Baylor University

Financial Statements

Years Ended May 31, 2015 and 2014,
and Report of Independent Certified Public Accountants

BAYLOR UNIVERSITY

FINANCIAL STATEMENTS

Years Ended May 31, 2015 and 2014

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Grant Thornton

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

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The Board of Regents
Baylor University

Report on the financial statements
We have audited the accompanying financial statements of Baylor University (the "University"), which comprise the balance sheets as of May 31, 2015 and 2014, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

Management's responsibility for the financial statements
Management is responsible for the preparation and fair presentation of these 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 financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility
Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit 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 financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the University's preparation and fair presentation of the 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 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 financial statements referred to above present fairly, in all material respects, the financial position of Baylor University as of May 31, 2015 and 2014, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

GRANT THORNTON LLP

Dallas, Texas
September 23, 2015

BAYLOR UNIVERSITY
Balance Sheets

May 31, 2015 and 2014
(in thousands of dollars)

	2015	2014
ASSETS		
Cash & cash equivalents	$ 74,653	$ 63,635
Short-term investments	93,963	107,335
Student accounts receivable, net	18,658	16,421
Contributions receivable, net	117,760	123,673
Grants & other receivables, net	39,135	23,918
Prepaid expenses & other	13,557	10,739
Student loans receivable, net	10,760	10,613
Long-term investments, at fair value	1,216,761	1,217,509
Property, plant & equipment, net	1,131,707	1,000,263
Total assets	**$ 2,716,954**	**$ 2,574,106**
LIABILITIES & NET ASSETS		
Liabilities		
Accounts payable	$ 57,769	$ 61,127
Personnel related current liabilities	22,606	20,578
Deposits & deferred revenues	158,710	81,004
Accrued postretirement benefits	55,856	48,227
Notes & bonds payable	622,977	624,777
Other liabilities	23,138	21,088
Total liabilities	**941,056**	**856,801**
Net Assets		
Unrestricted	660,094	518,650
Temporarily restricted	393,239	506,654
Permanently restricted	722,565	692,001
Total net assets	**1,775,898**	**1,717,305**
Total liabilities & net assets	**$ 2,716,954**	**$ 2,574,106**

See accompanying notes to financial statements.

BAYLOR UNIVERSITY
Statements of Activities

For the Years Ended May 31, 2015 and 2014
(in thousands of dollars)

	Year Ended May 31, 2015			
	Unrestricted	**Temporarily Restricted**	**Permanently Restricted**	**Total**
OPERATING REVENUES				
Tuition & fees	$ 604,593	$ --	$ --	**$ 604,593**
Less scholarships	(244,752)	--	--	**(244,752)**
Net tuition & fees	359,841	--	--	**359,841**
Endowment distributions & investment income	53,528	7,780	--	**61,308**
Gifts & private grants	25,083	9,529	--	**34,612**
Grants & contracts	25,018	584	--	**25,602**
Other sources - educational & general	24,042	49	--	**24,091**
Other sources - intercollegiate athletics	47,841	--	--	**47,841**
Sales & services of auxiliary enterprises	50,981	--	--	**50,981**
Net assets released from restrictions	13,962	(13,962)	--	**--**
Total operating revenues	600,296	3,980	--	**604,276**
OPERATING EXPENSES				
Program expenses				
Instruction	232,219			**232,219**
Academic support	50,843			**50,843**
Research & public service	33,215			**33,215**
Student services & activities	134,777			**134,777**
Auxiliary enterprises	37,279			**37,279**
Support expenses				
Institutional support	70,321			**70,321**
Impairment of long-lived assets	--			**--**
Total operating expenses	558,654			**558,654**
Increase in net assets from operating activities	41,642	3,980	--	**45,622**
NON-OPERATING ACTIVITIES				
Return on long-term investments	1,150	21,412	(520)	**22,042**
Distributions from long-term investments	(12,781)	(50,080)	--	**(62,861)**
Endowment earnings & distributions re-invested	--	--	2,509	**2,509**
Change in value of split interest agreements	294	(1,847)	343	**(1,210)**
Gifts for endowment, annuity & living trusts	--	69	26,520	**26,589**
Gifts & grants for plant improvements	--	34,087	--	**34,087**
Net assets released from restrictions for plant improvements	121,543	(121,543)	--	**--**
Change in postretirement benefits obligation other than net periodic benefit cost	(6,562)	--	--	**(6,562)**
Other increases (decreases)	(3,842)	507	1,712	**(1,623)**
Total non-operating activities	99,802	(117,395)	30,564	**12,971**
Change in net assets	141,444	(113,415)	30,564	**58,593**
Net assets at beginning of year	518,650	506,654	692,001	**1,717,305**
Net assets at end of year	$ 660,094	$ 393,239	$ 722,565	**$ 1,775,898**

See accompanying notes to financial statements.

Year Ended May 31, 2014			
Unrestricted	Temporarily Restricted	Permanently Restricted	**Total**
$ 545,799	$ --	$ --	**$ 545,799**
(222,135)	--	--	**(222,135)**
323,664	--	--	**323,664**
51,352	7,468	--	**58,820**
25,185	6,129	--	**31,314**
24,670	389	--	**25,059**
23,174	46	--	**23,220**
40,642	--	--	**40,642**
56,227	--	--	**56,227**
11,116	(11,116)	--	**--**
556,030	2,916	--	**558,946**
225,333			**225,333**
50,876			**50,876**
27,253			**27,253**
115,544			**115,544**
45,237			**45,237**
67,764			**67,764**
15,384			**15,384**
547,391			**547,391**
8,639	2,916	--	**11,555**
23,963	86,089	5,749	**115,801**
(12,310)	(48,685)	--	**(60,995)**
--	--	2,961	**2,961**
--	1,422	1,649	**3,071**
--	2,593	20,561	**23,154**
--	30,534	--	**30,534**
7,678	(7,678)	--	**--**
12,152	--	--	**12,152**
(5,111)	5,427	516	**832**
26,372	69,702	31,436	**127,510**
35,011	72,618	31,436	**139,065**
483,639	434,036	660,565	**1,578,240**
$ 518,650	$ 506,654	$ 692,001	**$ 1,717,305**

BAYLOR UNIVERSITY
Statements of Cash Flows

For the Years Ended May 31, 2015 and 2014
(in thousands of dollars)

