Income and Cash	15.0%	12.0%	6.0%	5.0%	5.0%
Total	100%	100%	100%	100%	100%

5 Policy Portfolio targets are pro forma based on current asset definitions



An important part of PRINCO's approach to international investments is an emphasis on "foreign local" managers. These managers are based outside the U.S., but invest locally in their respective geographies. Over time we have gained more exposure to such managers both in marketable and nonmarketable categories. Indeed, we have formally articulated efforts in this regard through our "Grand Unifying Theme." This theme, while very important, is not immediately apparent in the Policy Portfolio, as it cuts across several asset categories. As of June 30, 2018, about 33 percent of the Endowment (including uncalled commitments) was controlled by managers based outside the U.S.

Table 2 compares PRINCO's long-term Policy Portfolio asset allocation targets with

the actual weights as of June 30, 2018. Within relatively small and predetermined ranges, PRINCO's staff and Directors will intentionally overweight or underweight more or less compelling asset categories. These deliberate allocation overlays occur most frequently in the marketable asset categories. Within Private Equity and Real Assets, deviations from Policy Portfolio targets can occur without deliberate intent, due to funding and market dynamics. When the Policy Portfolio targets for Private Equity and Real Assets were established, and when they are reviewed, it is with the understanding that allocation deviations in these categories are neither easily nor cheaply controlled with great precision, and therefore will often need to be offset by allocation adjustments in other categories.

That said, the large overweight in Private Equity is unintentional and is due to two key factors. First, with the benefit of hindsight, we recognize that our commitments to Private Equity funds during fiscal years 2006 through 2008 were too high. Since that time, we have reduced our commitment pace to a sustainable steady-state rate, and expect to glide gradually over multiple years back to the target allocation. Indeed, this decline would be happening at a faster pace if not for the second factor—the asset category's very strong performance. Private Equity was the

Table 2

ASSET ALLOCATION

June 30, 2018

Allocation	FY19 Policy Target	Actual
Domestic Equity	9.0%	4.6%
International Equity:		
Developed Markets	6.0%	4.7%
Emerging Markets	10.0%	8.7%
Independent Return	25.0%	23.3%
Private Equity	27.0%	36.2%
Real Assets	18.0%	17.1%
Fixed Income and Cash	5.0%	5.3%

Endowment's best-performing asset category in fiscal 2018, and has generated an 18.2 percent annualized return over the past five years, relative to a 9.0 percent annualized return for the Endowment excluding Private Equity. Looking ahead, we are cautiously optimistic that the Private Equity portfolio will generate meaningful liquidity in the next several years. It will, however, take substantial time for exposure to decline to the Policy target level.

Within Fixed Income and Cash, we hold shorter-than-market duration bonds due to a combination of exceptionally low yields offered by U.S. government bonds, increased price risk, and decreased "insurance" functionality.⁶

PERFORMANCE

In a year of rallying public equity markets, the Endowment generated a strong fiscal 2018 investment return of 14.2 percent.⁷ Based upon preliminary estimates of the Higher Education Price Index (HEPI), our fiscal 2018 performance translates into a real gain of approximately 11.1 percent.

PRINCO has traditionally used two benchmarks to provide context for our results. Our primary benchmark, the Policy Portfolio Index (or "PPI"), consists of a blend of individual asset category benchmarks weighted by long-term allocation targets. As shown in Figure 2, in fiscal 2018, performance comfortably beat the 11.7 percent return of the PPI. Our results and the PPI both beat the 9.1 percent return of our secondary benchmark—a 65/35 blend of the S&P 500 and the Barclays Government/Credit Bond Index.⁸ Our performance in fiscal 2018 also compares very well to that of other college and university endowments. The fiscal 2018 median return for this group was 8.7 percent.⁹

Figure 2
FISCAL YEAR 2018 PERFORMANCE

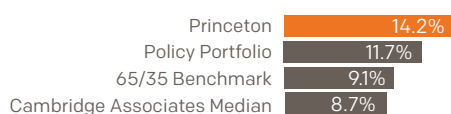
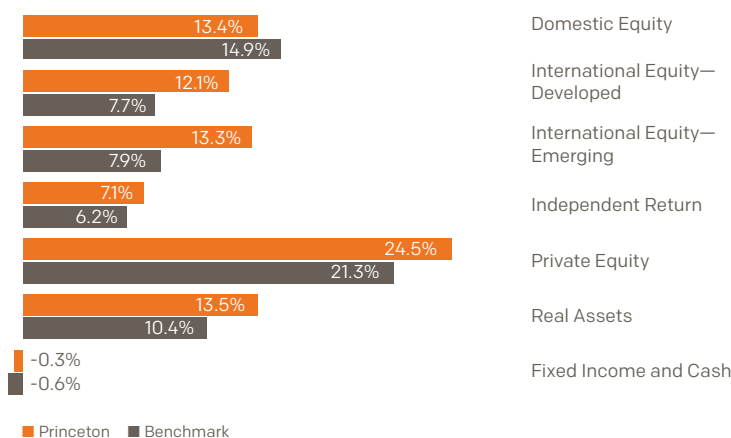


Figure 3
PRINCETON ASSET CLASS RETURNS VS. BENCHMARKS
Fiscal Year 2018



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

Absolute performance was solid across asset classes. Private Equity was the standout with a 24.5 percent return. Most other asset classes produced double-digit gains: 13.4 percent for Domestic Equity, 12.1 percent for International Developed Equity, 13.3 percent for International Emerging Markets, and 13.5 percent for Real Assets. Independent Return ground out a solid 7.1 percent return, consistent with the category's objectives. The Fixed Income and Cash asset class produced a 0.3 percent loss, reflecting a low-but-rising-yield environment; our continuing shorter-than-market-duration posture helped avoid bigger losses this year. As shown in Figure 3, all asset classes beat their benchmarks, except for Domestic Equity, which underperformed by 1.5 percentage points, due to the impact of a biotechnology sector hedge used to control the Endowment's overall exposure to the sector.

Of course, the evaluation of our investment program should focus on the long

⁶ A key reason for holding high-quality fixed income is that it provides "insurance" against deflation and extended equity market declines. In particular, we expect yields to decline and bond prices to rise in many crisis scenarios. However, given current low yields, there is less room for further declines, reducing the insurance functionality.

⁷ Reported results exclude the returns on certain short-term assets and other assets, such as faculty and staff mortgages, held primarily for strategic University purposes. The total asset base upon which performance is calculated equaled \$25.4 billion at fiscal year-end.

⁸ The 65% S&P 500/35% Barclays Government/Credit Index portfolio represents what an investor would earn from a 65/35 investment in these equity and fixed income market indices, rebalanced annually. Since its inception in 1987, PRINCO has used this benchmark to represent the returns that might have been earned by institutional investors pursuing more traditional investment approaches.

⁹ The median college and university endowment returns represent data compiled by Cambridge Associates for over 150 college and university endowments.

