KPMG

CHAPMAN UNIVERSITY AND AFFILIATES

Consolidated Financial Statements

May 31, 2017
(With Comparative Financial Information as of May 31, 2016)

(With Independent Auditors' Report Thereon)

CHAPMAN UNIVERSITY AND AFFILIATES

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CHAPMAN UNIVERSITY

BRANDMAN University
Chapman University System

September 22, 2017

Dear Members of the Chapman University Board of Trustees, the Brandman University Board of Regents, and friends of Chapman University and Affiliates:

The 2016-17 annual consolidated financial report for Chapman University and Affiliates is presented here for your information. These financial statements represent the consolidated financial activities of both Chapman University and Brandman University. Brandman University, like Chapman University, is an independent nonprofit corporation that is separately accredited by the regional authority, the Western Association of Schools and Colleges Senior College and University Commission (WSCUC), and by certain national accrediting bodies as well. The financial activities of Brandman University are consolidated with Chapman's in conformance with relevant financial accounting standards.

Treasurers' letter on pages 1 - 10 is unaudited

Daniele C. Struppa Becomes the 13th President of Chapman University

On September 1, 2016, following a long-planned transition, Daniele C. Struppa assumed the mantle of leadership for Chapman University.

Dr. Struppa joined Chapman University as its Provost in 2006. In 2007 he was promoted to Chancellor, and in March, 2014, Chapman's Board of Trustees named him "Presidential Designate" and successor to Jim Doti.

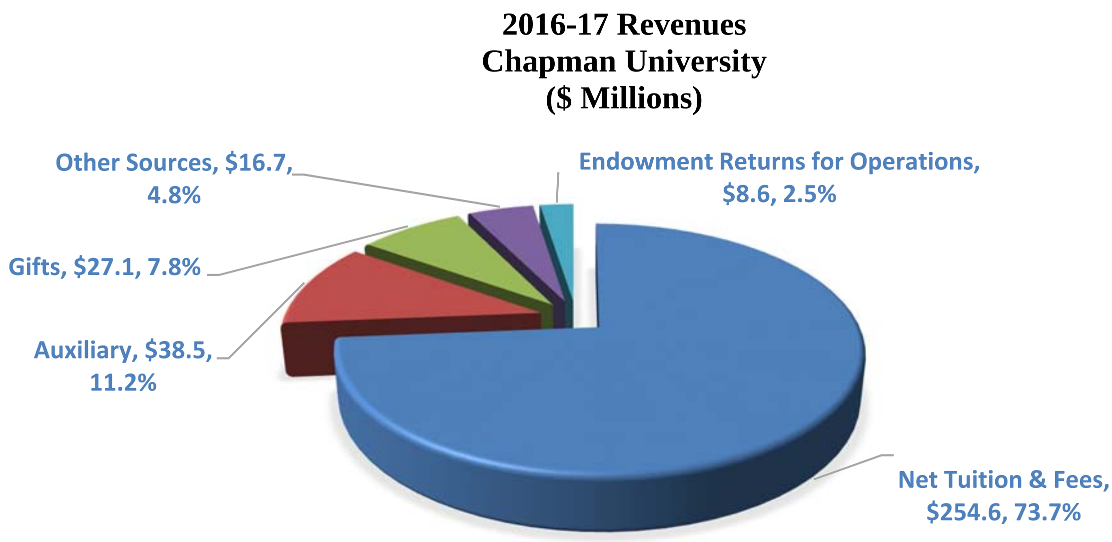
Dr. Struppa served on the faculties of the University of Milano in Milan, Italy; the Scuola Normale Superiore in Pisa, Italy; the University of Calabria in Calabria, Italy, and, immediately before joining the senior leadership team of Chapman University, he was Dean of the College of Arts and Sciences at George Mason University in Fairfax, Virginia.

Dr. Struppa is the author of over 200 refereed publications and is the editor or co-author of over ten books. His scholarly research in mathematics focuses on Fourier analysis and its applications to a variety of problems including bio-contaminant protection and the proteomics of cancerous cells.

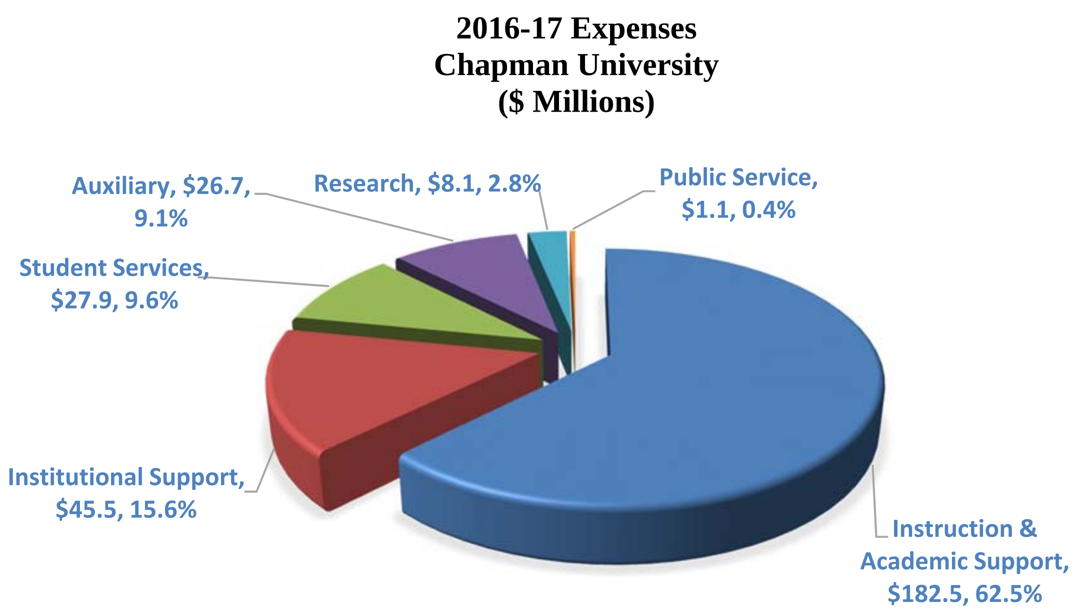
President Struppa's accomplishments thus far at Chapman include authoring the current Five-Year Strategic Plan; leading a renewed focus on research as an essential element of teaching and academic quality; preparing the University for transitioning from a regional institution to a national university, and strengthening the sciences.

We are pleased to report that 2016-17 has been a record-setting year for Chapman University as measured by our financial performance. The following charts and graphs highlight some of the noteworthy results.

Net Tuition and Fees (tuition and fees less student financial aid) represented 73.7% ($254.6 million) of Chapman University's total revenues. This compares to 71.7% ($235.9 million) in 2015-16.

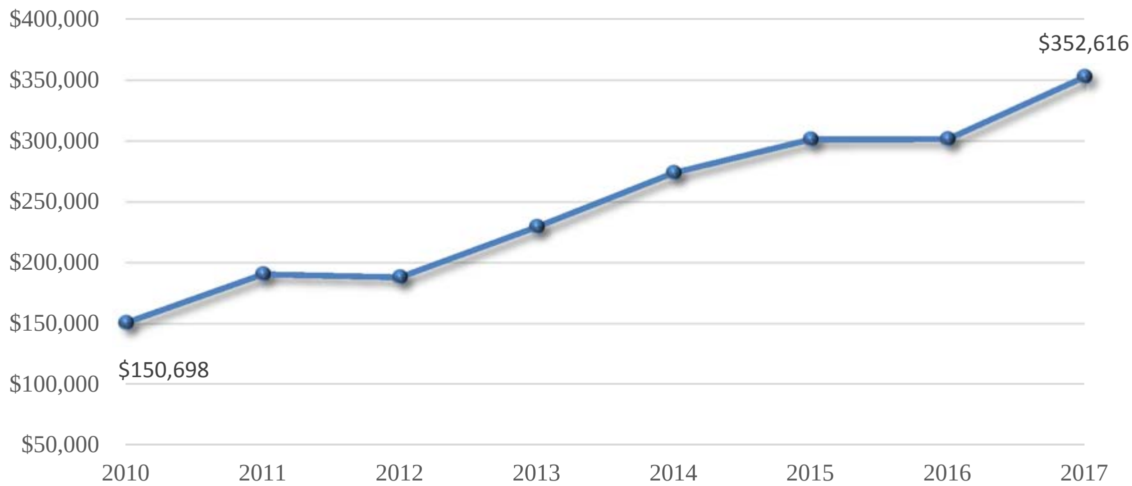


Instruction and Academic Support (excluding Research and Public Service) comprised 62.5% ($182.5 million) of the university's total expenses, compared to 61.9% ($170.6 million) of total expenses in 2015-16.