	Year Ended May 31, 2015	Year Ended May 31, 2014
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	**$ 58,593**	**$ 139,065**
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	43,364	34,750
Return on long-term investments	(22,042)	(115,801)
Distributions from long-term investments	62,861	60,995
Amortization of bond premium	(853)	(902)
Impairment of long-lived assets	--	15,384
Losses on disposal of property & equipment	862	2,308
Fixed assets gifts-in-kind	(915)	(322)
Contributions of securities	(21,139)	(14,352)
Proceeds from sale of contributed securities for operations	2,056	2,307
Contributions for endowment & plant improvements	(44,494)	(39,976)
Provision for bad debts	1,261	687
Changes in assets & liabilities:		
Short-term investments	12,905	(24,795)
Student accounts receivable	(2,679)	(760)
Contributions receivable	5,139	(3,048)
Grants & other receivables	(15,217)	5,553
Prepaid expenses & other	(2,818)	(1,070)
Accounts payable	(3,358)	7,664
Personnel related current liabilities	2,028	874
Deposits & deferred revenues	77,706	6,362
Accrued postretirement benefits	7,629	(11,378)
Other liabilities	1,993	(557)
Net cash provided by operating activities	**162,882**	**62,988**
CASH FLOWS FROM INVESTING ACTIVITIES		
Student loans made	(693)	(1,507)
Proceeds from collections of student loans	546	1,023
Proceeds from sales of long-term investments	54,872	28,623
Purchases of long-term investments	(94,943)	(61,667)
Unexpended bond proceeds decrease	467	125,426
Purchases of property, plant & equipment	(174,755)	(240,589)
Net cash used for investing activities	**(214,506)**	**(148,691)**
CASH FLOWS FROM FINANCING ACTIVITIES		
Contributions for endowment & plant improvements:		
Endowment & Annuity/Living Trusts	25,887	16,789
Plant	18,607	23,187
Proceeds from sale of contributed securities for endowment & plant	19,083	12,045
Proceeds from long-term debt	5,000	--
Repayment of long-term debt	(5,947)	(6,110)
Increase in federal student loan funds refundable	12	3
Net cash provided by financing activities	**62,642**	**45,914**
Net change in cash & cash equivalents	**11,018**	**(39,789)**
Cash & cash equivalents at beginning of year	**63,635**	**103,424**
Cash & cash equivalents at end of year	**$ 74,653**	**$ 63,635**

See accompanying notes to financial statements.

OVERVIEW OF BAYLOR UNIVERSITY

The mission of Baylor University (the "University") is to educate men and women for worldwide leadership and service by integrating academic excellence and Christian commitment within a caring community.

Chartered in 1845 by the Republic of Texas and affiliated with the Baptist General Convention of Texas, the University is the oldest continuously operating institution of higher learning in the State of Texas. Established to be a servant of the church and of society, the University seeks to fulfill its calling through excellence in teaching and research, in scholarship and publication, and in service to the community, both local and global. The approximately 1,000-acre campus is located on the banks of the Brazos River in Waco, Texas.

While remaining true to its Christian heritage, the University has grown to over 16,000 students, and its nationally recognized academic units offer 142 undergraduate, 77 masters, and 40 doctoral degree programs. In addition, the education specialist degree is offered by the School of Education, and the Juris Doctor degree is offered by the School of Law.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting & Reporting

The financial statements of Baylor University include the accounts of the University, Brazos Valley Public Broadcasting Foundation, and Central Texas Technology & Research Park, legally separate entities, over which the University has control as a sole member or for which the board of directors are chosen by the University's Board of Regents. The University's financial statements do not include the accounts of the Baylor Alumni Association or Baylor Waco Stadium Authority. These entities are excluded due to the nature of their relationship to the University or due to their aggregate assets, revenues, expenses and net assets not being significant in relation to the University.

The financial statements of the University are prepared in conformity with accounting principles generally accepted in the United States of America ("U.S. GAAP"). The University's net assets, revenues, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets and changes therein are classified as follows:

Unrestricted -- net assets that are not subject to donor-imposed or legal restrictions. Unrestricted net assets may be designated for specific purposes by the University's Board of Regents (the "Board").

Temporarily restricted -- net assets subject to donor-imposed or legal restrictions that must be met either by actions of the University and/or the passage of time.

Permanently restricted -- net assets subject to donor-imposed restrictions that the assets be maintained permanently. Generally, the donors of these assets permit the University to use all or part of the earnings on the related investments for general or specific purposes.

Revenues are reported as increases in unrestricted net assets unless the use of the related assets is limited by donor-imposed restrictions that are not anticipated to be met in the year of receipt. Expenses are reported as decreases in unrestricted net assets. Income and net gains and losses on investments in donor restricted endowments are reported as increases or decreases in temporarily restricted net assets until appropriated for expenditure by the University. All other gains and losses on investments are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation or by law. Expirations of temporary restrictions on net assets are reported as net assets released from restrictions among applicable net asset classes. Changes or clarifications in donor stipulations may cause certain net assets to be reclassified between permanently restricted, temporarily restricted or unrestricted net assets. These reclassifications are reported as net assets released from restrictions among applicable net assets classes.

Fund Accounting

To ensure observance of limitations and restrictions placed on the use of resources available to the University, the internal accounts are maintained in accordance with the principles of fund accounting. This is the procedure by which resources for various purposes are classified into funds that are in accordance with specified activities or objectives. These financial statements, however, are prepared to focus on the entity as a whole and to present transactions according to the existence or absence of donor-imposed restrictions.

Cash & Cash Equivalents

Cash on deposit and all highly liquid financial instruments with original maturities of three months or less are classified as cash and cash equivalents, except those amounts assigned to investment managers, which are classified as investments.

Short-Term Investments

Short-term investments consist of operational funds invested in bank time deposits, short-term U.S. government securities, having maturities longer than three months but less than one year, and highly liquid money market funds.

Student Accounts & Loans Receivable

Student accounts receivable are stated net of allowance for doubtful accounts of $857,000 and $835,000 as of May 31, 2015 and 2014, respectively.

Student loans receivable are stated net of allowance for doubtful accounts of $936,000 and $861,000 as of May 31, 2015 and 2014, respectively. The University considered the allowance recorded at May 31, 2015 and 2014 to be reasonable and adequate to absorb potential credit losses inherent in the student loan portfolio.

The assets and liabilities of student loans financed primarily by the federal government and administered by the University, primarily the Federal Perkins Loan Program, are included with those of the University. The total of the federal government portion of these loans is included in other liabilities in the accompanying balance sheets.

Split Interest Agreements

Split interest agreements consist primarily of gift annuities, charitable remainder trusts, life income funds, and perpetual trusts. Assets held under these agreements are included primarily in long-term investments (see Note 4). The agreements administered by the Baptist Foundation of Texas ("BFT") and others as temporary trustees, in which the assets will be distributed to the University upon termination, are reflected at their net present value as contributions receivable (see Note 5). Annuities payable are recorded at the present value of future payments, based on the Internal Revenue Service ("IRS") discount rate at the time of the original gift, and are included in other liabilities in the accompanying balance sheets.

Property, Plant & Equipment

Property, plant and equipment valued at $5,000 or more are recorded at cost at the date of acquisition or, if acquired by gift, at estimated fair value at the date of gift. Additions to plant assets are capitalized, while maintenance and minor renovations are charged to operations. Plant assets are reflected net of accumulated depreciation calculated on a straight-line basis over the estimated useful lives ranging from three to fifty years. Land and art/collections are considered non-depreciable given the nature of the assets. Equipment is removed from the records at the time of disposal.

The University recognizes asset retirement obligations ("ARO"s) that are conditional on a future event, such as the legal obligation to safely dispose of asbestos when a building is remodeled or demolished. The University measures conditional AROs at estimated fair value using site specific surveys and a probability-weighted, discounted cash flow model with multiple scenarios, if applicable.

The University reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. An impairment charge is recognized when the fair value of the asset is less than the carrying value.