Report on Investments

PRINCETON UNIVERSITY INVESTMENT COMPANY

(Continued)

Figure 4
10-YEAR ANNUALIZED PERFORMANCE
Ending June 30, 2018

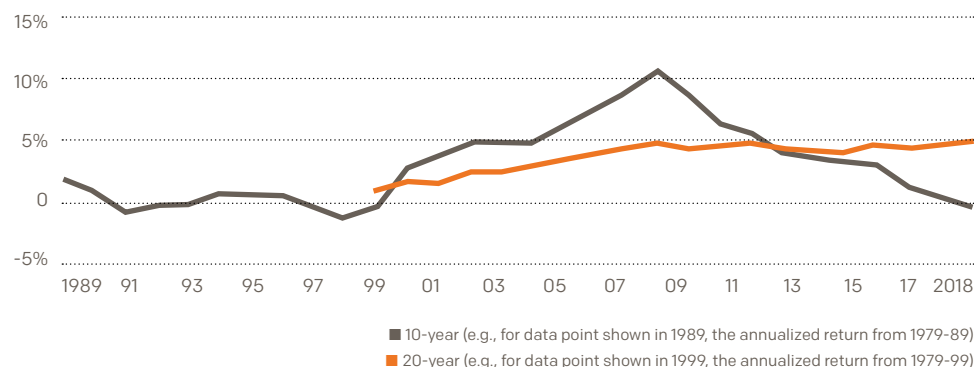
Princeton	8.0%
Policy Portfolio	6.9%
65/35 Benchmark	8.3%
Cambridge Associates Median	5.6%

term, and our long-term results are solid in absolute terms and quite strong on a relative basis (see Figure 4). The Endowment's annualized return over the past 10 years is 8.0 percent, equating to a HEPI-adjusted real return of 5.7 percent, which enabled preserving purchasing power after spending. The 8.0 percent annualized nominal gain compares well to the Policy Portfolio Index's 6.9 percent increase. However, we did fall slightly short of the 65/35 benchmark's 8.3 percent annualized return, as diversification out of the U.S. created rarely relenting performance headwinds during the period after the global financial crisis. Our performance was also strong compared to the 5.6 percent median return for college and university endowments. For added perspective, Princeton's Endowment would be about \$6 billion smaller if our results over the past 10 years had equaled those of the median college and university endowment, assuming unchanged levels of spending.

Examining performance over rolling periods enables an additional long-term perspective. Figure 5 compares PRINCO's investment performance over rolling 10- and 20-year periods to that of the 65/35 benchmark. As the figure highlights, even with a decade-long view, the comparison has end-point sensitivity.¹⁰ This being the case, and consistent with our long-term approach, it is informative to also evaluate returns over 20-year periods. The Endowment has consistently outperformed the 65/35 benchmark using this longer time frame, and the difference has been steadily widening. During the recent 10-year period, diversification away from traditional U.S. stocks and bonds has been costly. Notably, U.S. equities benefited significantly in recent years from equity valuations expanding to lofty levels, while fixed income benefited from bond yields dropping to extremely low levels. It seems unlikely that the 65/35 benchmark will benefit to the same degree from such tailwinds in the decade ahead.

Over the past 10 years, Princeton outperformed within asset categories by an average annualized margin of 2.1 percent, with five of seven asset categories outperforming their respective benchmarks (see Figure 6 on the next page). Particularly notable is the fact that even over this relatively lengthy period, the easily benchmarked equity categories

Figure 5
PRINCETON ROLLING RETURNS MINUS 65/35 BENCHMARK ROLLING RETURNS



¹⁰ By end-point sensitivity, we mean that which period of 10 years we use for the comparison (for example, 2008 to 2018 rather than 2005 to 2015) influences the conclusion.

(Domestic Equity, International Developed Equity, and Emerging Markets) have registered remarkable outperformance.¹¹ In aggregate, these categories gained 11.7 percent annualized over the past 10 years, surpassing a policy-weighted benchmark by over 6 percent annualized.

Independent Return's 10-year results have been uninspiring. We note that this has been a particularly challenging period for managers in this category as interest rates have been low, and stock-pickers have faced significant headwinds on short positions in the context of a sustained bull market.

Private Equity generated strong returns over 10 years and outperformed, driven by venture capital's sizable gains. Real Assets' 10-year numbers are disappointing. However, they paint an incomplete picture. Six years ago, we finished a major revamping of the Real Assets program. Decisions made then and since have resulted in outperformance, but it has been hidden behind a continuing drag created by many older investments.

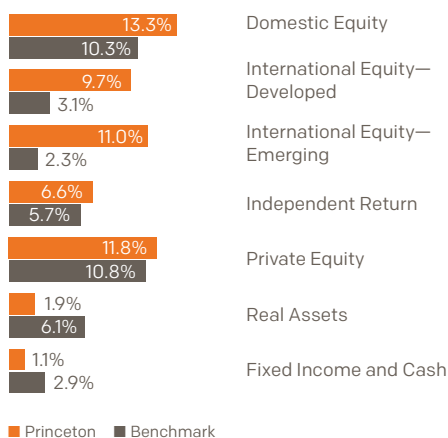
Fixed Income and Cash results were below expectations in absolute terms over this period, while also trailing the benchmark. The underperformance is due to holding shorter-than-market-duration bonds for several years (a positioning that has finally begun to pay off), as well as the episodic presence of significant cash balances, held transitionally during periods of portfolio-wide rebalancing.

As a concluding comment, we remind ourselves and readers of this report that a single year is so short that luck is almost always the single largest driver of relative results. We strive to keep all eyes on the long term. A single year's performance, whether it's weak or, as it was this year, "not too shabby," does not give much information about past efforts or the likelihood of future success.



ANDREW GOLDEN
President, Princeton University
Investment Company

Figure 6
PRINCETON ASSET CLASS RETURNS
VS. BENCHMARKS
Ten Years Ending June 30, 2018



Benchmarks used:

Domestic Equity: Wilshire 5000 Index

International Equity—Developed: MSCI World ex-U.S. Index prior to

6/30/10; MSCI World ex-U.S. IMI thereafter

International Equity—Emerging: MSCI Emerging Markets Index prior to

6/30/10; MSCI Emerging Markets IMI thereafter

Independent Return: (40% Wilshire 5000 + 60% 91-day T-Bill) + 550

basis points annualized until 6/30/10; 40% MSCI All Country World Index +

60%*(91-day T-Bill + 650 basis points annualized) through 6/30/12; thereafter,

HFRI Fund Weighted Composite Index + 50 basis points per annum

Private Equity: Customized Cambridge Associates benchmark

Real Assets: Blend of levered NCREIF Property Index, a timber component,

and an energy component. Levered NCREIF Property Index changed to

Cambridge Associates Real Estate benchmark at 6/30/2010

Fixed Income and Cash: Barclays Government Bond Index

¹¹ We describe these categories as "easily benchmarked" because for each there exists an easily investable index alternative that closely parallels our investment approach. No such alternatives exist for the other equity asset categories.





Report of Independent Auditors

To the Trustees of Princeton University:

We have audited the accompanying consolidated financial statements of Princeton University and its subsidiaries (the "University", which as described in Note 2 is legally known as The Trustees of Princeton University), which comprise the consolidated statements of financial position as of June 30, 2018 and 2017, and the related consolidated statements of activities and of cash flows for the years then ended.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Princeton University and its subsidiaries as of June 30, 2018 and 2017, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 2 to the consolidated financial statements, the University changed the manner in which it presents net assets and reports certain aspects of its financial statements as a not-for-profit entity, and the manner in which it accounts for net periodic benefit cost in 2018. Our opinion is not modified with respect to this matter.