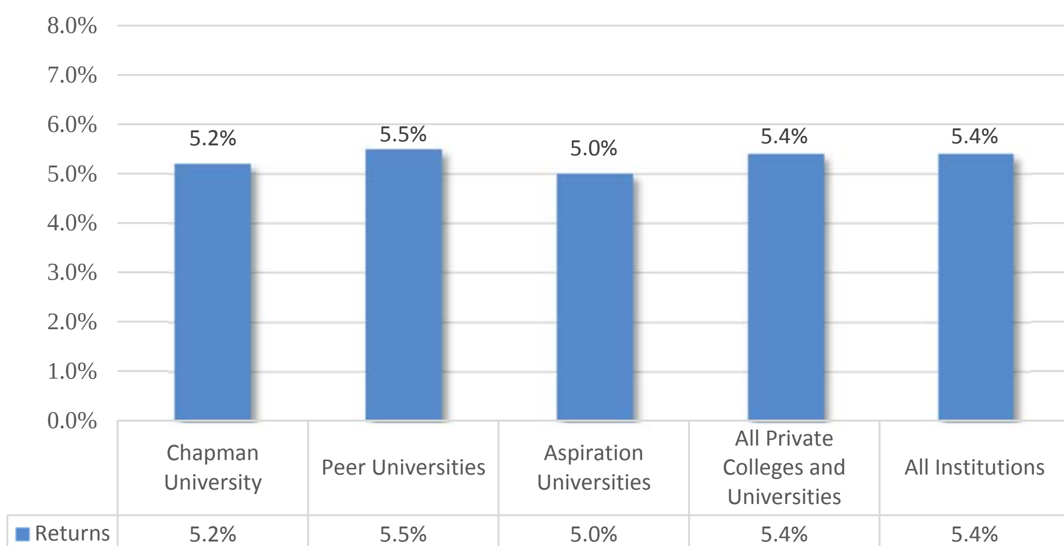
Chapman University's endowment grew significantly between 2015-16 and 2016-17 due to the oversight of Trustees serving on the Investment Committee, generous gifts, and the Board of Trustees' commitment to allocating funds to quasi-endowment.

Endowment Net Asset Value
Chapman University
as of May 31, 2017 (in Thousands)



Chapman's 5.2% five-year average annual return on endowment (net of fees) as of June 30, 2016 was in line with peer universities, aspiration universities, all private colleges and universities, and all institutions that participated in the 2016 National Association of College and University Business Officers (NACUBO)-Commonfund Study of Endowments.

Five-Year Average Annual Return on Endowment (Net of Fees)
Chapman University
as of June 30, 2016



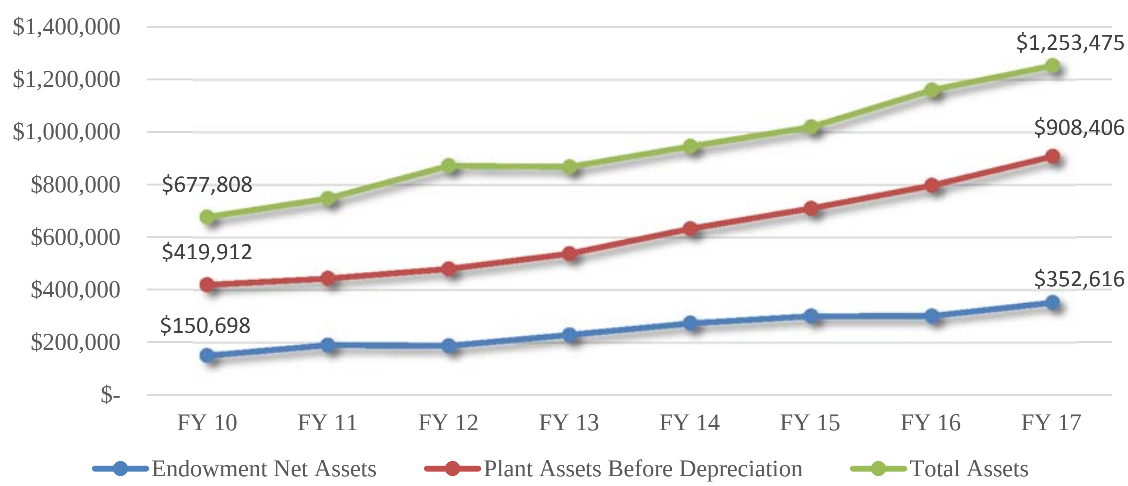
The Peer Universities and Aspiration Universities groups appearing in the table on the preceding page include the following institutions:

Peer Universities
Gonzaga University
Loyola Marymount University
Pepperdine University
Santa Clara University
University of San Diego
University of San Francisco
University of the Pacific

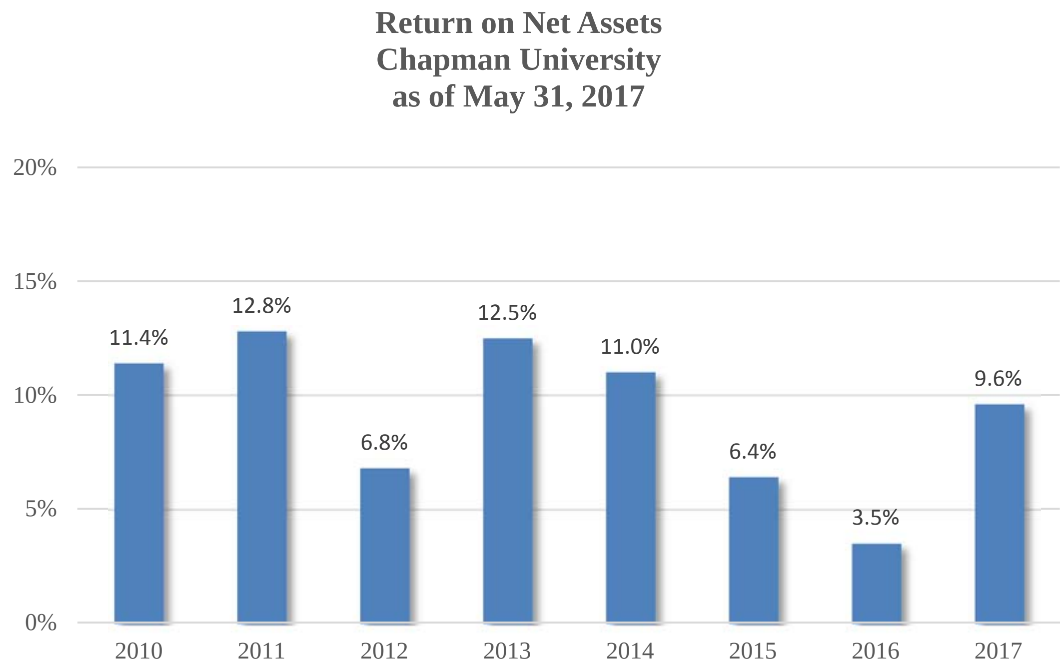
Aspiration Universities
Tufts University
Vanderbilt University

In addition to Chapman's endowment growth, the University continues to develop its campus with an impressive expansion of academic facilities. Much of the funding for these additions comes from Chapman's many generous donors, friends, trustees, alumni, parents and other supporters.