Deposits & Deferred Revenues

Deposits and deferred revenues consist of amounts contracted, billed, or received for education, research, intercollegiate athletics, auxiliary goods and services, vendor long-term contracts incentive payments, or rental space that have not yet been earned.

Other Liabilities

Other liabilities consist of annuities payable, interest rate swap liability, liability for conditional asset retirement obligations, and federal student loan funds refundable.

Tuition & Fees

Tuition and fees revenues are recognized in the fiscal year during which the related semester concludes. Scholarships provided by the University for tuition and fees are reflected as a reduction of tuition and fees revenues. Scholarships are awarded to students by the University from unrestricted revenues, restricted endowment earnings, restricted gifts or government grants. Scholarships do not include payments to students for services rendered to the University.

Contributions

Contributions are recorded as revenues in the appropriate net asset class based on donor-imposed restrictions. Expiration of temporary restrictions on donor contributions are reported as net assets released from restrictions. Contributions received with donor-imposed restrictions that are anticipated to be met in the same year as received are reported as revenues of the unrestricted net asset class.

Donor contributions to fund construction projects are classified as temporarily restricted net assets until the facility is placed in service. At that time, the temporarily restricted net assets are released from restriction and replenish unrestricted net asset balances designated for plant projects. The University follows the policy of recording contributions of long-lived assets directly as invested in plant assets.

Contributions receivable are recorded at the present value of estimated future cash flows using a discount rate appropriate to the effective date of the gift agreement.

Functional Allocation of Expenses

The expenses of providing various programs and support services have been categorized on a functional basis in the statements of activities. Accordingly, expenses such as depreciation, interest expense, and operation and maintenance of plant have been allocated directly or based on square footage among the functional categories.

Fundraising expenses of $17,266,000 and $16,566,000 incurred by the University in 2015 and 2014, respectively, are included primarily in the institutional support category in the statements of activities.

Use of Estimates & Assumptions

The preparation of financial statements requires management to make estimates and assumptions that affect reported amounts of assets, liabilities, revenues, and expenses during the reporting period, as well as the disclosure of contingent assets and liabilities. Significant items subject to such estimates and assumptions include valuations of certain investments which do not have readily determinable fair values, contributions receivable, allowances for uncollectible accounts and contingency reserves, calculations of asset retirement obligations, interest rate swap liability, and actuarially determined liabilities related to postretirement benefit plans. Actual results ultimately could differ from management's estimates and assumptions.

Reclassifications to Prior Year Financial Statements

The University has adopted required guidance under ASU 2012-05, *Not-for-Profit Entities: Classification of the Sale Proceeds of Donated Financial Assets in the Statement of Cash Flows.* The guidance requires that cash receipts from the sale of donated securities that were converted nearly immediately into cash should be classified as cash inflows from operating activities unless the donor restricted the use of the contributed resources to long-term purposes, in which case those cash receipts should be classified as cash flows from financing activities. Otherwise, cash receipts from the sale of donated financial assets should be classified as cash flows from investing activities. The University adopted this guidance for the fiscal year ended May 31, 2015, with no material impact on the financial statements. Certain prior year amounts on the statements of cash flows have been reclassified for comparative purposes to conform to the current year's presentation.

2. FAIR VALUE MEASUREMENTS

The estimated fair values of financial instruments that differ from the carrying amounts have been determined by the University using available market information. The estimates are not necessarily indicative of the amounts the University could realize in a current market exchange.

The carrying amounts of cash and cash equivalents, short-term investments, student accounts receivable, accounts payable, personnel related, and other liabilities approximate fair value because of their short maturity.

The carrying value of loans receivable from students under government loan programs is a reasonable estimate of fair value since the loans receivable cannot be sold and can only be assigned to the U.S. government or its designees. The fair value of loans receivable from students under University loan programs approximates carrying value.

The University records long-term investments and interest rate swaps at fair value. The estimated fair value of investments is based on quoted market prices except for certain investments for which quoted market prices are not available. U.S. GAAP provides guidance for estimating the fair value of investments in investment funds that calculate net asset value. Accordingly, investments for which observable market prices in active markets do not exist are reported at fair value, as determined by the University, using net asset value as a practical expedient of fair value and other available information. The amount determined to be fair value may incorporate the University's own assumptions (including appropriate risk adjustments for nonperformance and lack of marketability).

The estimated fair value of alternative assets managed and held in limited partnership or other private fund structures is primarily based upon the practical expedient of external investment fund managers' provided net asset values, adjusted for cash flows through May 31. In instances where external investment fund managers' provided net asset values are not used, the University applied additional valuation procedures furnished by qualified third parties or incorporated additional related financial data provided by fund managers to arrive at a fair value different than external investment fund manager provided values. When the University determines a different value, the investment is carried at the more conservative of the two values. Therefore, the University believes the carrying amount of these financial instruments is a reasonable estimate of the fair value. Because alternative assets are not readily marketable, their estimated value is subject to uncertainty and, therefore, may differ from the value that would have been used had a ready market for such investments existed.

The fair value of private investment funds offered for sale in secondary markets are estimated utilizing valuation and market study information provided by an outside consulting firm, resulting in discounts to external investment fund managers' provided net asset values.

The fair value of direct real estate holdings is determined from the most recent information available to the University (i.e., appraisals and/or property tax statements).

The fair value of mineral interests is estimated based on the expected net revenues generated by those assets. With certain holdings, geological reserve analysis can provide additional information for estimating fair value. For the years ended May 31, 2015 and 2014, the University utilized an engineering report and geological study of its largest mineral interest holding to obtain a more informed estimate of fair value and incorporated the results of the study into its estimate of expected net revenues and fair value for this holding.

The fair value of income interests/perpetual trusts is estimated based on the underlying assets contributed to the trusts.

Fair value is reflected in a hierarchy which prioritizes and ranks the level of market price observability. Market price observability is impacted by a number of factors, including the type of investment, the characteristics specific to the investment, and the state of the marketplace (including the existence and transparency of transactions between market participants). Investments with readily-available actively quoted prices or for which fair value can be measured from actively-quoted prices in an orderly market will generally have a higher degree of market price observability and a lesser degree of judgment used in measuring fair value.

Investments measured and reported at fair value are classified and disclosed in one of the following categories based on inputs:

Level 1 – Quoted prices (unadjusted) are available in active markets for identical investments that the University has the ability to access as of the reporting date. The type of investments generally included in Level 1 are listed securities traded on public exchanges and open-end mutual funds and other publicly traded listed securities held indirectly through separately managed accounts.

Level 2 – Pricing inputs are observable for the investments, either directly or indirectly, as of the reporting date, but are not the same as those used in Level 1. Fair value is determined through the use of models or other valuation methodologies. The types of investments generally included in this category are hedge funds primarily holding publicly-traded securities with significant fund level liquidity within ninety days.

Level 3 – Pricing inputs are unobservable for the investments and include situations where there is little, if any, market activity for the investment. The inputs into the determination of fair value require significant judgment or estimation. These types of investments generally include hedge funds with significant liquidity restrictions, private equities, and real assets held in partnership format.