PricewaterhouseCoopers LLP

November 20, 2018

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

Consolidated Statements of Financial Position

Princeton University
June 30, 2018 and 2017

<i>(dollars in thousands)</i>	2018	2017
Assets		
Cash	\$ 23,230	\$ 14,981
Accounts receivable	87,710	115,667
Receivables associated with investments	30,526	14,920
Educational and mortgage loans receivable	437,313	418,456
Contributions receivable	273,598	168,867
Inventory and deferred charges	14,648	12,688
Managed investments at market value	25,646,173	23,545,982
Funds held in trust by others	113,070	110,033
Other investments	814,483	928,747
Property, net of accumulated depreciation	4,141,300	4,098,654
Total assets	\$ 31,582,051	\$ 29,428,995
Liabilities		
Accounts payable	\$ 41,393	\$ 75,435
Liabilities associated with investments	37,457	16,246
Deposits, advance receipts, and accrued liabilities	167,661	196,893
Deposits held in custody for others	135,916	123,495
Liability under planned giving agreements	94,742	94,447
Indebtedness to third parties	3,321,243	3,637,389
Accrued postretirement benefits	388,086	481,587
Total liabilities	\$ 4,186,498	\$ 4,625,492
Net assets		
Without donor restrictions controlled by the University	\$ 11,881,694	\$ 10,649,353
Without donor restrictions attributable to noncontrolling interests	200,961	191,425
Total net assets without donor restrictions	12,082,655	10,840,778
Total net assets with donor restrictions	15,312,898	13,962,725
Total net assets	\$ 27,395,553	\$ 24,803,503
Total liabilities and net assets	\$ 31,582,051	\$ 29,428,995

See notes to consolidated financial statements.

Consolidated Statements of Activities

Princeton University
Year ended June 30, 2018

<i>(dollars in thousands)</i>	Without Donor Restrictions	With Donor Restrictions	2018 Total
Revenues			
Tuition and fees	\$ 369,223	-	\$ 369,223
Less scholarships and fellowships	(260,958)	-	(260,958)
Net tuition and fees	108,265	-	108,265
Government grants and contracts	292,917	-	292,917
Private gifts, grants, and contracts	96,912	\$ 45,834	142,746
Auxiliary sales and services	95,315	-	95,315
Other operating revenues	62,409	-	62,409
Investment earnings distributed	580,790	730,117	1,310,907
Total operating revenues	1,236,608	775,951	2,012,559
Net assets released from restrictions	789,702	(789,702)	-
Total revenues and other sources	2,026,310	(13,751)	2,012,559
Operating expenses			
Salaries and wages	724,381	-	724,381
Employee benefits	222,104	-	222,104
Supplies, services, and other	310,446	-	310,446
Space and occupancy	71,128	-	71,128
Student stipends and prizes	67,494	-	67,494
Depreciation	173,677	-	173,677
Interest on indebtedness	148,917	-	148,917
Total operating expenses	1,718,147	-	1,718,147
Results of operations	308,163	(13,751)	294,412
Nonoperating activities			
Adjustments to planned giving agreements	(236)	7,295	7,059
Increase in value of assets held in trust by others	-	3,037	3,037
Private gifts, noncurrent	19,227	208,055	227,282
Net realized and unrealized appreciation on investments	1,446,502	1,790,389	3,236,891
Distribution of investment earnings	(580,790)	(730,117)	(1,310,907)
Net periodic benefit cost other than service cost	(17,374)	-	(17,374)
Other postretirement benefit changes	142,114	-	142,114
Reclassifications, transfers, and other nonoperating	(85,265)	85,265	-
Increase from nonoperating activities	924,178	1,363,924	2,288,102
Increase in net assets—University	1,232,341	1,350,173	2,582,514
Change in noncontrolling interests	9,536	-	9,536
Total increase in net assets	1,241,877	1,350,173	2,592,050
Net assets at the beginning of the year	10,840,778	13,962,725	24,803,503
Net assets at the end of the year	\$ 12,082,655	\$ 15,312,898	\$ 27,395,553

See notes to consolidated financial statements.

Consolidated Statements of Activities

Princeton University
Year ended June 30, 2017

<i>(dollars in thousands)</i>	Without Donor Restrictions	With Donor Restrictions	2017 Total
Revenues			
Tuition and fees	\$ 353,296	-	\$ 353,296
Less scholarships and fellowships	(244,598)	-	(244,598)
Net tuition and fees	108,698	-	108,698
Government grants and contracts	295,545	-	295,545
Private gifts, grants, and contracts	102,627	-	102,627
Auxiliary sales and services	93,148	-	93,148
Other operating revenues	115,122	-	115,122
Investment earnings distributed	489,544	\$ 609,145	1,098,689
Total operating revenues	1,204,684	609,145	1,813,829
Net assets released from restrictions	637,220	(637,220)	-
Total revenues and other sources	1,841,904	(28,075)	1,813,829
Operating expenses			
Salaries and wages	680,790	-	680,790
Employee benefits	229,967	-	229,967
Supplies, services, and other	335,723	-	335,723
Space and occupancy	66,462	-	66,462
Student stipends and prizes	64,061	-	64,061
Depreciation	158,542	-	158,542
Interest on indebtedness	148,765	-	148,765
Total operating expenses	1,684,310	-	1,684,310
Results of operations	157,594	(28,075)	129,519
Nonoperating activities			
Adjustments to planned giving agreements	(975)	12,056	11,081
Increase in value of assets held in trust by others	-	8,053	8,053
Private gifts, noncurrent	77,877	76,809	154,686
Net realized and unrealized appreciation on investments	1,146,219	1,484,125	2,630,344
Distribution of investment earnings	(489,544)	(609,145)	(1,098,689)
Net periodic benefit cost other than service cost	(21,370)	-	(21,370)
Other postretirement benefit changes	91,012	-	91,012
Reclassifications, transfers, and other nonoperating	(4,603)	4,603	-
Increase from nonoperating activities	798,616	976,501	1,775,117
Increase in net assets—University	956,210	948,426	1,904,636
Change in noncontrolling interests	191,425	-	191,425
Total increase in net assets	1,147,635	948,426	2,096,061
Net assets at the beginning of the year	9,693,143	13,014,299	22,707,442
Net assets at the end of the year	\$ 10,840,778	\$ 13,962,725	\$ 24,803,503

See notes to consolidated financial statements.