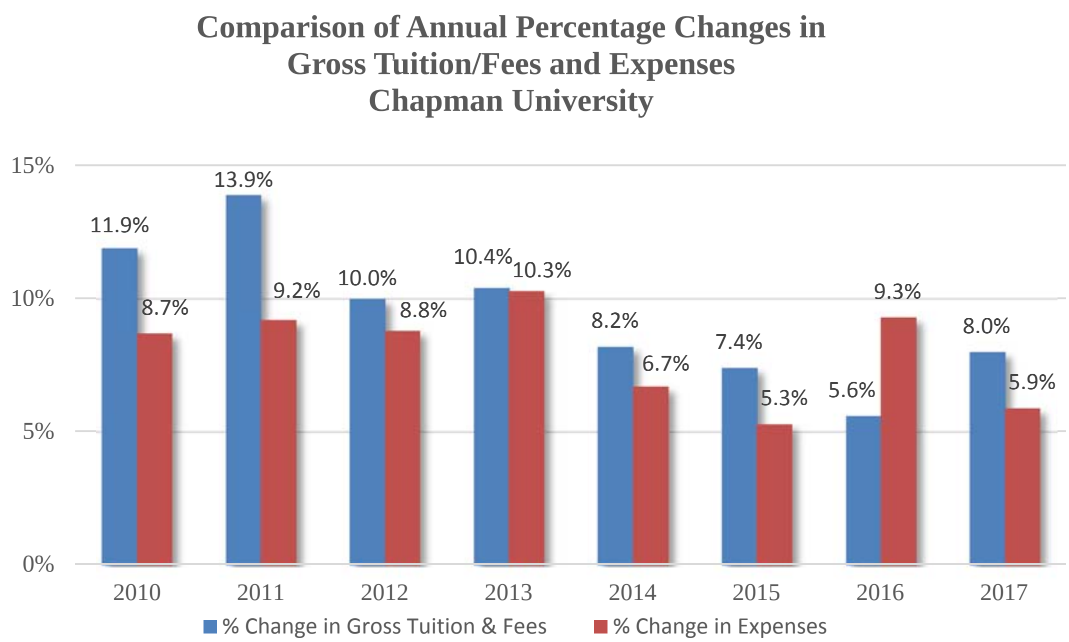
Growth of Endowment, Plant and Total Assets
Chapman University
as of May 31, 2017 (in Thousands)



In a study that will be published soon in the National Association of College and University Business Officers' *Business Officer* magazine, President Emeritus Jim Doti documents that Chapman's sustained growth in Net Assets places our institution third among its peers for our financial performance in this area.



Chapman University's 2016-17 annual expenses grew at a lower rate than tuition and at a lower rate than the prior year's expenses, thereby continuing a pattern of managing costs to keep tuition prices low while investing in academic programs and in student financial aid.



Chapman University continues to support the financial needs of our undergraduate and graduate students as indicated by the 2016-17 tuition discount rate of 32.7%.

Smith Institute for Political Economy and Philosophy

Pictured here is Nobel Laureate Vernon L. Smith, Chapman professor of economics and law.

Chapman University recently established the Smith Institute for Political Economy and Philosophy. The Smith Institute is named in honor of Adam Smith (1723-1790), the moral philosopher who is widely known for authoring two great works, *The Theory of Moral Sentiments* and *The Wealth of Nations.* The new institute is supported by $15.18 million in gifts from the Charles Koch Foundation and two anonymous donors, with additional gifts from Orange County donors Gavin Herbert and Rick Muth.

The gift builds upon a program that started at Chapman in 2010 with a single first-year seminar course designed to explore three questions: What makes a rich nation rich? What makes a good person good? And what do these questions have to do with one another? Originally co-taught by Jan Osborn, Ph.D. from the Department of English and Dr. Wilson, the course combined interpretations of the human condition in literature with an inquiry into the causes and consequences of the prosperity of the last 200 years.

“The growing interest among Chapman students to challenge themselves with these big questions is the reason why we proposed the Institute to the donors,” said Dr. Wilson. “It is exciting to significantly extend our capabilities to co-teach interdisciplinary courses with scholars from both economics and the humanities.”

Chapman University will add 11 new faculty members to cultivate a cluster of researchers “interested in blurring the line between teaching and research, as Vernon Smith is known for,” said Dr. Wilson. The faculty in the institute will envision new frontiers of interdisciplinary research, developing them in conjunction with colleagues and students in their courses. The Smith Institute will also mentor up to five post-doctoral fellows who will spend two years in residence working on their research and teaching under the guidance of the Smith Institute faculty.

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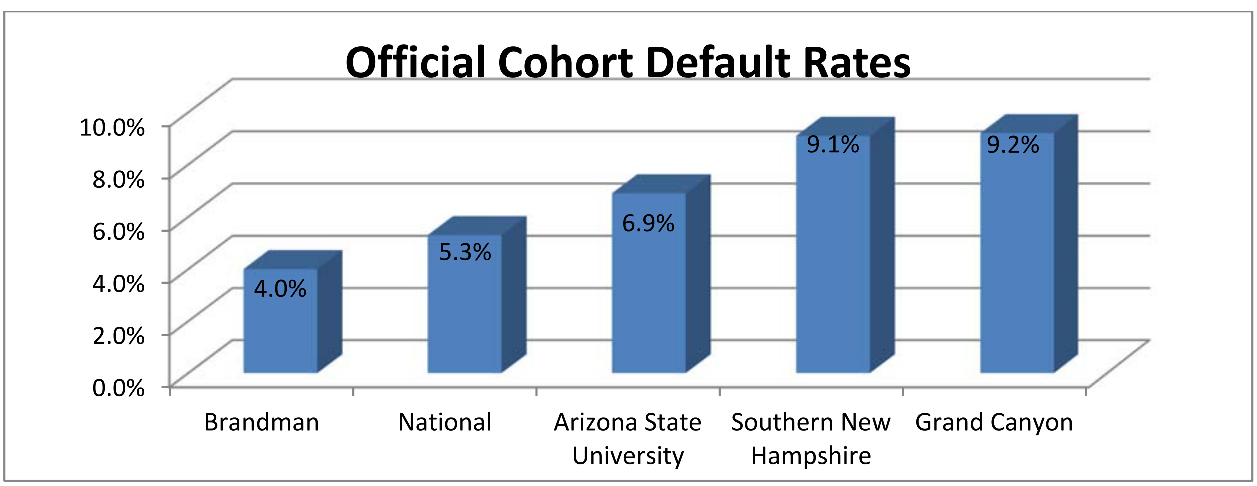
BRANDMAN University

CHAPMAN UNIVERSITY SYSTEM

Brandman University is a leader in providing adult learners a dynamic education based on excellence and flexibility that creates lasting value and relevance for evolving careers. As a Hispanic Serving Institution, we serve a student population that includes 49.4 percent first generation students, 24 percent veterans and active military (27 percent if you include dependents), 44 percent are from underrepresented groups and 45 percent receive Pell grants.

At a time when nationwide graduation rates are sinking, 80 percent of our returning students earn their degree*. An indication our non-traditional students are also successful once they graduate is our low loan default rate as represented below.



In the 2016-17 academic year, Brandman launched two new degree programs: Brandman's MyPath Bachelor of Science in Information Technology (BSIT) and a Bachelor of Arts in Communication and Media. The competency-based BSIT focuses on programing and software development, networks, operating systems, databases, security cloud computing and web design. Also included are project management and other employer-desired skills.

The Bachelor of Arts in Communications and Media includes a continued emphasis on earning a liberal arts education, storytelling, data analytics, technoculture, ethics and real world implementation that meet employers' needs for graduates who can think on their feet, make decisions and solve problems no matter what technology changes come their way.

Brandman University was once again recognized for its innovation and for the second year in a row received the National Association of College and University Business Officers (NACUBO) Innovation Award for its custom-designed **Student Accounts Receivable (SAR)** performance metrics and collections system. The system increased cash balances and decreased SAR balances, enabling Brandman to collect 99 percent of its total tuition charges each trimester.

The American Council on Education (ACE) also honored Brandman with the prestigious ACE/Fidelity Investments Award for Institutional Transformation, which recognizes institutions that have responded to higher education challenges in innovative and creative ways to achieve dramatic changes in a relatively brief period.

For the sixth consecutive year, *U.S. News and World Report* recognized Brandman's online programs with honors for Best Online Bachelor's Programs and Best Online Graduate Education Programs.

*Based on 2016 completion statistics for full-time degree-seeking students with prior college credits who entered Brandman University in Fall 2007 and completed an undergraduate degree within 6 years.

Conclusion

We remain grateful for continued backing from donors that allows us to support outstanding academic achievements by our students and faculty, and we look forward to more innovation and success in 2017-2018.