Whereas Level 1 investments are able to be liquidated as of the reporting date at published market values, Level 2 and 3 investments may contain restrictions on the ability to liquidate assets as of the reporting date. Investments that can be liquidated within ninety days of the reporting date at net asset value or its equivalent are classified as Level 2 investments. Investments classified as Level 3 have significant liquidity restrictions which would prevent redemption within ninety days of the reporting date, if at all.

U.S. GAAP permits entities to choose to measure financial instruments and other items at fair value that are not currently required to be measured at fair value. The University has elected not to value any other financial assets or liabilities at fair value as provided for in accounting guidelines.

3. ENDOWMENT

The University's endowment totals $1,165,550,000 and $1,151,201,000 as of May 31, 2015 and 2014, respectively, and is a component of the University's long-term investment pool. The endowment consists of $950,711,000 and $950,578,000 of donor-restricted endowment net assets and $214,839,000 and $200,623,000 of board designated endowment net assets as of May 31, 2015 and 2014, respectively. The management of the endowment is subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act of 2006 ("UPMIFA"). The Board of the University has an established policy consistent with UPMIFA as adopted by the State of Texas. The University seeks to preserve the fair value of the original gift as of the gift date of the donor restricted endowment funds absent explicit donor stipulations to the contrary. Accordingly, the University classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor agreement at the time the accumulation is added to the fund. The remaining portion of the donor restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the University in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with 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

Board designated endowment net assets include gifts and other revenues that have been designated by the Board to function as endowment. These funds may be expended at the discretion of the Board. Also included are certain temporarily restricted net assets that have not been expended for their restricted purpose but are being invested and the earnings expended for the restricted purpose.

Changes in endowment net assets for the year ended May 31, 2015 are as follows *(in thousands of dollars)*:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, May 31, 2014	$ 175,461	$ 309,768	$ 665,972	$ 1,151,201
Investment earnings, net of expenses	3,105	14,523	708	18,336
Net realized & unrealized gains on investments	(2,327)	7,022	1,273	5,968
Contributions	--	4	25,806	25,810
Terminated annuities & other	--	--	2,535	2,535
Transfers to board designated	21,527	916	--	22,443
Distributions	(10,663)	(50,080)	--	(60,743)
Endowment net assets, May 31, 2015	$ 187,103	$ 282,153	$ 696,294	$ 1,165,550

Changes in endowment net assets for the year ended May 31, 2014 are as follows *(in thousands of dollars)*:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, May 31, 2013	$ 158,114	$ 266,647	$ 636,396	$ 1,061,157
Investment earnings, net of expenses	2,681	13,447	800	16,928
Net realized & unrealized gains on investments	16,569	72,671	7,788	97,028
Contributions	--	22	19,881	19,903
Terminated annuities & other	--	--	1,107	1,107
Transfers to board designated	7,763	5,666	--	13,429
Distributions	(9,666)	(48,685)	--	(58,351)
Endowment net assets, May 31, 2014	$ 175,461	$ 309,768	$ 665,972	$ 1,151,201

Funds totaling $4,843,000 and $2,669,000, which market values are less than original values, are reported in unrestricted net assets in the accompanying balance sheets as of May 31, 2015 and 2014, respectively.

Return Objectives & Risk Parameters

The University has adopted investment and spending policies for endowment assets that attempt to meet three objectives: (1) provide a predictable, stable stream of earnings to participating accounts; (2) ensure that the purchasing power of this revenue stream does not decline over time; and (3) ensure that the purchasing power of the endowment assets do not decline over time. To meet its long-term rate-of-return objectives, the University relies on a total return strategy utilizing both income and growth to maximize the risk adjusted return through diversification of the assets. Under this policy, actual earnings, as well as a prudent portion of realized and unrealized gains may be distributed for operational needs or in accordance with donor restrictions. Accordingly, the endowment assets are invested in a diversified manner that is intended to produce results that exceed its long-term performance benchmarks. The University expects its endowment funds, over time, to provide an average rate of return at least equal to the spending policy requirements plus the rate of inflation. Actual returns in any given year may vary from this amount.

Spending Policy & How the Investment Objectives Relate to Spending Policy

The Baylor University Fund (“BUF”) is a unitized fund consisting of publicly traded equity and fixed income securities, alternative assets, and mineral rights; and serves as the primary investment vehicle for the University’s endowment and other long-term investments. As permitted under Texas law, the Board has adopted a spending policy for the BUF that authorizes a dividend to be paid for endowments participating in the BUF to be used for the purposes intended by donors. For the years ended May 31, 2015 and 2014, this dollar dividend per BUF unit was based on 5% of the previous 48-months’ rolling average net asset market value per unit of the BUF. The permitted change in this dividend amount from the previous year shall be no less than 0% and no more than 6%, and in no case shall the annual fiscal year distribution (dollar dividend amount per BUF unit) exceed 7% of the previous 48-months’ rolling average net asset market value per BUF unit. The dividend amount remained the same for the years ended May 31, 2015 and

2014. Endowment earnings distributed include endowment distributions in accordance with the University's BUF spending policy, as well as, distributions of income from other endowment assets.

In establishing this spending policy, the University considered the long-term expected return on its endowment assets. Accordingly, the University expects the current spending policy to preserve the real purchasing power of the endowment assets, while helping to maintain intergenerational value of the assets, as well as to provide additional real growth through new gifts and investment return.

4. LONG-TERM INVESTMENTS

The University diversifies its investments among various financial instruments and asset categories and uses multiple investment strategies. As with most large endowments, these financial assets are managed primarily through external investment management firms selected and monitored by the University's Office of Investments and the Baylor Executive Investment Committee in accordance with the University's Endowment Investment Policy. The investment management firms are predominately organized in limited partnership, private fund, registered investment company (1940 Act mutual fund), separately managed account ("SMA"), and trust format. At May 31, 2015 and 2014, excluding income interests and perpetual trusts, the University's long-term investments were invested with 86 different managers. Of those, alternative assets were invested with 68 and 72 managers, respectively.

Fixed income securities are assets invested (directly or indirectly) in domestic and international government or corporate bonds for which active trading markets exist, including open and closed-end mutual funds holding such securities.

Public equities are assets invested (directly or indirectly) in publicly traded equity shares which are listed on national and international exchanges as well as publicly traded mutual fund trusts and private fund structures holding such securities.