Consolidated Statements of Cash Flows

Princeton University
Years ended June 30, 2018 and 2017

<i>(dollars in thousands)</i>	2018	2017
Cash flows from operating activities		
Change in net assets	\$ 2,592,050	\$ 2,096,061
Adjustments to reconcile change in net assets to net cash used by operating activities:		
Depreciation expense	173,677	158,542
Amortization of bond issuance costs and premiums	(18,876)	(14,023)
Property gifts-in-kind	(523)	(2,623)
Adjustments to planned giving agreements	(7,059)	(11,081)
Net realized and unrealized losses (gains) on investments	(3,236,891)	(2,509,376)
Loss on disposal of fixed assets	9,767	638
Decrease (increase) in value of assets held in trust by others	(3,037)	34,419
Contributions received for long-term investment	(65,641)	(72,665)
Change in noncontrolling interest	(9,536)	(191,425)
Changes in operating assets and liabilities:		
Receivables	(95,629)	(26,517)
Inventory and deferred charges	(1,960)	(3,246)
Accounts payable	(29,006)	(11,580)
Deposits, advance receipts, and accrued liabilities	(29,232)	26,423
Deposits held in custody for others	12,421	1,828
Accrued postretirement benefits	(93,501)	(35,300)
Net cash used by operating activities	(802,976)	(559,925)
Cash flows from investing activities		
Purchases of property, plant, and equipment	(234,736)	(326,162)
Proceeds from disposal of property, plant, and equipment	4,132	7,322
Purchases of investments	(13,692,231)	(12,620,331)
Proceeds from maturities/sales of investments	14,958,334	13,263,020
Net cash provided by investing activities	1,035,499	323,849
Cash flows from financing activities		
Issuance of indebtedness to third parties	456,470	716,377
Payment of debt principal	(753,739)	(560,518)
Contributions received for long-term investment	65,641	72,665
Transactions on planned giving agreements	7,354	14,530
Net cash (used) provided by financing activities	(224,274)	243,054
Net increase in cash	8,249	6,978
Cash at the beginning of the year	14,981	8,003
Cash at the end of the year	\$ 23,230	\$ 14,981
Supplemental disclosures		
Interest paid	\$ 160,877	\$ 162,484

See notes to consolidated financial statements.

Notes to Consolidated Financial Statements

Princeton University
Years ended June 30, 2018 and 2017

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 5,260 undergraduates and 2,845 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) Topic 958, *Not-for-Profit Entities*.

External consolidated financial statements of not-for-profit organizations require the preparation of a consolidated statement of financial position, a consolidated statement of activities, and a consolidated statement of cash flows. The classification of the organization’s net assets and its revenues and expenses into two categories according to the existence or absence of donor-imposed restrictions — net assets with donor restrictions and net assets without donor restrictions — is also required. Changes, including reclassification and transfers, in each category are reflected in the Consolidated Statement of Activities, certain of which are further categorized as nonoperating. Such nonoperating activities primarily reflect transactions of a long-term investment or capital nature, contributions receivable in future periods, contributions subject to donor-imposed restrictions, gains and losses on investments in excess of the University’s spending rule, and other nonrecurring activities.

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 net assets with donor restrictions.

Other significant accounting policies are described elsewhere in these notes.

The preparation of the University’s consolidated 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.

Notes to Consolidated Financial Statements

Princeton University
Years ended June 30, 2018 and 2017

NEW AUTHORITATIVE PRONOUNCEMENTS

Not-for-Profit Financial Statement Presentation

In August 2016, the FASB issued ASU 2016-14, *Presentation of Financial Statement of Not-for-Profit Entities*, which revises the not-for-profit financial reporting model. ASU 2016-14 provides for additional disclosure requirements and modifies net asset reporting. The standard requires the University to reclassify its net assets (i.e., unrestricted, temporarily restricted, and permanently restricted) into two categories: net assets without donor-imposed restrictions and net assets with donor-imposed restrictions, among other requirements. The guidance also enhances disclosures about the composition of net assets, liquidity, and expenses by both natural and functional classification.

The University early adopted ASU 2016-14 in 2018 and applied the changes retrospectively. Additionally, in 2018 the University changed the presentation of expenses in the Consolidated Statement of Activities from a functional to a natural expense classification for comparability with peers and industry practice. This change has been retroactively applied to the 2017 Consolidated Statement of Activities. The University moved the presentation of functional expenses from the face of the Consolidated Statement of Activities to the financial statement notes alongside the natural expense classifications, and in 2018 the functional categories were changed from seven to four total categories to better reflect how the University manages its budgets and operations. There is no impact on net assets or total expenses from these changes.

As a result of the adoption of ASU 2016-14, net assets as of June 30, 2017 were reclassified as follows:

ASU 2016-14 Classifications			
Net Asset Classifications	Without Donor Restrictions	With Donor Restrictions	Total Net Assets
<i>(dollars in thousands)</i>			
As previously presented:			
Unrestricted	\$ 10,649,353	-	\$ 10,649,353
Temporarily restricted	-	\$ 11,921,478	11,921,478
Permanently restricted	-	2,041,247	2,041,247
Noncontrolling interests	191,425	-	191,425
Total net assets	\$ 10,840,778	\$ 13,962,725	\$ 24,803,503

Postretirement Benefit Cost

In March 2017, the FASB issued ASU 2017-07, *Compensation – Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost*. The ASU requires the service cost component of net periodic benefit cost for pension and other postretirement benefits be presented as a part of employee benefit expense. The other components of net periodic benefit cost, such as interest, gains or losses, and amortization of other actuarially determined amounts, are required to be presented as a nonoperating change in net assets without donor restrictions. The University early adopted ASU 2017-07 in 2018 and the changes have been applied retrospectively in the 2017 Consolidated Statement of Activities by reclassifying \$21.4 million of non-service-related components of net periodic postretirement benefit cost and (\$91.0) million of other postretirement benefit changes from benefit expense to nonoperating changes in net assets without donor restrictions.

Notes to Consolidated Financial Statements

Princeton University
Years ended June 30, 2018 and 2017

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

3. INVESTMENTS

Managed Investments

All managed investments are reported at fair value. The fair value of marketable equity, debt, and certain derivative securities (which include 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 consolidated 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, 2018 and 2017 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

Notes to Consolidated Financial Statements

Princeton University
Years ended June 30, 2018 and 2017

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.)

<i>(dollars in millions)</i>	2018	2017
Managed investments:		
Domestic equity	\$ 1,986.2	\$ 2,034.0
International equity	3,538.2	3,401.3
Independent return	6,496.8	6,288.5
Private equity	8,717.3	7,495.3
Real assets	3,741.7	3,346.4
Fixed income	844.2	580.5
Cash and other	321.8	400.0
Gross managed investments¹	\$ 25,646.2	\$ 23,546.0
Receivables (liabilities) associated with investments—net	(6.9)	(1.4)
Noncontrolling interests	(201.0)	(191.4)
Net managed investments	\$ 25,438.3	\$ 23,353.2

¹ Includes derivative financial instruments at fair value

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

<i>(dollars in millions)</i>	2018	2017
Princeton University	\$ 25,270.5	\$ 23,201.0
Stanley J. Seeger Hellenic Fund	48.8	45.1
Deposits held in custody for others	119.0	107.1
Net managed investments	\$ 25,438.3	\$ 23,353.2

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

<i>(dollars in millions)</i>	2018	2017
Net realized and unrealized gains (losses)	\$ 3,059.6	\$ 2,508.0
Interest, dividends, and other income	177.3	122.3
Total	\$ 3,236.9	\$ 2,630.3

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 \$12,187.80 and \$11,273.97 at June 30, 2018 and 2017, respectively. The average value of a unit during the years ending June 30, 2018 and 2017, was \$11,626.71 and \$10,863.01, respectively.