Harold W. Hewitt, Jr.
Executive Vice President and Chief Operating Officer
Chapman University

Phillip L. Doolittle
Executive Vice Chancellor & Chief Financial Officer
Brandman University

KPMG LLP
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Independent Auditors' Report

The Board of Trustees
Chapman University:

The Board of Regents
Brandman University:

We have audited the accompanying consolidated financial statements of Chapman University and affiliates (the University) as of May 31, 2017, which comprise the consolidated statement of financial position as of May 31, 2017, and the related consolidated statements of activities and cash flows for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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

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

KPMG

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the University as of May 31, 2017, and the changes in its net assets and its cash flows for the year then ended, in accordance with U.S. generally accepted accounting principles. We have previously audited the University's 2016 consolidated financial statements, and we expressed an unmodified audit opinion on those consolidated financial statements in our report dated September 19, 2016. In our opinion, the summarized comparative information presented herein as of and for the year ended May 31, 2016 is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 22, 2017 on our consideration of the University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the University's internal control over financial reporting and compliance.

KPMG LLP

September 22, 2017

CHAPMAN UNIVERSITY AND AFFILIATES

Consolidated Statement of Financial Position

May 31, 2017
(with comparative financial information as of May 31, 2016)

Assets		**2017**	**2016**
Current assets:			
Cash and cash equivalents	$	82,810,000	74,117,000
Investments (notes 2 and 3)		8,982,000	8,815,000
Accounts receivable, less allowance for doubtful accounts of $1,938,000 and $1,919,000 in 2017 and 2016, respectively		7,255,000	9,927,000
Current portion of contributions receivable, net (note 4)		9,762,000	14,024,000
Current portion of notes receivable		687,000	1,205,000
Other current assets		7,189,000	8,942,000
Total current assets		116,685,000	117,030,000
Long-term assets:			
Notes receivable, less current portion and allowance for doubtful notes of $586,000 and $571,000 in 2017 and 2016, respectively		3,486,000	3,996,000
Contributions receivable, less current portion, net (note 4)		44,078,000	52,604,000
Long-term investments (notes 2 and 3)		416,107,000	399,147,000
Plant assets, net (note 5)		724,504,000	637,164,000
Other real property		4,677,000	9,277,000
Other long-term assets		3,975,000	4,042,000
Total long-term assets		1,196,827,000	1,106,230,000
Total assets	$	1,313,512,000	1,223,260,000
Liabilities and Net Assets			
Current liabilities:			
Accounts payable and accrued liabilities	$	45,807,000	45,256,000
Deferred revenues and student deposits		26,394,000	21,450,000
Current portion of bonds and notes payable (note 6)		31,507,000	7,422,000
Other current liabilities		1,685,000	3,683,000
Total current liabilities		105,393,000	77,811,000
Long-term liabilities:			
Annuities payable, less current portion		2,135,000	2,102,000
Refundable loan programs		2,240,000	2,238,000
Bonds and notes payable, less current portion (note 6)		214,911,000	229,118,000
Interest rate swaps (notes 3 and 6)		9,055,000	11,855,000
Other long-term liabilities		11,665,000	8,853,000
Total long-term liabilities		240,006,000	254,166,000
Total liabilities		345,399,000	331,977,000
Net assets:			
Unrestricted		705,856,000	624,266,000
Temporarily restricted (note 12)		122,152,000	121,196,000
Permanently restricted (note 12)		140,105,000	145,821,000
Total net assets		968,113,000	891,283,000
Total liabilities and net assets	$	1,313,512,000	1,223,260,000

See accompanying notes to consolidated financial statements.

CHAPMAN UNIVERSITY AND AFFILIATES

Consolidated Statement of Activities

Year ended May 31, 2017
(with summarized financial information for the year ended May 31, 2016)

	2017				2016
	Unrestricted	Temporarily restricted	Permanently restricted	Total	Total
Revenues, gains, and other support:					
Tuition and fees	$ 472,977,000	—	—	472,977,000	447,408,000
Less student financial aid	(127,602,000)	—	—	(127,602,000)	(117,354,000)
Net tuition and fees	345,375,000	—	—	345,375,000	330,054,000
Endowment returns designated for operations	3,462,000	5,141,000	4,000	8,607,000	7,588,000
Other investment income (loss)	1,622,000	(29,000)	24,000	1,617,000	(231,000)
Private gifts, grants, and bequests	8,575,000	15,999,000	2,918,000	27,492,000	36,370,000
Auxiliary enterprises	38,617,000	—	—	38,617,000	36,862,000
Other sources	16,014,000	4,000	—	16,018,000	14,198,000
	68,290,000	21,115,000	2,946,000	92,351,000	94,787,000
Net assets transferred or released from donor restrictions	6,861,000	(6,886,000)	25,000	—	—
Total revenues, gains, and other support	420,526,000	14,229,000	2,971,000	437,726,000	424,841,000
Expenses:					
Educational and general:					
Instruction	170,016,000	—	—	170,016,000	164,377,000
Academic support	67,966,000	—	—	67,966,000	59,803,000
Student services	56,471,000	—	—	56,471,000	55,371,000
General institutional support	62,901,000	—	—	62,901,000	64,031,000
Total educational and general expenses	357,354,000	—	—	357,354,000	343,582,000
Auxiliary enterprises	27,093,000	—	—	27,093,000	25,613,000
Total expenses	384,447,000	—	—	384,447,000	369,195,000
Increase from operating activities	36,079,000	14,229,000	2,971,000	53,279,000	55,646,000
Nonoperating activities:					
Endowment returns, net of designation for operations	9,757,000	15,954,000	44,000	25,755,000	(22,187,000)
Unrealized gain (loss) on interest rate swap related to bonds	2,799,000	—	—	2,799,000	(783,000)
Building gifts released from restriction	30,924,000	(30,924,000)	—	—	—
Adjustment to pledges	2,328,000	(1,601,000)	(2,336,000)	(1,609,000)	(885,000)
Other nonoperating activity	(297,000)	3,298,000	(6,395,000)	(3,394,000)	(531,000)
Increase (decrease) from nonoperating activities	45,511,000	(13,273,000)	(8,687,000)	23,551,000	(24,386,000)
Change in net assets	81,590,000	956,000	(5,716,000)	76,830,000	31,260,000
Net assets, beginning of year	624,266,000	121,196,000	145,821,000	891,283,000	860,023,000
Net assets, end of year	$ 705,856,000	122,152,000	140,105,000	968,113,000	891,283,000

See accompanying notes to consolidated financial statements.

CHAPMAN UNIVERSITY AND AFFILIATES

Consolidated Statement of Cash Flows

Year ended May 31, 2017
(with comparative financial information for the year ended May 31, 2016)

		2017	2016
Cash flows from operating activities:			
Change in net assets	$	76,830,000	31,260,000
Adjustments to reconcile change in net assets to net cash provided by operating activities:			
Noncash contributions of property, life insurance policies, and investments		(9,831,000)	(14,815,000)
Proceeds from sale of gifts of investments		2,465,000	4,771,000
Contributions restricted for long-term investment		(25,275,000)	(33,956,000)
Interest and dividends restricted for long-term investment		(3,000)	(4,000)
Net realized and unrealized (gains) losses on investments		(30,132,000)	20,078,000
Net realized loss on sale or disposition of property, plant, and other assets		1,011,000	1,540,000
Unrealized (gain) loss on interest rate swap related to bonds		(2,799,000)	783,000
Depreciation		28,854,000	24,528,000
Actuarial loss (gain) on annuity obligations		187,000	(196,000)
Amortization of discounts and premiums on bonds payable		(823,000)	(787,000)
Decrease (increase) in accounts receivable		2,767,000	(404,000)
Decrease (increase) in other assets		5,328,000	(2,589,000)
Decrease in contributions receivable		12,789,000	14,097,000
Increase in accounts payable, accrued liabilities, and other liabilities		6,216,000	7,148,000
(Decrease) increase in annuities payable		(155,000)	1,000
Net cash provided by operating activities		67,429,000	51,455,000
Cash flows from investing activities:			
Proceeds from sales and maturities of investments		169,987,000	170,373,000
Purchases of investments		(156,986,000)	(256,648,000)
Proceeds from sales of property		2,210,000	830,000
Purchases of plant assets		(110,705,000)	(71,074,000)
Purchase of other intangibles		(248,000)	—
Disbursements of loans to students		(439,000)	(584,000)
Repayments of loans from students		1,466,000	1,620,000
Net cash used in investing activities		(94,715,000)	(155,483,000)
Cash flows from financing activities:			
Proceeds from line of credit		17,000,000	127,489,000
Proceeds from contributions restricted for long-term investments		25,275,000	33,956,000
Interest and dividends restricted for long-term reinvestment		3,000	4,000
Payments of notes and bonds payable		(6,299,000)	(30,152,000)
Net cash provided by financing activities		35,979,000	131,297,000
Net increase in cash and cash equivalents		8,693,000	27,269,000
Cash and cash equivalents, beginning of year		74,117,000	46,848,000
Cash and cash equivalents, end of year	$	82,810,000	74,117,000
Supplemental disclosures of cash flow information:			
Cash paid during the year for interest, net of amounts capitalized of $2,892,000 and $2,990,000 for 2017 and 2016, respectively	$	6,760,000	7,964,000
Supplemental schedules of noncash investing and financing activities:			
Contributions of property	$	823,000	10,082,000
Contributions of property for plant assets		6,466,000	3,000
Contributions of life insurance policies		83,000	32,000
Contributions of investments		2,460,000	4,698,000

See accompanying notes to consolidated financial statements.