Alternative assets consist of private equities, real assets, and hedge funds investments and are primarily held in limited partnership format. Capital is allocated to domestic and international markets in the various alternative investment funds. Most of the underlying assets in the private equity and real asset partnerships and trusts are not immediately liquid. Private equity fund strategies include buyouts, venture capital, distressed/special situations, emerging markets, and secondary markets. Real asset funds are predominately private limited partnerships investing in numerous types of properties and strategies such as commercial real estate, energy, power, and infrastructure, as well as timber and other natural resources and commodities including industrial and precious metals. Private equity and real asset funds are held as long-term investments and are structured as closed-end, commitment-based investment funds where the investor commits a specified amount of capital upon inception of the fund which is then drawn down over a specified period of the fund's life. These funds generally cannot be redeemed prior to the specified termination date and will only receive distributions upon a disposition of the underlying assets of the portfolio. As a limited partner, the University will not generally have any influence over the amount and timing of capital contributions and distributions. At May 31, 2015, the remaining life of private equity and real asset funds ranged from one to twelve years. Hedge fund investments are generally open-end funds structured in limited partnership format. These funds employ various investment strategies such as long/short equity, fundamental value, multi-strategy (including a small allocation to fund-of-funds), distressed asset and debt, and short credit. The amount of liquidity available to investors is directly related to the liquidity and risk associated with the underlying portfolio. Hedge funds typically offer subscription and redemption options to investors over time periods shorter than private equity/real asset funds; however, the frequency of subscriptions or redemptions is dictated by each fund's governing documents. Liquidity of individual hedge funds also varies due to illiquid "side-pocket" investments, as well as contractual restrictions on redemption such as gating and holdback provisions. Redemption terms of hedge funds range from monthly upon thirty day notice to rolling three years upon forty-five day notice. At May 31, 2015, of thirty-two hedge funds totaling $301,670,000, nine funds totaling $9,194,000 have been suspended, gated, or are monetizing illiquid side pocket investments. These nine funds are in liquidation mode, and are included in level 3 assets as discussed in Note 2.

Real estate & other investments represent direct real estate and asset holdings of the University and are not held in the fund, limited partnership, and trust structures described above.

Mineral rights are held and managed for the benefit of the University under various contractual and revocable trust arrangements and are not held in the fund and limited partnership structures described above. The University retains ultimate ownership and control of these assets.

Income interests/perpetual trusts are held and managed by outside trustees under various annuity and trust arrangements for the benefit of Baylor. The University receives income distributions over time in accordance with the governing annuity, trust and gift instruments. The underlying investments of the income interests/perpetual trusts are primarily comprised of publicly traded equity and fixed income investments held in common trust funds and other funds managed or selected by the outside trustees.

The following table presents information about the University's long-term investments that are measured at fair value as of May 31, 2015 and indicates the fair value hierarchy of the valuation techniques utilized to determine such fair value *(in thousands of dollars)*:

	Level 1	Level 2	Level 3	Total
Fixed income securities	$ 90,959	$ --	$ --	$ 90,959
Public equities	384,135	--	830	384,965
Alternative assets	--	207,095	305,207	512,302
Real estate & other	--	--	12,535	12,535
Mineral rights	--	--	24,733	24,733
Income interests/perpetual trusts	--	--	191,267	191,267
Total	$ 475,094	$ 207,095	$ 534,572	$ 1,216,761

Alternative assets reflected as Level 2 have been valued using net asset value as a practical expedient of fair value.

The following table presents additional information about assets that have been measured at fair value as of May 31, 2015 on a recurring basis using significant unobservable inputs (Level 3) *(in thousands of dollars)*:

	May 31, 2014 Balance	Transfers In (Out) of Level 3	Additions	Distributions	Realized & Unrealized Gains (Losses)	May 31, 2015 Balance
Public equities	$ 656	$ --	$ --	$ --	$ 174	$ 830
Alternative assets	412,302	(59,117)	119,449	(136,157)	(31,270)	305,207
Real estate & other	5,401	--	11,260	(4,402)	276	12,535
Mineral rights	27,595	--	6,464	(6,462)	(2,864)	24,733
Income interests/ perpetual trusts	186,631	--	3,235	(370)	1,771	191,267
Total	$ 632,585	$ (59,117)	$ 140,408	$ (147,391)	$ (31,913)	$ 534,572

For the year ended May 31, 2015, transfers of $90,293,000 were made out of Level 3 into Level 2 and transfers of $31,176,000 were made out of Level 2 into Level 3 based upon information related to investment asset fund structures, characteristics, holdings, and liquidity provisions. These transfers were valued using May 31, 2014 balances. There were no other transfers in or out of Levels 1, 2, or 3 for the year ended May 31, 2015.

The following table presents information about the University's long-term investments that are measured at fair value as of May 31, 2014 and indicates the fair value hierarchy of the valuation techniques utilized to determine such fair value *(in thousands of dollars)*:

	Level 1	Level 2	Level 3	Total
Fixed income securities	$ 63,568	$ --	$ --	$ 63,568
Public equities	359,885	--	656	360,541
Alternative assets	--	161,471	412,302	573,773
Real estate & other	--	--	5,401	5,401
Mineral rights	--	--	27,595	27,595
Income interests/perpetual trusts	--	--	186,631	186,631
Total	$ 423,453	$ 161,471	$ 632,585	$ 1,217,509

Alternative assets reflected as Level 2 have been valued using net asset value as a practical expedient of fair value.

The following table presents additional information about assets that have been measured at fair value as of May 31, 2014 on a recurring basis using significant unobservable inputs (Level 3) *(in thousands of dollars)*:

	May 31, 2013 Balance	Transfers In (Out) of Level 3	Additions	Distributions	Realized & Unrealized Gains (Losses)	May 31, 2014 Balance
Public equities	$ 667	$ --	$ --	$ --	$ (11)	$ 656
Alternative assets	358,182	(15,572)	110,184	(77,479)	36,987	412,302
Real estate & other	4,374	--	1,279	(174)	(78)	5,401
Mineral rights	26,461	--	5,514	(5,478)	1,098	27,595
Income interests/ perpetual trusts	172,463	--	2,273	(27)	11,922	186,631
Total	$ 562,147	$ (15,572)	$ 119,250	$ (83,158)	$ 49,918	$ 632,585

For the year ended May 31, 2014, transfers of $15,572,000 were made out of Level 3 into Level 2 based upon information related to investment asset fund structures, characteristics, holdings, and liquidity provisions. These transfers were valued using May 31, 2013 balances. There were no other transfers in or out of Levels 1, 2, or 3 for the year ended May 31, 2014.

Whereas the preceding tables reflect income interests and perpetual trusts separately based on fair value hierarchy, the following table reflects total investments, regardless of fair value hierarchy, using traditional classification descriptions as used by the University to manage its investment portfolio. Accordingly, the underlying assets of income interests/perpetual trusts are reflected within the traditional investment classifications. Additionally, alternative assets are reflected by major asset category. Estimated fair value of long-term investments as of May 31, 2015 and 2014, are as follows *(in thousands of dollars)*:

	2015	2014
Fixed income securities:		
Short-term funds	$ 14,189	$ 7,492
Bonds	115,844	95,753
Other	7,497	--
Public equities:		
Domestic	272,923	260,340
International	217,038	201,130
Alternative assets:		
Private equities	138,302	171,347
Hedge funds	315,861	278,262
Real assets	99,102	166,611
Mineral rights	36,005	36,574
Total	$ 1,216,761	$ 1,217,509

Long-term investments include operating, endowment, and annuity and life income assets. The annuity and life income assets under split-interest agreements total $27,942,000 and $26,892,000 as of May 31, 2015 and 2014, respectively.

The cost of long-term investments was $966,604,000 and $924,223,000 as of May 31, 2015 and 2014, respectively.