The average invested market balance in the unitized pool during the years ending June 30, 2018 and 2017, was \$24.221 billion and \$22.489 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

Notes to Consolidated Financial Statements

Princeton University

Years ended June 30, 2018 and 2017

operating revenue, and the balance is shown as nonoperating revenue. Amounts distributed per unit under that rule were \$625.38 and \$525.53 for fiscal years 2018 and 2017, 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 consolidated 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:

2018	Net Derivative Assets			
<i>(dollars in millions)</i>	Long Notional¹	Short Notional¹	(Liabilities)	Gains (Losses)²
Index futures	\$ 259.4	\$ (255.3)	\$ (4.4)	\$ (22.7)
Equity swaps	220.3	(215.2)	19.3	(6.2)
Options contracts	-	-	-	-
Forward contracts	-	-	-	(29.2)
Total	\$ 479.7	\$ (470.5)	\$ 14.9	\$ (58.1)

2017	Net Derivative Assets			
<i>(dollars in millions)</i>	Long Notional¹	Short Notional¹	(Liabilities)	Gains (Losses)²
Index futures	\$ 168.9	\$ 170.9	\$ 0.3	\$ 24.5
Equity swaps	380.0	359.5	(44.5)	(118.8)
Options contracts	-	-	-	(1.0)
Forward contracts	-	1,103.6	(24.0)	6.3
Total	\$ 548.9	\$ 1,634.0	\$ (68.2)	\$ (89.0)

¹ Notional amounts are representative of the volume and activity of each derivative type during the years ended June 30, 2018 and 2017

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

Notes to Consolidated Financial Statements

Princeton University
Years ended June 30, 2018 and 2017

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

2018 <i>(dollars in millions)</i>	Gross Derivative # of Contracts	Fair Value		Pledged	Net
		Gross Derivative Assets	Collateral (Held) Liabilities		
Counterparty A	5	\$ 21.0	\$ (18.5)	\$ 18.5	\$ 21.0
Counterparty B	1	5.3	-	-	5.3
Counterparty C	-	-	-	-	-
Counterparty D	1	7.0	-	-	7.0
Counterparty E	-	-	-	-	-
Total	7	\$ 33.3	\$ (18.5)	\$ 18.5	\$ 33.3

2017 <i>(dollars in millions)</i>	Gross Derivative # of Contracts	Fair Value		Pledged	Net
		Gross Derivative Assets	Collateral (Held) Liabilities		
Counterparty A	10	\$ 1.1	\$ (45.9)	\$ 45.1	\$ 0.3
Counterparty B	3	-	(1.7)	-	(1.7)
Counterparty C	3	-	(9.6)	-	(9.6)
Counterparty D	6	-	(20.1)	5.9	(14.2)
Counterparty E	1	7.9	-	-	7.9
Total	23	\$ 9.0	\$ (77.3)	\$ 51.0	\$ (17.3)

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 \$113.1 million in 2018 and \$110.0 million in 2017.

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, 2018 and 2017, is as follows:

<i>(dollars in millions)</i>	2018	2017
Working capital	\$ 427.1	\$ 459.4
Planned giving investments	176.6	175.5
Proceeds from debt	125.1	215.0
Strategic real estate investments	31.6	32.6
Other	54.1	46.3
Total	\$ 814.5	\$ 928.8

Notes to Consolidated Financial Statements

Princeton University

Years ended June 30, 2018 and 2017

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 proportion of price or other inputs that are considered to be unobservable are used in their valuations.

Notes to Consolidated Financial Statements

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

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

The following tables present the University's assets that are measured at fair value for each hierarchy level, at June 30, 2018 and 2017.

Fair Value Measurements at Reporting Date Using					
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	NAV as Practical Expedient
2018					
<i>(dollars in millions)</i>	Total				
Assets at fair value					
Managed investments (gross):					
Domestic equity	\$ 1,986.2	\$ 125.6	\$ (1.1)	\$ 0.9	\$ 1,860.8
International equity	3,538.2	425.0	-	-	3,113.2
Independent return	6,496.8	-	-	3.1	6,493.7
Private equity	8,717.3	29.2	-	199.9	8,488.2
Real assets	3,741.7	306.4	20.4	4.1	3,410.8
Fixed income	844.2	844.2	-	-	-
Cash and other	321.8	329.7	(7.9)	-	-
Total managed					
investments (gross)	25,646.2	2,060.1	11.4	208.0	23,366.7
Funds held in trust by others	113.1	-	-	113.1	-
Other investments	814.5	608.2	-	206.3	-
Total	\$ 26,573.8	\$ 2,668.3	\$ 11.4	\$ 527.4	\$ 23,366.7

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

Notes to Consolidated Financial Statements

Princeton University
Years ended June 30, 2018 and 2017

Assets and liabilities of a majority-owned and -controlled investment fund have been consolidated for reporting purposes at June 30, 2018 and 2017. Gross managed investments, specifically the independent return asset class, includes consolidated investment fund assets of \$1,096.9 million and \$1,046.2 million at June 30, 2018 and 2017, respectively, and liabilities associated with investments includes consolidated investment fund liabilities of \$5.4 million and \$7.5 million at June 30, 2018 and 2017, respectively. The portion of consolidated net assets not owned by the University is reported as a noncontrolling interest.

The following tables present the net change in the assets measured at fair value on a recurring basis and included in the Level 3 fair value category for the years ended June 30, 2018 and 2017:

Fair Value Measurements Using Significant Unobservable Inputs (Level 3)							
		Total gains or losses included in			Transfers	Transfers	
(dollars in millions)	June 30, 2017	changes in net assets	Purchases	Sales and settlements	into Level 3	out of Level 3	June 30, 2018
Assets at fair value							
Managed investments (gross):							
Domestic equity	\$ 1.2	\$ (0.3)	-	-	-	-	\$ 0.9
International equity	219.1	-	-	-	-	\$ (219.1)	-
Independent return	4.2	(0.7)	-	\$ (0.4)	-	-	3.1
Private equity	146.9	(13.8)	\$ 5.1	(58.0)	\$ 119.7	-	199.9
Real assets	4.9	(1.2)	0.8	(0.4)	-	-	4.1
Total Managed							
Investments (gross)	376.3	(16.0)	5.9	(58.8)	119.7	(219.1)	208.0
Funds held in trust by others	110.0	2.8	0.4	(0.1)	-	-	113.1
Other investments	207.8	-	4.8	(6.3)	-	-	206.3
Total Level 3 investments	\$ 694.1	\$ (13.2)	\$ 11.1	\$ (65.2)	\$ 119.7	\$ (219.1)	\$ 527.4

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

Notes to Consolidated Financial Statements

Princeton University
Years ended June 30, 2018 and 2017

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. Four transfers out of Level 3 to NAV assets and seven transfers out of NAV to Level 3 occurred in the year ended June 30, 2018. The University's policy is to recognize transfers at the beginning of the reporting period.

Realized gains of \$33.7 million and \$5.8 million related to Level 3 investments and unrealized gains of \$43.2 million and \$22.9 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, 2018 and 2017, 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, 2018 and 2017. The information is presented on a "manager-mandate" basis.