(1) Summary of Significant Accounting Policies and Other Matters

(a) Organization

Chapman University and its consolidated affiliates, which include Brandman University, Chapman University Charitable Giving LLC, Chapman University Enterprises, Inc., CBE Educational Services Company, Inc., and Chapman University Foundation (collectively, the University), are not-for-profit coeducational institutions of higher learning and taxable corporations primarily located in Orange County, California.

(b) Basis of Accounting

The accompanying consolidated financial statements are presented using the accrual basis of accounting.

(c) Principles of Consolidation

The accompanying consolidated financial statements include the accounts of Chapman University and its affiliates. All significant intercompany balances and transactions have been eliminated in consolidation.

(d) Donor-Imposed Restrictions

All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Amounts received that are designated for future periods or are restricted by the donor for specific purposes are reported as temporarily restricted support. When restrictions are met, temporarily restricted net assets are reclassified to unrestricted net assets and recorded as net assets released from restrictions in the accompanying consolidated statement of activities. Donor-restricted contributions whose restrictions are met within the fiscal year received are reported as unrestricted support. Permanently restricted net assets represent the portion of net assets resulting from contributions and other inflows of assets whose use is limited by donor-imposed restrictions that neither expire by passage of time nor can be fulfilled or otherwise removed by actions of the University.

(e) Promises to Give

Unconditional promises to give that are expected to be collected within one year are recorded as contributions receivable at their estimated net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded as a contribution receivable at the present value of their estimated future cash flows. The discounts on those amounts are computed using a rate that is commensurate with the risks involved and applicable to the years in which the promises are received. Amortization of the discounts is included in contribution revenue. Conditional promises to give are not included as support until such time as the conditions are substantially met.

(f) Cash and Cash Equivalents

The University considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents, except for those that have been purchased with donor-restricted funds or designated by the University as endowments, which are considered to be long-term investments.

(g) Plant Assets

Plant assets are stated at cost or estimated fair value at date of donation, net of accumulated depreciation. Depreciation is computed on a straight-line basis over the estimated useful lives of buildings and improvements (15 to 40 years) and equipment (3 to 10 years).

Contributed plant assets are recorded at fair value at the date of donation. If donors stipulate how long the assets must be used, the contributions are recorded as temporarily restricted support and are reclassified to unrestricted net assets when the stipulation ends. In the absence of such stipulations, contributions of property and equipment are recorded as unrestricted support.

(h) Impairment of Long-lived Assets and Long-lived Assets to be Disposed of

Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future net cash flows (undiscounted and without interest) expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell. During 2017, there were no events or changes in circumstances indicating that the carrying amount of long-lived assets may not be recoverable.

(i) Investment Policy

In accordance with U.S. generally accepted accounting principles, the University reports investments at fair value based upon a three-level valuation hierarchy for disclosure of fair value measurements. The valuation hierarchy is based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. The three levels are defined as follows:

Level I — Inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level II — Inputs of other than that quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. This includes quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability, or inputs that are derived principally from or corroborated by observable market data.

Level III — Inputs are unobservable for the asset or liability. Unobservable inputs reflect the University's own assumptions about the assumptions that market participants would use in pricing the asset or liability developed based on the best information available in the circumstances.

A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

Change in Accounting Policies:

Effective in fiscal year 2016, the University retroactively adopted the provisions of ASU No. 2015-07, *Fair Value Measurement: Disclosures for Investments in Certain Entities that Calculate NAV per Share*

(Continued)

(or its Equivalent) (ASU 2015-07). ASU 2015-07 removes the requirement to classify within the fair value hierarchy table in Levels II or III investments in certain funds measured at NAV as a practical expedient to estimate fair value. The ASU also requires that any NAV-measured investments excluded from the fair value hierarchy table be summarized as an adjustment to the table so that total investments can be reconciled to the Consolidated Statement of Financial Position. As a result of the adoption, the May 31, 2016 fair value hierarchy table was restated to reflect the removal of NAV-measured investments of $38,727,000 previously classified as Level II and $136,608,000 in Level III. In addition, the May 31, 2015 opening balance in the Level III roll forward was restated to reflect the removal of the NAV-measured investments aggregating $136,461,000.

(j) Fair Value of Financial Instruments

The University did not elect fair value accounting for any asset or liability that is not currently required to be measured at fair value.

Fair value of the University's financial instruments is determined using the estimates, methods, and assumptions as set forth below. See note 3 for further information regarding investments and their fair value.

(i) Cash Equivalents, Accounts and Other Receivables, Accounts Payable, and Accrued Expenses

Fair value approximates book value due to the short maturity of these instruments.

A reasonable estimate of the fair value of student loans extended under government loan programs has not been made as the loans can only be assigned to the U.S. government or its designees.

(ii) Contributions Receivable

Contributions receivable are reported based on the discounted value of estimated cash flows. The discount rate is estimated based upon a risk-free rate of return. The book value approximates fair value.

(iii) Interest Rate Swaps

Fair value of the University's swap agreements are estimated based on observable inputs, such as relevant interest rates, that reflect assumptions market participants would use in pricing the instruments. These inputs fall within Level 2 of the fair value hierarchy. Fair value of the swap agreements was approximately ($9,055,000) and ($11,855,000) as of May 31, 2017 and 2016, respectively.

(iv) Alternative Investments

Alternative investments, such as private equity interests, are recorded based on valuations provided by the general partners or external investment managers. As these generally are investments without a ready market to compare, the inputs into the determination of fair value require significant judgment. Due to the inherent uncertainty of these estimates, these values may differ materially from the values that would have been used had a ready market for these investments existed. Management reviews and evaluates the valuations and has determined that the valuation methods and assumptions result in reasonable estimates of fair value. Refer to note 3 for fair value determination.

(v) Annuities Payable

The carrying amount of annuity and trust obligations approximates fair value as the instruments are recorded at the estimated net present value of future cash flows.

(k) Income Taxes

The University and affiliates, excluding Chapman University Enterprises, Inc. and CBE Educational Services Company, Inc., are exempt from taxation under Section 501(c)(3) of the Internal Revenue Code and Section 23701d of the California Revenue and Taxation Code and are generally not subject to federal or state income taxes. However, the University is subject to income taxes on any net income that is derived from a trade or business regularly carried on, and not in furtherance of the purposes for which it was granted exemption. No income tax provision has been recorded as the net income, if any, from any unrelated trade or business, in the opinion of management, is not material to the consolidated financial statements taken as a whole.

(l) Use of Estimates

The preparation of consolidated financial statements in conformity with U.S. generally accepted accounting principles 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 date of the consolidated financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(m) Fund-Raising Expenses

The accompanying consolidated statements of activities include fund-raising expenses of $12,782,000 and $12,589,000 for the years ended May 31, 2017 and 2016, respectively, as a component of general institutional support.

(n) Comparative Data

The consolidated financial statements include prior year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with U.S. generally accepted accounting principles. Accordingly, such information should be read in conjunction with the University's consolidated financial statements as of and for the year ended May 31, 2016, from which the summarized information was derived.

(o) Functional Expenses

Expenses that can be specifically identified with a specific program or supporting service are charged directly to the related program or supporting service. Expenses that are associated with more than one program or supporting service are allocated based on an evaluation made by management.