Return on long-term investments for the years ended May 31, 2015 and 2014, consist of the following *(in thousands of dollars)*:

	2015	2014
Investment earnings	$ 22,376	$ 20,489
Investment expenses	(5,771)	(4,297)
Net realized & unrealized gains	5,437	99,609
Total return on long-term investments	$ 22,042	$ 115,801

Investment earnings consist of interest income, dividends, mineral, and other earnings. Investment expenses include consulting, custodian, and direct investment management expenses.

Distributions from long-term investments include distributions of endowment assets invested in long-term investments as well as distributions from funds other than endowment that are included in the long-term investments pool. Endowment distributions and other distributions are included in endowment distributions & investment income in the statements of activities.

Both the return on long-term investments and distributions from long-term investments are shown under non-operating activities in the statements of activities.

As part of the University's alternative assets program, the University is obligated under certain limited partnership agreements to advance funding up to specified levels upon the request of the general partner. The University had unfunded commitments consisting of the following at May 31, 2015 and 2014, respectively, which are expected to be called over the next three years *(in thousands of dollars).*

	2015	2014
Alternative assets:		
Private equities	$ 137,361	$ 110,981
Real assets	139,296	65,314
Total unfunded commitments	$ 276,657	$ 176,295

5. CONTRIBUTIONS RECEIVABLE

As gift pledges are made to the University, the intent of the donor, the circumstances surrounding the pledge and any action taken by the University in response to the pledge are considered in determining whether the pledge is an "intent to give" or an "unconditional promise to give." An unconditional promise to give is recorded as a contribution receivable at the present value of the estimated future cash flows. Unconditional promises to give related to split interest agreements are discounted based on life expectancies of the annuity recipients.

As of May 31, 2015 and 2014, contributions receivable consist of the following *(in thousands of dollars)*:

	2015	2014
Due in 1 year	$ 32,093	$ 24,380
Due in 2 to 5 years	58,795	64,261
Due in 6 to 10 years	18,476	24,978
Due in greater than 10 years	400	600
Split interest agreements	22,270	25,488
Less: Present value adjustment	(12,628)	(14,321)
Less: Allowance for uncollectible contributions receivable	(1,646)	(1,713)
Total contributions receivable, net	$ 117,760	$ 123,673

Contributions receivable expected to be fulfilled more than one year from the date of the financial statements are discounted at .33% to 2.89%, with the discount amortized over the life of the unconditional promise. At May 31, 2015, contributions receivable primarily consisted of unconditional promises related to the construction of a new football stadium, Business School facility, and other building projects, of which ten donors represented 69% of the total.

An intent to give is not recorded as gifts revenue until collected or converted to an unconditional promise to give. Intents to give totaled $29,220,000 and $34,417,000 as of May 31, 2015 and 2014, respectively. Payments on these intents to give are due in varying periods. Additionally, the University is the beneficiary under various wills and trust agreements of which the realizable amounts are not presently determinable. The University's share of such bequests is recorded when the University has an irrevocable right to the bequest and the proceeds are measurable.

6. PROPERTY, PLANT & EQUIPMENT

At May 31, 2015 and 2014, property, plant and equipment assets consist of the following *(in thousands of dollars)*:

	2015	2014
Land	$ 71,766	$ 70,773
Land/leasehold improvements	102,938	79,446
Buildings	1,097,972	813,882
Equipment	124,512	92,171
Arts/collections	11,624	11,469
Other	40,062	40,635
	1,448,874	1,108,376
Less accumulated depreciation	(418,010)	(385,227)
	1,030,864	723,149
Construction-in-progress	100,843	277,114
Property, plant & equipment, net	$ 1,131,707	$ 1,000,263

Depreciation expense was $43,364,000 and $34,750,000 as of May 31, 2015 and 2014, respectively. The "Equipment" category includes computers, software and other types of equipment above the $5,000 threshold. The "Other" category includes vehicles, library materials, and miscellaneous other assets. Real and personal property were insured for $1.4 billion at May 31, 2015. The liability for conditional asset retirement obligations was $4,230,000 and $4,037,000 as of May 31, 2015 and 2014, respectively, and is included in other liabilities in the accompanying balance sheets.

During the year ended May 31, 2014, the University determined that the carrying amount of the football stadium property being replaced by a new stadium was not recoverable. An impairment charge of $15,384,000 was recognized at May 31, 2014 in the statements of activities to reduce the value of the property to estimated fair value.

7. DEPOSITS & DEFERRED REVENUES

At May 31, 2015 and 2014, deposits and deferred revenues consist of the following *(in thousands of dollars)*:

	2015	2014
Tuition & fees	$ 35,781	$ 34,837
Student enrollment deposits	2,782	2,822
Intercollegiate athletics income	48,819	33,226
Vendor long-term contracts incentive payments	59,647	-
Sponsored research income	2,518	1,267
Rental & other income	9,163	8,852
Total deposits & deferred revenues	$ 158,710	$ 81,004

The deferred tuition and fees, student enrollment deposits, sponsored research, and other income will primarily be earned in the subsequent fiscal year. Intercollegiate athletics, vendor long-term contracts incentive payments, and rental deferred income includes advance ticket sales, football suite revenues, television income, advertising income, vendor long-term contracts incentive payments, and rental contracts advance payments that will be earned over the next one to fifteen years.

8. NOTES & BONDS PAYABLE

Notes and bonds payable consist of both non-interest bearing unsecured notes and interest bearing unsecured and secured notes, commercial paper with varying maturities, and bonds with varying terms and maturity dates to March 1, 2043. Interest payments on a cash basis totaled $26,459,000 and $26,700,000, and interest expense was $26,454,000 and $26,680,000 for the years ended May 31, 2015 and 2014, respectively. These amounts are exclusive of premium amortization. The amount of bond premium amortization that offset interest expense was $852,000 and $902,000 for the years ended May 31, 2015 and 2014, respectively. Interest expense (net of earnings) of $1,658,000 and $4,431,000 was capitalized to projects for the year ended May 31, 2015 and 2014, respectively.

As of May 31, 2015 and 2014, unamortized bond and commercial paper issuance costs of $3,973,000 and $4,103,000, respectively, were included in prepaid expenses and other in the University's balance sheets. Amortization expense for issuance costs was $130,000 and $199,000 for the years ended May 31, 2015 and 2014, respectively.