2018	June 30	Unfunded	Redemption Frequency	Redemption
<i>(dollars in millions)</i>	Fair Value	Commitments	(If Currently Eligible)	Notice Period
Managed investments (gross)				
Domestic equity (a)	\$ 1,986.2	\$ 122.9	daily—annually	4–90 days
International equity—developed (b)	1,179.6	-	daily—annually	7–90 days
International equity—emerging (c)	2,358.6	220.3	daily—annually	7–90 days
Independent return (d)	6,496.8	598.3	monthly—annually	30–90 days
Fixed income and cash (e)	1,166.0	-	daily	1 day
Marketable asset classes	\$ 13,187.2	\$ 941.5		
Private equity (f)	8,717.3	2,703.7		
Real assets (g)	3,741.7	1,543.9		
Nonmarketable asset classes	\$ 12,459.0	\$ 4,247.6		
Total gross managed investments	\$ 25,646.2	\$ 5,189.1		

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

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(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 5 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 17 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 10 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 33 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 42 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, \$474.6 million at June 30, 2018, and \$270.0 million at June 30, 2017, 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 \$1.7 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

Notes to Consolidated Financial Statements

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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, 2018.

The University is obligated under certain agreements to fund capital calls periodically up to specified commitment amounts. At June 30, 2018, the University had unfunded commitments of \$5.2 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 4,600 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, *Not-for-Profit Entities*, 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 net assets with donor restrictions: (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. Also classified as net assets with donor restrictions is accumulated appreciation on donor-restricted endowment funds 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

Notes to Consolidated Financial Statements

Princeton University
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Endowment net asset composition by type of fund as of June 30, 2018 and 2017, was:

	Without Donor Restrictions	With Donor Restrictions	Total
2018 (dollars in thousands)			
Donor-restricted endowment funds:			
Restricted in perpetuity	-	\$ 1,947,377	\$ 1,947,377
Appreciation	-	12,747,483	12,747,483
Board-designated endowment funds	\$ 10,621,362	-	10,621,362
Total	\$ 10,621,362	\$ 14,694,860	\$ 25,316,222
	Without Donor Restrictions	With Donor Restrictions	Total
2017 (dollars in thousands)			
Donor-restricted endowment funds:			
Restricted in perpetuity	-	\$ 1,864,500	\$ 1,864,500
Appreciation	-	11,678,195	11,678,195
Board-designated endowment funds	\$ 9,702,394	-	9,702,394
Total	\$ 9,702,394	\$ 13,542,695	\$ 23,245,089

Changes in endowment net assets for the years ended June 30, 2018 and 2017, were:

	Without Donor Restrictions	With Donor Restrictions	Total
2018 (dollars in thousands)			
Endowment net assets, beginning of the year	\$ 9,702,394	\$ 13,542,695	\$ 23,245,089
Net investment return	1,411,787	1,783,798	3,195,584
Contributions	11,732	73,695	85,427
Appropriation of endowment assets for expenditure	(572,259)	(724,456)	(1,296,715)
Reclassifications, transfers, and board designations	67,708	19,128	86,836
Endowment net assets, end of year	\$ 10,621,362	\$ 14,694,860	\$ 25,316,222
	Without Donor Restrictions	With Donor Restrictions	Total
2017 (dollars in thousands)			
Endowment net assets, beginning of the year	\$ 9,049,240	\$ 12,546,208	\$ 21,595,448
Net investment return	1,224,826	1,479,100	2,703,926
Contributions	18,298	68,886	87,184
Appropriation of endowment assets for expenditure	(479,704)	(604,121)	(1,083,825)
Reclassifications, transfers, and board designations	(110,266)	52,622	(57,644)
Endowment net assets, end of year	\$ 9,702,394	\$ 13,542,695	\$ 23,245,089

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. There were no funds with deficiencies at June 30, 2018 and 2017. 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. Both fund deficiencies and subsequent gains above that amount are recorded in net assets with donor restrictions.

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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. LIQUIDITY AND AVAILABILITY OF RESOURCES

The University's financial assets and resources available to meet cash needs for general expenditures within one year of the date of the Consolidated Statement of Financial Position were as follows:

<i>(dollars in thousands)</i>	2018	2017
Financial assets:		
Cash	\$ 23,230	\$ 14,981
Accounts receivable	49,564	67,069
Educational and mortgage receivable	16,532	17,608
Contributions receivable	77,963	81,163
Working capital	427,100	459,351
Investments: appropriated for spending in the following year	1,357,000	1,302,756
Total financial assets available within one year	\$ 1,951,389	\$ 1,942,928
Liquidity resources:		
Taxable debt and commercial paper (unexpended)	254,991	303,045
Bank lines of credit (undrawn)	290,100	283,700
Total financial assets and resources available within one year	\$ 2,496,480	\$ 2,529,673

Notes to Consolidated Financial Statements

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As part of the University's liquidity management strategy, the University structures its financial assets to be available as its general expenditures, liabilities and other obligations come due. In addition, the University invests cash in excess of daily requirements in short-term working capital investments. Cash withdrawals from the managed investment pool normally coincide with the endowment spending distribution, but may be adjusted higher or lower based on the timing of gift receipts, capital calls, income and capital distributions, operating expenses and other factors affecting available cash. Endowment funds appropriated for spending are distributed to University department and program budgets for spending, subject to donor restrictions where applicable; however, cash withdrawals from the investment pool are available for general liquidity purposes. To help manage unanticipated liquidity needs, the University has committed bank lines of credit in the amount of \$300 million, which it could draw upon, and a taxable commercial paper program authorized to a maximum level of \$180 million.

Additionally, the University has board-designated endowment funds of \$10.6 billion and \$9.7 billion as of June 30, 2018 and 2017, respectively. Although the University does not intend to spend from its board-designated endowment funds other than amounts appropriated for expenditure as part of its annual budget approval process, amounts from its board-designated endowment could be made available if necessary. However, both the board-designated and donor-restricted endowments contain investments with lock-up provisions that reduce the total investments that could be made available (see Note 4 for disclosures about investments).

7. 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 \$62.0 million and \$64.0 million at June 30, 2018 and 2017, 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 \$375.5 million and \$354.7 million at June 30, 2018 and 2017, 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

Notes to Consolidated Financial Statements

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external collection agency. Considering the other factors discussed herein, management considers the allowance for doubtful loans at June 30, 2018 and 2017, to be prudent and reasonable.

Educational and mortgage loans receivable at June 30, 2018 and 2017, are reported net of allowances for doubtful loans of \$0.2 million and \$0.3 million, respectively.

8. CONTRIBUTIONS

At June 30, 2018 and 2017, the University had received from donors unconditional pledges receivable in the following periods:

<i>(dollars in thousands)</i>	2018	2017
Less than one year	\$ 77,963	\$ 81,163
One to five years	208,186	88,038
More than five years	27,630	19,869
Total	\$ 313,779	\$ 189,070
Less unamortized discount	33,676	16,119
Less allowance for doubtful pledges	6,505	4,084
Net amount	\$ 273,598	\$ 168,867

The amounts pledged have been recorded after discounting the future cash flows to the present value (discount rates ranged from 0.72 percent to 6.18 percent). Current-year pledges are included in revenue as additions to net assets with donor restrictions and are included in contributions receivable at fair value based on observable ASC 820 Level 2 inputs.