(2) Investments

Investments at May 31, 2017 and 2016 consist of the following:

		2017	2016
Money market funds	$	24,839,000	32,579,000
Equities		90,931,000	82,450,000
Fixed income mutual funds and other investments		85,682,000	104,834,000
Commodities		2,913,000	3,005,000
Real estate		54,800,000	25,500,000
Venture capital		10,000,000	7,944,000
Private equity		20,949,000	17,464,000
Mezzanine debt funds		1,065,000	1,079,000
Hedge funds		109,756,000	102,327,000
Real asset funds		19,042,000	25,998,000
Unitrust investments:			
Money market funds		190,000	209,000
Equities		2,679,000	2,752,000
Fixed income/Mutual funds		1,906,000	1,588,000
Alternative investments		219,000	120,000
Real asset fund		118,000	113,000
Total investments	$	425,089,000	407,962,000

Investment income consisted of the following for the years ended May 31, 2017 and 2016:

		2017		
		Endowment	Other	Total
Interest and dividends	$	4,840,000	2,120,000	6,960,000
Realized and unrealized gains (losses), net		30,526,000	(434,000)	30,092,000
Less investment expenses		(1,004,000)	(69,000)	(1,073,000)
Investment income, net	$	34,362,000	1,617,000	35,979,000
Operating	$	8,607,000	1,617,000	10,224,000
Nonoperating		25,755,000	—	25,755,000
Investment income, net	$	34,362,000	1,617,000	35,979,000

		2016		
		Endowment	**Other**	**Total**
Interest and dividends	$	5,042,000	1,130,000	6,172,000
Realized and unrealized losses, net		(18,512,000)	(1,291,000)	(19,803,000)
Less investment expenses		(1,129,000)	(70,000)	(1,199,000)
Investment income, net	$	(14,599,000)	(231,000)	(14,830,000)
Operating	$	7,588,000	(231,000)	7,357,000
Nonoperating		(22,187,000)	—	(22,187,000)
Investment income, net	$	(14,599,000)	(231,000)	(14,830,000)

(3) Fair Values of Financial Instruments

The following tables summarize investment values by category of investment as of May 31, 2017 and 2016. Consistent with ASU 2015-07, investments measured at net asset value (NAV) are not classified in the fair value hierarchy.

		2017				
		Investments measured at NAV	**Investments classified in the fair value hierarchy (Level I)**	**(Level II)**	**(Level III)**	**Total**
Pooled Investments:						
Money market funds	$	—	22,832,000	—	—	22,832,000
Equities:						
U.S. equities			11,048,000	—	—	11,048,000
Global equities		49,769,000	—	—	—	49,769,000
Emerging market equities		10,650,000	17,215,000	—	—	27,865,000
Fixed income			8,643,000	—	—	8,643,000
Fixed income mutual funds			16,215,000	—	—	16,215,000
Venture capital		10,000,000	—	—	—	10,000,000
Private equity		20,449,000	—	—	—	20,449,000
Mezzanine debt funds		1,065,000	—	—	—	1,065,000
Hedge funds		109,756,000	—	—	—	109,756,000
Real asset funds		—	19,042,000	—	—	19,042,000
Total pooled investments		201,689,000	94,995,000	—	—	296,684,000

	2017				
	Investments measured at NAV	Investments classified in the fair value hierarchy (Level I)	(Level II)	(Level III)	Total
Other Investments:					
Cash and cash equivalents	$ —	2,007,000	—	—	2,007,000
US Equities	—	2,249,000	—	—	2,249,000
Fixed Income-Mutual Funds	—	60,824,000	—	—	60,824,000
Commodities	—	2,913,000	—	—	2,913,000
Real estate	—	—	54,800,000	—	54,800,000
Private equity	—	—	—	500,000	500,000
Total other investments	—	67,993,000	54,800,000	500,000	123,293,000
Unitrust Investments:					
Money market funds	—	190,000	—	—	190,000
Equities	—	2,679,000	—	—	2,679,000
Fixed income/Mutual Funds	—	1,730,000	176,000	—	1,906,000
Alternative investments	219,000	—	—	—	219,000
Real asset funds	118,000	—	—	—	118,000
Total unitrust investments	337,000	4,599,000	176,000	—	5,112,000
Total Investments	$ 202,026,000	167,587,000	54,976,000	500,000	425,089,000
Interest rate swaps	$ —	—	(9,055,000)	—	(9,055,000)
Total liabilities	$ —	—	(9,055,000)	—	(9,055,000)

		2016				
		Investments measured at NAV	Investments classified in the fair value hierarchy (Level I)	(Level II)	(Level III)	Total
Pooled Investments:						
Money market funds	$	—	25,304,000	—	—	25,304,000
Equities:						
U.S. equities		—	14,144,000	—	—	14,144,000
Global equities		41,030,000	—	—	—	41,030,000
Emerging market equities		8,414,000	16,989,000	—	—	25,403,000
Fixed income mutual funds		—	17,422,000	—	—	17,422,000
Venture capital		7,944,000	—	—	—	7,944,000
Private equity		14,307,000	—	—	—	14,307,000
Mezzanine debt funds		1,079,000	—	—	—	1,079,000
Hedge funds		102,327,000	—	—	—	102,327,000
Real asset funds		—	25,998,000	—	—	25,998,000
Total pooled investments		175,101,000	99,857,000	—	—	274,958,000
Other Invested Assets:						
Cash and cash equivalents		—	7,275,000	—	—	7,275,000
US Equities		—	1,873,000	—	—	1,873,000
Fixed Income-Mutual Funds		—	87,412,000	—	—	87,412,000
Commodities		—	3,005,000	—	—	3,005,000
Real estate		—	—	25,500,000	—	25,500,000
Private Equity		—	—	—	3,157,000	3,157,000
Total other Investments		—	99,565,000	25,500,000	3,157,000	128,222,000
Unitrust Investments:						
Money market funds		—	209,000	—	—	209,000
Equities		—	2,752,000	—	—	2,752,000
Fixed income/Mutual Funds		—	1,436,000	152,000	—	1,588,000
Alternative investments		120,000	—	—	—	120,000
Real asset funds		113,000	—	—	—	113,000
Total unitrust investments		233,000	4,397,000	152,000	—	4,782,000
Total Investments	$	175,334,000	203,819,000	25,652,000	3,157,000	407,962,000
Interest rate SWAPs	$	—	—	(11,855,000)	—	(11,855,000)
Total liabilities	$	—	—	(11,855,000)	—	(11,855,000)

Money Market Funds – Investments in money market funds are classified as Level I, as they can be liquidated in the same day, representing the active and ready market for these assets.

U.S. Equities – Investments in U.S. equities are measured at fair value using quoted market prices. They are classified as Level I, as they are traded in active markets for which closing stock prices are readily available.

Global Equities – International Equity Funds – Investments in this category are classified at net asset value (NAV), as they are not traded actively; however, the fair value has been estimated using the NAV of this account. The exit frequency of this investment is monthly.

Emerging Markets Equities – Investments in emerging markets equities that are classified as Level I are traded in active markets for which closing prices are readily available. However, the fair value has been estimated using the NAV of the account and the exit frequency is monthly.

Fixed Income – Investments that are classified in Level I are listed on national exchanges or over-the-counter markets and for which quoted market prices are available from sources such as financial publications, the exchanges, or the National Association of Securities Dealers Automated Quotations System.

Fixed Income and Fixed Income Mutual Funds – Investments in fixed income and fixed income mutual funds include investments in debt securities, U.S. government, and municipal obligations, are classified as Level I. Investments are classified in category Level II, when they use significant other observable inputs, particularly dealer market prices for comparable investment as of the valuation date as reflected on account statements issued by investment custodians.

Real Asset Funds – Investments in the real asset funds are measured at fair value using quoted market prices and classified as Level I, as they are traded in active markets for which prices are readily available.

Commodities – Investment in commodities are measured at fair value using quoted market prices. They are classified as Level I, as they are traded in active markets for which closing prices are readily available.