Notes and bonds payable at May 31, 2015 and 2014, consist of the following *(in thousands of dollars)*:

	2015	2014
Interest bearing secured note payable to a corporation due in quarterly installments beginning May 1, 2015 to April 30, 2025	$ 4,903	$ -
Non-interest bearing unsecured note payable to a corporation, due in annual installments through July 31, 2022	2,038	2,348
Taxable Commercial Paper Notes, Series A, with varying maturities and discount rates rolled at each maturity	15,000	15,000
Series 2008A Waco Education Finance Corporation Tax-Exempt Variable Rate Demand Bonds, swapped to a fixed rate of 2.476% (see Note 10), interest payable monthly, principal payable annually to February 1, 2032	64,925	67,325
Series 2008C Waco Education Finance Corporation Tax-Exempt Fixed Rate Bonds, interest ranging from 5.0% to 5.25% payable semiannually, principal payable annually beginning March 1, 2019 to March 1, 2036	112,100	112,100
Series 2011 Clifton Higher Education Finance Corporation Tax-Exempt Fixed Rate Bonds, interest ranging from 3.0% to 5.25% payable semiannually, principal payable annually beginning March 1, 2012 to March 1, 2032	91,090	94,230
Series 2012 Waco Education Finance Corporation Tax-Exempt Fixed Rate Bonds, interest ranging from 4.125% to 5.00% payable semiannually, principal payable March 1, 2043	120,000	120,000
Series 2012A Baylor University Taxable Fixed Rate Bonds, bearing interest at 4.313% payable semiannually, principal payable March 1, 2042	200,000	200,000
Total notes & bonds payable prior to unamortized bond premium	610,056	611,003
Unamortized bond premium	12,921	13,774
Total notes & bonds payable	$ 622,977	$ 624,777

The fair values of notes and bonds payable were approximately $642,050,000 and $637,694,000 as of May 31, 2015 and 2014, respectively. These fair values were measured using Level 2 valuation techniques.

Bond premiums are being amortized using the effective interest method over the life of the bonds.

The Series 2008A Tax-Exempt Variable Rate Demand Bonds are subject to purchase upon tender with proper notice and delivery to the remarketing agent. On May 22, 2014, the University replaced its Standby Bond Purchase Agreement with an Irrevocable Transferable Letter of Credit ("LOC"). The direct-pay LOC, used for all debt service payments, is for a three-year term, renewable in May 2017, and includes a term out period of twenty equal quarterly installments.

Excluding the maturity of commercial paper, scheduled principal payments on long-term notes and bonds for the periods subsequent to May 31, 2015, are as follows *(in thousands of dollars)*:

2016	$ 6,530
2017	6,841
2018	7,157
2019	10,290
2020	10,739
2021 and thereafter	553,499
Total	$ 595,056

The University has a taxable commercial paper program that provides for borrowings in the form of individual notes up to an aggregate of $50,000,000. The notes bear a fixed discount rate, established on the borrowing date, with no more than $15,000,000 maturing on any one day and maturities not to exceed 270 days. At May 31, 2015, the University had an outstanding balance of $15,000,000 in commercial paper notes with a discount rate of 0.15%. The University anticipates that the commercial paper will continue to be rolled at maturity until such time that it is refunded by long-term debt or repaid by the University.

The estimated fair value of the commercial paper notes approximates the face value.

9. NET ASSETS

The University's unrestricted, temporarily restricted, and permanently restricted net assets for the year ended May 31, 2015 are categorized by purpose as follows *(in thousands of dollars)*:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Unrestricted-designated for operations	$ 59,094	$ --	$ --	$ 59,094
Unrestricted-designated for plant	65,565	--	--	65,565
Restricted	--	21,097	5,802	26,899
Endowment	(4,843)	259,260	696,294	950,711
Endowment-Board designated	191,946	22,893	--	214,839
Annuity & living trusts	--	16,044	20,469	36,513
Invested in or restricted for plant	348,332	73,945	--	422,277
Total net assets	$ 660,094	$ 393,239	$ 722,565	$ 1,775,898

The University's unrestricted, temporarily restricted, and permanently restricted net assets for the year ended May 31, 2014 are categorized by purpose as follows *(in thousands of dollars)*:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Unrestricted-designated for operations	$ 62,104	$ --	$ --	$ 62,104
Unrestricted-designated for plant	48,323	--	--	48,323
Restricted	--	17,125	5,862	22,987
Endowment	(2,669)	287,275	665,972	950,578
Endowment-Board designated	178,130	22,493	--	200,623
Annuity & living trusts	--	18,284	20,167	38,451
Invested in or restricted for plant	232,762	161,477	--	394,239
Total net assets	$ 518,650	$ 506,654	$ 692,001	$ 1,717,305

10. DERIVATIVE FINANCIAL INSTRUMENTS

On June 11, 2010, the University entered into a swap arrangement with a financial institution counterparty in order to swap the University's Series 2008A variable rate demand bonds with an original balance of $75,860,000 as of May 31, 2010 for a fixed rate of 2.476% through February 1, 2032, in exchange for monthly payments equal to 68% of three-month London Interbank Offered Rate ("LIBOR"). The notional amount of the swap declines in accordance with the repayment of the Series 2008A bonds. The fair value of the University's interest rate swap liability was $5,518,000 and $3,962,000 at May 31, 2015 and 2014, respectively, and is included in other liabilities in the balance sheets. The change in the fair value of the interest rate swap resulted in a loss of $1,556,000 for the year ended May 31, 2015, and a gain of $909,000 for the year ended May 31, 2014. The fair value was measured using Level 2 valuation techniques.

11. EXPENSES BY NATURAL CLASSIFICATION

While the statements of activities present expenses by function, the University's expenses by natural classification are as follows *(in thousands of dollars)*:

	2015	2014
Salaries & wages	$ 229,438	$ 215,638
Personnel benefits	70,260	66,233
Student wages & fellowships	28,731	26,839
Operating expenses	162,724	166,978
Depreciation & accretion	43,557	34,972
Impairment of long-lived assets	-	15,384
Interest on indebtedness	23,944	21,347
Total expenses	$ 558,654	$ 547,391

12. RETIREMENT PLAN

The University provides a defined contribution retirement income plan and a voluntary tax deferred annuity program for faculty and staff that are administered by outside sources. The defined contribution plan is not a matching plan. Retirement benefits equal the amount accumulated to each individual employee's credit at the date of retirement. The University's contributions to the plan for the years ended May 31, 2015 and 2014 were $21,686,000 and $20,489,000, respectively.

13. POSTRETIREMENT BENEFITS

The University provides medical and life insurance benefits for eligible retired faculty and staff. Employees are eligible for such benefits if they retire after attaining specified age and service requirements while employed by the University. Group medical benefits have no lifetime maximum, and the maximum benefit for life insurance is $20,000.

Through May 31, 2002, full-time faculty and staff became eligible for these benefits upon reaching age fifty-five and having twenty years of full-time service at retirement. Effective June 1, 2002, employees with twenty years of continuous, full-time service at the University as of May 31, 2007, continue under the postretirement medical and life insurance programs in effect before June 1, 2002. Employees not meeting the above eligibility requirements may still participate in the postretirement medical program upon reaching age fifty-five and having ten years of full-time service at retirement. These employees will not receive postretirement life insurance benefits and will not be reimbursed for Medicare Part B premiums. Effective June 1, 2002, upon death of a retiree, the surviving spouse (current spouse upon retirement) has the same option of continuation in the postretirement medical program. These surviving spouses will not receive postretirement life insurance benefits and will not be reimbursed for Medicare Part B premiums.

Effective January 1, 2014, retirees age 65 and over transitioned from the existing medical benefits plan to a Health Reimbursement Arrangement to provide fixed annual contributions for medical expenses. This change resulted in a prior service cost decrease of $14,491,000 for the year ended May 31, 2014, which is included in the change in postretirement benefits obligation in the statements of activities. Retirees age 65 and over, with twenty years of continuous, full-time service at the University as of May 31, 2007, continue to receive a Medicare Part B premium reimbursement.