In addition, at June 30, 2018, the University had received from donors pledges totaling \$67.4 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.

9. 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, 2018 and 2017, consisted of the following:

<i>(dollars in thousands)</i>	2018	2017
Land	\$ 112,214	\$ 114,599
Buildings and improvements	4,766,309	4,441,228
Construction in progress	31,258	225,521
Equipment and systems	441,933	362,733
Rare books	119,279	112,375
Library books, periodicals, and bindings	299,545	292,190
Fine art objects	141,649	137,053
Total property	\$ 5,912,187	\$ 5,685,699
Accumulated depreciation	(1,770,887)	(1,587,045)
Total	\$ 4,141,300	\$ 4,098,654

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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 consolidated 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.

10. 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 \$12.5 million and \$11.6 million at June 30, 2018 and 2017, respectively, and accretion expense on the asset retirement obligation was \$0.4 million and \$0.3 million for June 30, 2018 and 2017, respectively.

11. 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 consolidated 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 consolidated financial statements.

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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, 2015, through the present.

12. INDEBTEDNESS TO THIRD PARTIES

At June 30, 2018 and 2017, 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:

<i>(dollars in thousands)</i>	2018	2017
Taxable Revenue Bonds		
2009 Series A, 4.95% and 5.70%, due March 2019 and March 2039, net of unamortized discount of \$1,730 and \$2,416	\$ 748,270	\$ 997,584
2016 Series A, 1.85%, 2.61%, 3.63%, due July 2021, July 2026, July 2046	100,000	100,000
2017 Series A, 3.84%, due July 2048	150,000	150,000
Taxable Notes		
2012, 3.37%, due July 2042	170,000	170,000
2013, 4.73%, due July 2044	75,000	75,000
NJEFA Revenue Bonds		
2003 Series D, 3.73%, due July 2019, including unamortized premium of \$685 and \$1,369	11,815	23,050
2008 Series J, 4.39%, due July 2038, including unamortized premium of \$0 and \$3,305	-	212,485
2008 Series K, 4.36%, due July 2023, including unamortized premium of \$0 and \$0	-	16,655
2010 Series B, 4.03%, due July 2019, including unamortized premium of \$992 and \$9,326	6,777	229,901
2011 Series B, 4.09%, due July 2041, including unamortized premium of \$12,543 and \$13,088	234,003	239,893
2014 Series A, 3.77%, due July 2044, including unamortized premium of \$16,687 and \$17,329	208,622	212,054
2015 Series A, 2.32%, due July 2035, including unamortized premium of \$25,749 and \$27,263	160,484	171,934
2015 Series D, 3.40%, due July 2045, including unamortized premium of \$17,814 and \$18,474	162,229	165,749
2016 Series A, 2.53%, due July 2035, including unamortized premium of \$19,814 and \$20,979	125,424	130,479
2016 Series B, 1.77%, due July 2027, including unamortized premium of \$23,594 and \$26,216	136,614	142,106
2017 Series B, 2.91%, due July 2036, including unamortized premium of \$50,854 and \$53,680	376,309	395,920
2017 Series C, 3.50%, due July 2047, including unamortized premium of \$20,648 and \$21,361	161,743	162,456
2017 Series I, 2.97%, due July 2040, including unamortized premium of \$66,693	423,798	-
NJEFA Capital Improvement Fund Bonds		
2014 Series B, 3.67%, due September 2033, including unamortized premium of \$178 and \$189	2,865	2,986
2016 Series A, 2.53%, due September 2020	479	627
Commercial Paper		
Taxable, 2.12% and 1.04%, with maturities up to one year	28,500	3,000
Parent Loans , 0.56% to 5.40%, with maturities up to nine years	47,691	47,103
Notes	376	546
Total Borrowings	\$ 3,330,999	\$ 3,649,528
Unamortized debt issuance costs	(9,756)	(12,137)
Total Borrowings Net of Unamortized Issuance Costs	\$ 3,321,243	\$ 3,637,389

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In December 2017, the University issued the NJEFA 2017 Series I Bonds. The 2017 Series I Bonds were issued for the purpose of the current refunding and defeasance of the 2008 Series J Bonds, and for the purpose of advance refunding and defeasance of a portion of the 2010 Series B Bonds. 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 year 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, 2018, excluding commercial paper, are as follows:

<i>(dollars in thousands)</i>	Principal Payments
2019	\$ 347,924
2020	92,529
2021	103,321
2022	84,983
2023	77,887
Thereafter	2,341,333
Subtotal	3,047,977
Unamortized premium	254,522
Net long-term debt	\$ 3,302,499

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 \$9.9 million and \$16.3 million in letters of credit outstanding under these credit facilities at June 30, 2018 and 2017, 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 \$62.0 million and \$59.2 million for the years ended June 30, 2018 and 2017, respectively. The University also provides deferred compensation arrangements for certain officers, faculty and staff. Accrued benefits of \$388.1 million and \$481.6 million for the years ended June 30, 2018 and 2017, respectively, include the Accumulated Postretirement Benefit Obligation and deferred compensation.

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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 Consolidated 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 service period until their full retirement eligibility under the plan.

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, 2018 and 2017, consisted of the following:

<i>(dollars in thousands)</i>	2018	2017
Service cost	\$ 22,835	\$ 25,302
Interest cost	17,379	17,948
Gain/(loss) amortization	(5)	3,421
Total	\$ 40,209	\$ 46,671

The APBO at June 30, 2018 and 2017, consisted of actuarially determined obligations to the following categories of employees:

<i>(dollars in thousands)</i>	2018	2017
Retirees	\$ 110,964	\$ 136,047
Active employees eligible to retire	88,782	119,080
Other active participants	137,421	183,943
Total	\$ 337,167	\$ 439,070

As of June 30, 2018 and 2017, the APBO was unfunded.

An assumed discount rate of 4.25 percent and 4.00 percent was used to calculate the APBO at June 30, 2018 and 2017, respectively. The assumed health care cost trend rate used to calculate the APBO at June 30, 2018 was 5.88 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, 2018 was 7.84 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, 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. An increase of 1 percent in the cost trend rate would raise the APBO to \$409.4 million and \$536.2 million and cause the service and interest cost components of the net periodic cost to be increased by \$12.1 million and \$13.5 million for the years ended June 30, 2018 and 2017, respectively. A decrease of 1 percent in the cost trend rate would decrease the APBO to \$281.5 million and \$364.6 million and cause the

Notes to Consolidated Financial Statements

Princeton University
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service and interest cost components of the net periodic cost to be decreased by \$8.8 million and \$9.7 million for the years ended June 30, 2018 and 2017, respectively.

Postretirement plan benefit payments for fiscal years 2019 through 2023 are expected to range from \$7.7 million to \$10.4 million per year, with aggregate expected payments of \$64.0 million for fiscal years 2024 through 2028. 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, 2018 and 2017.