Alternative investments include hedge funds, venture capital, private equity investments, and mezzanine debt funds. These investments are classified NAV as these investments have unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the asset. As such, the University is unable to obtain independent valuations from market sources. Therefore, these investments are valued utilizing NAVs and/or percentage ownership calculations. Realized and unrealized gains and losses are reported in the consolidated statement of activities under the line item entitled “Endowment return designated for operations” and under nonoperating activities under the line item entitled “Endowment returns, net of designation for operations.”

(Continued)

The following table summarizes the fair value measurements of investments in other investment funds that calculate NAV per share (or its equivalent) as of May 31, 2017:

Category of investment		NAV in Funds	Unfunded commitments	Redemption notice period (in days)	Days until exit
Global equities	$	49,769,000	—	10–30	30
Emerging market equities		10,650,000	—	30	30
Venture capital		10,000,000	3,835,000	see below	see below
Private equity		20,449,000	23,484,000	see below	see below
Mezzanine debt funds		1,065,000	607,000	see below	see below
Hedge funds:					
U.S. equities		71,391,000	—	30–90	61–579
Global		20,866,000	—	2–90	30–304
Emerging market		2,347,000	—	60	214
Multi-strategy		15,152,000	—	65	1–760
Unitrust investments:					
Alternative investments		219,000	—	n/a	daily
Real asset funds		118,000	—	n/a	daily
	$	202,026,000	27,926,000		

The University holds certain investments in venture capital, private equity, and mezzanine debt funds in the amount of $10,000,000, $20,449,000, and $1,065,000, respectively. These limited partnerships do not allow for periodic redemptions, but rather distributions are received through the liquidation of the underlying assets of the partnership. At May 31, 2017, these partnerships had estimated termination dates that ranged from 2019 to 2031. Within hedge fund investments, the University holds $853,000 in funds of which a portion does not have a stated redemption date. The University had no transfers between Level I, Level II, and Level III investments during the fiscal years ended May 31, 2017 or 2016.

(4) Contributions Receivable

Contributions receivable include unconditional pledges that have been discounted at rates ranging from 0.32% to 8.00%. The following is a summary of the University's unconditional contributions receivable at May 31, 2017 and 2016:

	2017	2016
Unconditional contributions expected to be collected in:		
Less than one year	$ 14,692,000	20,480,000
One to five years	29,783,000	38,151,000
More than five years	41,839,000	41,723,000
	86,314,000	100,354,000
Less:		
Unamortized discount	(21,659,000)	(24,023,000)
Allowance for uncollectible contributions	(10,815,000)	(9,703,000)
Total contributions receivable	$ 53,840,000	66,628,000

(5) Plant Assets

Plant assets at May 31, 2017 and 2016 consist of the following:

	2017		
	Cost	Accumulated Depreciation	Net
Land	$ 139,957,000	—	139,957,000
Buildings and improvements	531,139,000	(120,947,000)	410,192,000
Equipment	209,441,000	(115,524,000)	93,917,000
Construction in progress	80,438,000	—	80,438,000
	$ 960,975,000	(236,471,000)	724,504,000

	2016		
	Cost	Accumulated Depreciation	Net
Land	$ 118,268,000	—	118,268,000
Buildings and improvements	497,527,000	(106,539,000)	390,988,000
Equipment	193,439,000	(104,289,000)	89,150,000
Construction in progress	38,758,000	—	38,758,000
	$ 847,992,000	(210,828,000)	637,164,000

(Continued)

(6) Long-Term Debt Obligations

(a) Bonds and Notes Payable

Long-term debt consists of bonds payable and loans payable. Bond payable issued through the California Educational Facilities Authority (CEFA), and associated interest rates and maturities at May 31, 2017 and 2016 are as follows:

	2017			
	Interest rates	**Maturity dates**		**Principal amount**
Bonds Payable:				
Series 2015	4.0%–5.0%	2044-2045	$	112,580,000
Series 2011	5.00%	2030-2031		82,490,000
				195,070,000
Plus unamortized premiums				17,524,000
CEFA bonds payable				212,594,000
Loans Payable:				
Wells Fargo Term Loan	Variable rate	2019-2020		10,097,000
Commercial Bank of California	5.5%	2017-2018		6,727,000
Bank of America Term Loan	LIBOR plus 0.52%	2017-2018		10,500,000
Bank of America Term Loan	LIBOR plus 0.52%	2017-2018		6,500,000
Loans Payable				33,824,000
Total Bonds and Loans Payable			$	246,418,000

	2016			
	Interest Rates	**Maturity Dates**		**Principal**
Bonds Payable:				
Series 2015	3.0%–5.0%	2044-2045	$	114,485,000
Series 2011	4.0%–5.0%	2030-2031		86,535,000
				201,020,000
Plus unamortized premiums				18,347,000
CEFA bonds payable				219,367,000
Loans Payable:				
Wells Fargo Term Loan	Variable rate	2019-2020		10,269,000
Commercial Bank of California	5.5%	2017-2018		6,904,000
Loans Payable				17,173,000
Total Bonds and Loans Payable			$	236,540,000

Bonds and notes payable at May 31, 2017 are due as follows:

Year ending May 31:		
2018	$	30,684,000
2019		15,780,000
2020		6,765,000
2021		7,100,000
2022		7,460,000
Thereafter		161,105,000
Total principal		228,894,000
Unamortized premium		17,524,000
	$	246,418,000

The CEFA agreements contain covenants relating to maintenance of the University, insurance, and other general terms.

Pursuant to the terms of the California Educational Facilities Authority Series 2015 Bonds indenture, investments include $53,503,000 and $85,491,000 of bond proceeds, which were held by independent trustees at May 31, 2017 and 2016, respectively.

Total interest expense was $8,556,000 and $7,886,000 for the years ended May 31, 2017 and 2016, respectively, net of amount capitalized.

(b) Interest Rate Swaps

As part of the issuance of the 2008 Bonds, the University entered into an interest rate swap agreement that calls for fixed rates of 3.162%, 3.121%, and 3.212% in exchange of a monthly variable rate of USD-LIBOR-BBA for the Series 2008 A, B, and C Bonds, respectively. There was no cash exchanged at the time of acquisition. The swap entered into by the University covering the 2008 Series A Bonds expires October 2036, and the swaps covering the 2008 B and C Bonds expire as of October 2026.

Changes in the fair value of the interest rate swap agreements are reported as unrealized gain (loss) interest rate swap related to bonds in the nonoperating activities section of the accompanying consolidated statements of activities. The valuation of these agreements resulted in net unrealized gain of $2,799,000 and an unrealized loss of $783,000 during the years ended May 31, 2017 and 2016, respectively. The corresponding liability related to these agreements totaled $9,055,000 and $11,855,000, and is included as a liability related to interest rate swaps on the accompanying consolidated statements of financial position at May 31, 2017 and 2016, respectively.

(7) Commitments and Contingencies

(a) Lease Commitments

The University has commitments related to operating leases for building facilities and equipment at May 31, 2017 and 2016. All operating leases are noncancelable and expire on various dates through 2026.

Minimum future rental payments under noncancelable operating lease agreements at May 31, 2017 are summarized as follows:

Fiscal year ending May 31:		
2018	$	4,637,000
2019		3,494,000
2020		2,120,000
2021		1,096,000
2022		561,000
Thereafter		427,000
Total minimum lease payments	$	12,335,000

Total rent expense was $5,659,000 and $6,043,000 for the years ended May 31, 2017 and 2016, respectively.

(b) Contingencies

The University is subject to certain loss contingencies, such as litigation, arising in the normal conduct of its educational activities. In the opinion of management, the liability, if any, for such contingencies will not have a material effect on the University's financial position.

(8) Retirement Plan

The University has a defined contribution retirement plan. Employees working at least 20 hours a week are eligible to participate in the plan after 90 days of employment. The University contributes 3% of each employee's eligible annual salary, as defined by the plan. Eligible employees may contribute up to 6% of their eligible salary and the University matches their contributions. The University's total contribution to the plan was $11,095,000 and $10,440,000 for the years ended May 31, 2017 and 2016, respectively.

(9) Related Parties

The University is a recipient of generous support and commitments from many of its constituencies, which are considered related parties and include members of the Board of Trustees, Board of Governors, President's Cabinet, other advisory boards, and councils, as well as the administration. As a result of irrevocable commitments, a significant number of contributions are expected to be received from related parties in the future. Outstanding contributions receivable from related parties represent $36,406,000 and $45,924,000 as of May 31, 2017 and 2016, respectively.