The following tables set forth the required disclosures for postretirement benefits, as well as the components of net periodic benefit costs and weighted-average assumptions as of the measurement date, May 31 *(in thousands of dollars)*:

	2015	2014
Change in benefit obligation:		
Measurement date	5/31/2015	5/31/2014
Accumulated postretirement benefit obligation (APBO) at beginning of year	$ 48,227	$ 59,605
Service cost	1,149	1,026
Interest cost	2,060	2,164
Plan participants' contributions	268	1,033
Plan changes	-	(14,491)
Actuarial (gain) loss	6,097	1,901
Retiree drug subsidy paid	(13)	146
Benefit payments	(1,932)	(3,157)
Accumulated postretirement benefit obligation (APBO) at end of year	$ 55,856	$ 48,227
Change in plan assets:		
Fair value of plan assets at beginning of year	$ --	$ --
Employer contributions	1,664	2,124
Plan participants' contributions	268	1,033
Benefit payments	(1,932)	(3,157)
Fair value of plan assets at end of year	$ --	$ --
Funded (unfunded) status of plan	$ (55,856)	$ (48,227)

Amounts recognized as changes in unrestricted net assets arising from postretirement benefits plan but not yet included in periodic benefit cost:

	2015	2014
Transition obligation	$ --	$ --
Prior service cost (credit)	(11,223)	(12,591)
Net loss	24,481	19,287
Total	$ 13,258	$ 6,696

The University expects to amortize, from accumulated unrestricted net assets, $1,368,000 of prior service cost credits and $1,169,000 of net losses as components of net periodic benefit cost during the year ending May 31, 2016.

Weighted-average assumptions at measurement date:	5/31/2015	5/31/2014
Discount rate	4.41%	4.36%
Health care cost trend rate	7.50%	8.00%
Ultimate health care cost trend rate	5.00%	5.00%
Year ultimate trend rate reached	2020	2020

The inflation rates for retiree contributions are assumed to be the same as the medical cost inflation rates.

Plan contributions:

The University expects to contribute $2,154,000 to its postretirement benefit plan during the year ending May 31, 2016.

Projected cash flows:	Gross Benefit Payments Net of Employee Contributions	Gross Subsidy Receipts
2016 fiscal year	$ 2,154	$ --
2017 fiscal year	2,317	--
2018 fiscal year	2,500	--
2019 fiscal year	2,639	--
2020 fiscal year	2,808	--
2021-2025 fiscal years	16,291	--

Components of net periodic postretirement benefit cost:	6/1/2014-5/31/2015	6/1/2013-5/31/2014
Measurement date	5/31/2014	5/31/2013
Service cost	$ 1,149	$ 1,026
Interest cost	2,060	2,164
Amortization of:		
Transition obligation	--	--
Prior service cost	(1,368)	(1,032)
Actuarial loss	903	594
Net periodic postretirement benefit cost	$ 2,744	$ 2,752
Other changes in plan assets & benefit obligation recognized:		
Net actuarial loss	$ 6,097	$ 1,901
Prior service cost	--	(14,491)
Amortization of:		
Transition obligation	--	--
Prior service cost	1,368	1,032
Actuarial gain	(903)	(594)
Total (gain) loss recognized in net assets	$ 6,562	$ (12,152)
Total recognized in net assets & net periodic benefit cost	$ 9,306	$ (9,400)

Weighted-average assumptions for net periodic postretirement benefit cost:

Measurement date	5/31/2014	5/31/2013 / 7/31/2013*
Discount rate	4.36%	4.64%/5.09%
Health care cost trend rate	8.00%	7.00%
Ultimate health care cost trend rate	5.00%	5.00%
Year ultimate trend rate reached	2020	2017
Average future working lifetime (years)	16.0	16.3

* As of July 31, 2013, the plan was amended to reflect the transition of retirees age 65 and over to the Health Reimbursement Arrangement.

Other information:		6/1/2014-5/31/2015		6/1/2013-5/31/2014
1% increase in trend rates				
Effect on service + interest cost	$	173	$	128
Effect on APBO		2,561		1,941
1% decrease in trend rates				
Effect on service + interest cost	$	(145)	$	(108)
Effect on APBO		(2,161)		(1,650)

14. TAX STATUS & ACCOUNTING FOR UNCERTAINTY IN INCOME TAXES

The University is exempt from income tax under section 501(a) of the Internal Revenue Code ("IRC") of 1986, as amended, as an organization described in section 501(c)(3) of the IRC as evidenced by its most recent determination letter dated May 23, 2002. The University has been classified as an organization that is not a private foundation because it qualifies under section 509(a)(1) as an educational institution, and donations to it qualify for deduction as charitable contributions. However, income generated from activities unrelated to the University's exempt purpose is subject to tax under IRC section 511. The University files unrelated business income tax and other returns as required by government authorities.

Tax positions taken relating to the University's tax-exempt status, unrelated business income activities taxable income and deductibility of expenses, and other miscellaneous tax positions taken by the University would more likely than not be sustained by examination. Accordingly, the University has not recorded an income tax liability for uncertain tax benefits. As of May 31, 2015, the University's tax years ended May 31, 2012 through 2015, generally, remain subject to examination.

15. RELATED PARTY TRANSACTIONS

Members of the University's Board of Regents and senior administration may, from time to time, be associated, either directly or indirectly, with entities doing business with the University. Accordingly, the University has Board of Regents, faculty, and staff written conflict of interest policies that require any such association, including those of immediate family members, to be disclosed on an annual basis and updated as appropriate during the year. If such associations exist, measures are taken to mitigate any actual or perceived conflict. For the years ended May 31, 2015 and 2014, there were no related party transactions that were considered to be significant or that were not effectively mitigated.

16. COMMITMENTS & CONTINGENCIES

Capital Expenditures & Other Commitments

At May 31, 2015, the University has commitments to expend approximately $31,550,000 to fulfill contracts related to the construction of a new building for the business school and other capital projects.

The University also is contractually obligated under various agreements ensuring access to, or advantageous pricing of, goods and services used in the operations of the University.

Leases

The University incurred $1,667,000 and $1,546,000 in operating lease expenses for facilities and equipment in the years ended May 31, 2015 and 2014, respectively. As of May 31, 2015, the University has lease commitments for future periods as follows *(in thousands of dollars)*:

	2016	2017	2018	2019	2020	2021 and Thereafter	Total
Equipment	$ 418	$ 52	$ 52	$ 52	$ 51	$ --	$ 625
Other	1,171	691	693	91	1	--	2,647
Total	$ 1,589	$ 743	$ 745	$ 143	$ 52	$ --	$ 3,272

Contingencies

The University is a party to various legal proceedings and complaints arising in the ordinary course of operations, some of which are covered by insurance. The administration is not aware of any claims or contingencies not covered by insurance that would be material to the financial position of the University.

The University participates in several federal and state grant programs and must comply with requirements of the grantor agencies. The administration is of the opinion that the University is in compliance with these grantor requirements.

17. SUBSEQUENT EVENTS

The University has evaluated subsequent events through September 23, 2015, the date when financial statements were issued, and concluded that there were no subsequent events requiring adjustment or disclosure.