14. NET ASSETS

Net assets are categorized as without donor restrictions and with donor restrictions. Net assets without donor restrictions are derived from gifts and other institutional resources that are not subject to explicit donor-imposed restrictions. This 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 without donor restrictions for external reporting purposes are board-designated for specific purposes or uses under the internal operating budget practices of the University. Net assets with donor restrictions 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. This category includes 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. Donor restrictions are normally released upon the passage of time or the incurrence of expenditures that fulfill the donor-specified purpose. Certain donor restrictions are perpetual in nature and may include gifts, pledges, trusts and remainder interests, and income and gains that are required to be permanently retained.

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The composition of net assets by restriction and purpose at June 30, 2018 and 2017 were as follows:

2018

Net Assets <i>(dollars in millions)</i>	Without Donor Restrictions	With Donor Restrictions	Total Net Assets
Endowment:			
Teaching and research	\$ 1,274	\$ 5,496	\$ 6,770
Student financial aid	593	4,013	4,606
Department programs and support	2,684	3,528	6,212
Designated for operations	3,458	1,659	5,117
Designated for capital	2,612	-	2,612
Other:			
Pledges	-	273	273
Capital and unallocated gifts	-	149	149
Annuities and trusts	-	195	195
Net investment in plant	1,741	-	1,741
Operating	(480)	-	(480)
Noncontrolling interests	201	-	201
Total	\$ 12,083	\$ 15,313	\$ 27,396

2017

Net Assets <i>(dollars in millions)</i>	Without Donor Restrictions	With Donor Restrictions	Total Net Assets
Endowment:			
Teaching and research	\$ 1,171	\$ 5,052	\$ 6,223
Student financial aid	540	3,700	4,240
Department programs and support	2,386	3,262	5,648
Designated for operations	2,876	1,529	4,405
Designated for capital	2,729	-	2,729
Other:			
Pledges	-	169	169
Capital and unallocated gifts	-	58	58
Annuities and trusts	-	193	193
Net investment in plant	1,722	-	1,722
Operating	(774)	-	(774)
Noncontrolling interests	191	-	191
Total	\$ 10,841	\$ 13,963	\$ 24,804

Notes to Consolidated Financial Statements

Princeton University
Years ended June 30, 2018 and 2017

15. EXPENSES BY FUNCTIONAL AND NATURAL CLASSIFICATION

Expenses are presented by functional classification in alignment with the overall mission of the University. The University's primary service mission is academic instruction and research which includes directly supporting functions such as the University's library system and art museum. Student services and support include various student-supporting functions such as admission, health, career, and athletics, as well as auxiliary enterprises and related student aid. The Princeton Plasma Physics Laboratory, which is operated by the University on behalf of the US Department of Energy, is classified as an independent operation.

Natural expenses attributable to more than one functional expense category are allocated using reasonable cost allocation techniques. Depreciation, plant operations and maintenance expenses are allocated on a square footage basis. Interest expense on indebtedness is allocated to the functional categories that have benefited from the associated debt.

Expenses by functional and natural classification for the years ended June 30, 2018 and 2017 were as follows:

2018

Natural Classification <i>(dollars in thousands)</i>	Academic & Research	Student Services & Support	General Admin & Operations	Independent Operations	Total
Salaries and wages	\$ 441,362	\$ 61,183	\$ 165,965	\$ 55,871	\$ 724,381
Employee benefits	156,939	19,049	27,515	18,601	222,104
Supplies, services, and other	187,462	62,362	20,620	40,002	310,446
Space and occupancy	3,405	4,058	59,608	4,057	71,128
Student stipends and prizes	-	67,494	-	-	67,494
Allocations:					
Depreciation	131,979	32,357	9,331	10	173,677
Interest	74,469	18,206	56,242	-	148,917
Operations and maintenance	83,870	33,075	(116,945)	-	-
Total operating expenses	1,079,486	297,784	222,336	118,541	1,718,147
Net periodic benefit cost other than service cost	11,212	1,563	2,691	1,908	17,374
Total expenses	\$ 1,090,698	\$ 299,347	\$ 225,027	\$ 120,449	\$ 1,735,521

2017

Natural Classification <i>(dollars in thousands)</i>	Academic & Research	Student Services & Support	General Admin & Operations	Independent Operations	Total
Salaries and wages	\$ 413,098	\$ 58,219	\$ 154,984	\$ 54,489	\$ 680,790
Employee benefits	148,460	20,636	42,528	18,343	229,967
Supplies, services, and other	190,716	65,277	35,420	44,310	335,723
Space and occupancy	3,612	2,095	56,278	4,477	66,462
Student stipends and prizes	-	64,061	-	-	64,061
Allocations:					
Depreciation	117,422	28,765	12,355	-	158,542
Interest	73,303	17,921	57,541	-	148,765
Operations and maintenance	81,336	31,939	(113,275)	-	-
Total operating expenses	1,027,947	288,913	245,831	121,619	1,684,310
Net periodic benefit cost other than service cost	12,853	2,762	3,697	2,058	21,370
Total expenses	\$ 1,040,800	\$ 291,675	\$ 249,528	\$ 123,677	\$ 1,705,680

Notes to Consolidated Financial Statements

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Student Financial Aid

The University provides financial aid to undergraduate students in the form of scholarship grants designed to meet 100 percent of demonstrated financial need. All Ph.D. and many master's degree candidates in the Graduate School receive financial support for the duration of their degree program in the form of fellowships, assistantships in research or teaching, and non-University awards. Graduate student support covers the full cost of tuition and fees and a stipend that supports estimated living expenses. Students may also be awarded grants that support various academic or research activities. Undergraduate scholarships and graduate fellowships and assistantships are reported as discounts to tuition and fee revenues in the Consolidated Statement of Activities. Student stipends, awards and prizes are reported as operating expenses. Student financial aid costs are funded by the University's endowment, Annual Giving, and other University resources.

Total student financial aid costs for the years ended June 30, 2018 and 2017 were as follows:

Student Financial Aid	2018	2017
<i>(dollars in thousands)</i>		
Scholarships and fellowships	\$ 260,958	\$ 244,598
Stipends and prizes	67,494	64,061
Total	\$ 328,452	\$ 308,659

16. COMMITMENTS AND CONTINGENCIES

At June 30, 2018, the University had authorized major renovation and capital construction projects for more than \$2,021.3 million. Of the total, approximately \$177.0 million had not yet been expended.

Minimum operating lease commitments at June 30, 2018, for space and equipment were as follows:

<i>(dollars in thousands)</i>	Lease Payments
2019	\$ 6,525
2020	6,765
2021	5,542
2022	4,320
2023	4,320
Thereafter	4,960
Total	\$ 32,432

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 \$20.3 million at June 30, 2018.

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, consolidated statement of activities, or cash flows.

Notes to Consolidated Financial Statements

Princeton University

Years ended June 30, 2018 and 2017

17. SUBSEQUENT EVENTS

The University has evaluated subsequent events through November 20, 2018, which is the date the financial statements were issued, and determined that there were no subsequent events requiring adjustment or disclosure in the consolidated financial statements.





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¹ As of 12/31/18. The years in parentheses refer to the end of the term as trustee. An asterisk indicates a graduate degree.

² As of 12/31/18

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