(10) Annuities Payable

The University has legal title, either in the University's name or as trustee, to charitable remainder trusts. No significant financial benefit can be realized until the contractual obligations are released. The University also receives contributions in exchange for charitable gift annuity contracts.

The University uses an actuarial method of recording these annuities and trust liabilities using discount rates ranging from 1.2% to 9.8%. For charitable gift annuities and charitable remainder trusts, when a gift is received, the present value of future expected payments to the beneficiaries is recorded as a liability included in other current and long-term liabilities based upon life expectancy tables and discount rate assumptions, and the remainder is recorded as a contribution. Contribution revenue recognized from charitable gift annuities and charitable reminder trusts is classified as an increase in temporarily restricted or permanently restricted net assets based on the existence or absence of time or use restrictions placed by the donor upon the University's interest in the assets. Annuity and trust assets are determined annually based on revised fair value, actuarial and earnings data, and the effect of terminated trusts and other agreements.

(11) Endowments

In approving endowment spending and related policies, as part of the prudent and diligent discharge of its duties, the Board of Trustees of the University, as authorized by the California law, has relied upon the actions, reports, information, advice, and counsel taken or provided by its duly constituted committees and duly appointed officers of the University, including University Counsel, and in doing so has interpreted the law to require the preservation of the historic dollar value of donor-restricted endowment funds, absent explicit donor direction to the contrary.

(Continued)

As a result of this interpretation, for accounting and financial statement purposes, the University classifies as permanently restricted net assets the historic dollar value of assets held as donor-restricted endowment, including any subsequent gifts and any accumulations to donor-restricted endowments made in accordance with the direction of the applicable gift instruments.

Investment income and gains and losses on donor-restricted endowments are reported as an increase or decrease in temporarily restricted net assets until those amounts are appropriated by the Board of Trustees.

Endowment net asset composition by type of funds as of May 31, 2017 and 2016 is as follows:

	2017			
	Unrestricted	**Temporarily restricted**	**Permanently restricted**	**Total**
Donor-restricted endowments	$ (182,000)	58,979,000	117,921,000	176,718,000
Board-designated endowments	175,898,000	—	—	175,898,000
Total	$ 175,716,000	58,979,000	117,921,000	352,616,000

	2016			
	Unrestricted	**Temporarily restricted**	**Permanently restricted**	**Total**
Donor-restricted endowments	$ (366,000)	42,998,000	118,711,000	161,343,000
Board-designated endowments	143,338,000	—	—	143,338,000
Total	$ 142,972,000	42,998,000	118,711,000	304,681,000

(Continued)

Changes in endowment net assets for the fiscal year ended May 31, 2017 are as follows:

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Endowment net assets at May 31, 2016	$ 142,972,000	42,998,000	118,711,000	304,681,000
Investment return:				
Investment income	2,544,000	1,289,000	3,000	3,836,000
Appreciation	10,675,000	19,806,000	45,000	30,526,000
Total investment return	13,219,000	21,095,000	48,000	34,362,000
Contributions	—	—	2,293,000	2,293,000
Appropriation of endowment assets for expenditure	(3,462,000)	(5,141,000)	(4,000)	(8,607,000)
Other changes:				
Additions, changes, and transfers per donor designations	3,158,000	27,000	(3,127,000)	58,000
Transfers from operations to board-designated endowment funds	19,829,000	—	—	19,829,000
Change in endowment net assets	32,744,000	15,981,000	(790,000)	47,935,000
Endowment net assets at May 31, 2017	$ 175,716,000	58,979,000	117,921,000	352,616,000

(Continued)

Changes in endowment net assets for the fiscal year ended May 31, 2016 are as follows:

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Endowment net assets at May 31, 2015	$ 133,706,000	56,355,000	111,211,000	301,272,000
Investment return:				
Investment income	2,438,000	1,472,000	3,000	3,913,000
Depreciation	(8,418,000)	(10,070,000)	(24,000)	(18,512,000)
Total investment return	(5,980,000)	(8,598,000)	(21,000)	(14,599,000)
Contributions	—	—	7,248,000	7,248,000
Appropriation of endowment assets for expenditure	(2,829,000)	(4,759,000)	—	(7,588,000)
Other changes:				
Additions, changes, and transfers per donor designations	—	—	273,000	273,000
Transfers from operations to board-designated endowment funds	18,075,000	—	—	18,075,000
Change in endowment net assets	9,266,000	(13,357,000)	7,500,000	3,409,000
Endowment net assets at May 31, 2016	$ 142,972,000	42,998,000	118,711,000	304,681,000

(Continued)

(12) Net Assets

At May 31, 2017 and 2016, donor restricted net assets consisted of the following:

Description of amounts classified as permanently restricted net assets and temporarily restricted net assets

		2017	2016
Permanently restricted net assets:			
The portion of perpetual endowment funds that is required to be retained permanently either by explicit donor stipulation for scholarships, department chairs and professorships, centers, library, and others	$	117,921,000	118,711,000
Total student loan funds funded by donors		6,192,000	6,156,000
Annuities and life income funds		913,000	806,000
For educational and general programs		15,079,000	20,148,000
Total permanently restricted net assets	$	140,105,000	145,821,000
Temporarily restricted net assets:			
The portion of perpetual endowment funds subject to a time restriction	$	58,979,000	42,998,000
For plant activities		48,617,000	59,638,000
For annuity and life income funds		2,314,000	2,102,000
For educational and general programs		12,242,000	16,458,000
Total temporarily restricted net assets	$	122,152,000	121,196,000

(a) Funds with Deficiencies

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level required by the donor or law. The aggregated deficiencies of this nature for all donor-restricted endowment funds were $182,000 and $366,000 as of May 31, 2017 and 2016, respectively. These deficiencies resulted from unfavorable market fluctuations that occurred after the investment of permanently restricted contributions.

(b) Investment and Financial Objectives and Risk Parameters

The primary long-term investment objective of the endowment is to attain an average annual real total return (net of investment management fees) of at least 6% over the long term (a minimum five-year period). Real total return is the sum of capital appreciation (or loss) and current income (dividends and interest) adjusted for inflation by the consumer price index. The Investment Committee strives to achieve these objectives within acceptable risk levels.

Additionally, it is expected that the portfolio's investment return exceeds a custom allocation index or total portfolio blended benchmark, which consists of 23% S&P 500 Index, 13% MSCI EAFE Index, 7% MSCI Emerging Markets Index, 14% HFRI Fund of Funds, 2% Cambridge Associates Venture Capital, 5% Cambridge Associates Private Equity, 4% Marketable Real Assets Benchmark, 9% Fixed Income Benchmark, 20% NCREIF Property Index, 2% Private Real Assets Benchmark, and 1% 91 day T-Bill. The primary financial objective of the endowment is to provide funds for the ongoing support of the operations of the University while providing for safety of principal through diversification of investments. Over the long term, this means providing a stream of relatively predictable, stable, and constant funding in support of annual budgetary needs, and preserving and enhancing the Endowment's real (inflation-adjusted) purchasing power, net of management expenses and spending.

The Endowment's investments shall also be diversified by asset class and within asset classes as well as by manager. The purpose of diversification is to provide reasonable assurance that no manager, asset class, or individual holding could have a disproportionate negative impact on the Endowment's aggregate results.

(c) Spending Policy

The Endowment is managed according to the "total return" concept, which envisions the sources of Endowment spending as being from interest, dividends, and realized capital gains, supplemented by recent donations and campaign gifts.

The University uses a moving average of market values to calculate its annual draw from the Endowment. Currently, the University targets spending at 4.0% of the moving average of the Endowment's market value based on the previous 20-quarter-end portfolio market valuations.

The spending policy is reviewed periodically by the University's Investment Committee to determine whether the spending formula should be adjusted and whether the University's current policy objectives are being met.

In accordance with this policy, the Board of Trustees has authorized the following amounts for the years ended May 31, 2017 and 2016:

		2017	2016
Spending allocation per spending policy:			
Donor-restricted endowments	$	5,145,000	4,759,000
Board-designated endowments		3,462,000	2,829,000
Total endowment returns designated for operations	$	8,607,000	7,588,000

(13) Subsequent Events

The University has evaluated subsequent events from the date of the consolidated statement of financial position through September 22, 2017, the date on which the consolidated financial statements were issued.