KPMG

STEVENS INSTITUTE OF TECHNOLOGY

Consolidated Financial Statements

June 30, 2017
(with summarized comparative financial information as of
June 30, 2016)

(With Independent Auditors' Report Thereon)

STEVENS INSTITUTE OF TECHNOLOGY

Table of Contents

KPMG LLP
New Jersey Headquarters
51 John F. Kennedy Parkway
Short Hills, NJ 07078-2702

Independent Auditors' Report

The Board of Trustees
Stevens Institute of Technology:

We have audited the accompanying consolidated financial statements of Stevens Institute of Technology and Subsidiary (the University), which comprise the consolidated statement of financial position as of June 30, 2017, and the related consolidated statements of activities and cash flows for the year then ended, and the related notes to the consolidated financial statements.

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

Auditors' Responsibility

Our responsibility is to express an opinion on 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. 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.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Stevens Institute of Technology and Subsidiary as of June 30, 2017, and the changes in their net assets and their cash flows for the year then ended in accordance with U.S. generally accepted accounting principles.

KPMG

Report on Summarized Comparative Information

We have previously audited the Stevens Institute of Technology and Subsidiary's 2016 consolidated financial statements, and we expressed an unmodified audit opinion on those audited consolidated financial statements in our report dated November 2, 2016. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2016 is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.

KPMG LLP

December 8, 2017

STEVENS INSTITUTE OF TECHNOLOGY

Consolidated Statement of Financial Position

June 30, 2017
(with comparative financial information as of June 30, 2016)

(Dollars in thousands)

Assets		**2017**	**2016**
Cash and cash equivalents	$	45,673	27,975
Student, sponsor and other receivables, net (note 3)		19,969	22,906
Prepaid expenses and other assets		2,361	1,837
Contributions receivable, net (notes 4 and 15)		29,163	20,230
Deposits with bond trustee (note 8)		80,797	6,789
Investments (note 5)		175,006	159,488
Trusts held by others (note 5)		4,361	3,650
Land, buildings and equipment, net (note 7)		168,833	150,854
Total assets	$	526,163	393,729
Liabilities and Net Assets			
Liabilities:			
Accounts payable and accrued expenses	$	22,924	20,514
Deferred revenue		18,579	10,988
Line of credit (note 8)		—	2,100
Capital lease obligations (note 14)		4,059	5,526
Annuities payable		2,035	2,261
Post-retirement benefits (note 9)		6,008	6,176
Conditional asset retirement obligations (note 10)		6,149	6,263
Long-term debt, net (note 8)		141,406	65,996
Refundable advances (note 3)		5,836	5,358
Total liabilities		206,996	125,182
Net assets (notes 6 and 12):			
Unrestricted		95,343	63,798
Temporarily restricted		125,632	114,191
Permanently restricted		98,192	90,558
Total net assets		319,167	268,547
Total liabilities and net assets	$	526,163	393,729

See accompanying notes to consolidated financial statements.

STEVENS INSTITUTE OF TECHNOLOGY

Consolidated Statement of Activities

Year ended June 30, 2017
(with summarized financial information for the year ended June 30, 2016)

(Dollars in thousands)

	Unrestricted	Temporarily restricted	Permanently restricted	Total 2017	Total 2016
Operating activities:					
Revenues and other support:					
Tuition and fees	$ 240,341	—	—	240,341	218,100
Less student aid	(72,219)	—	—	(72,219)	(67,675)
Net tuition and fees	168,122	—	—	168,122	150,425
Sponsored activity revenues:					
Federal	26,928	—	—	26,928	28,715
State	1,326	—	—	1,326	998
Private/other	2,575	—	—	2,575	2,397
Total sponsored activity revenues	30,829	—	—	30,829	32,110
Grants	833	—	—	833	852
Contributions	691	7,663	—	8,354	4,910
Other revenues	3,955	—	—	3,955	3,986
Auxiliary enterprises	29,211	—	—	29,211	28,926
Investment return in support of operations (notes 5 and 6)	768	5,779	—	6,547	6,370
Net assets released from restrictions	8,090	(8,090)	—	—	—
Total operating revenues and other support	242,499	5,352	—	247,851	227,579
Expenses (note 13):					
Salaries and benefits	132,817	—	—	132,817	131,468
Purchased services	18,474	—	—	18,474	17,881
Sub-contracts	4,437	—	—	4,437	6,260
Maintenance, rents and utilities	21,834	—	—	21,834	21,673
Supplies and other	26,320	—	—	26,320	22,222
Interest expense (note 8)	3,344	—	—	3,344	3,765
Depreciation and amortization	12,067	—	—	12,067	10,798
Total operating expenses	219,293	—	—	219,293	214,067
Operating surplus	23,206	5,352	—	28,558	13,512
Nonoperating activities:					
Investment return (loss), net of amounts in support of operations (note 5)	674	8,252	—	8,926	(9,903)
Contributions	—	9,986	2,178	12,164	2,324
Grants	1,705	—	—	1,705	725
Post-retirement benefit changes other than net periodic costs (note 9)	309	—	—	309	(997)
Change in value of split-interest agreements	—	332	86	418	(712)
Loss on bond defeasance	(1,162)	—	—	(1,162)	—
Uncollectible contributions	—	(244)	(54)	(298)	(111)
Loss on disposal of property	—	—	—	—	(14)
Donor redesignations	(49)	(5,375)	5,424	—	—
Net assets released from restrictions	6,862	(6,862)	—	—	—
Total nonoperating activities	8,339	6,089	7,634	22,062	(8,688)
Changes in net assets	31,545	11,441	7,634	50,620	4,824
Net assets, beginning of year	63,798	114,191	90,558	268,547	263,723
Net assets, end of year	$ 95,343	125,632	98,192	319,167	268,547

See accompanying notes to consolidated financial statements.

STEVENS INSTITUTE OF TECHNOLOGY

Consolidated Statement of Cash Flows

Year ended June 30, 2017
(with comparative financial information for the year ended June 30, 2016)

(Dollars in thousands)

		2017	2016
Cash flows from operating activities:			
Change in net assets	$	50,620	4,824
Adjustments to reconcile change in net assets to net cash provided by operating activities:			
Accretion of bond premium		(129)	(9)
Accretion of interest on conditional asset retirement obligations		293	231
Amortization of bond issuance costs		53	53
Depreciation and amortization		12,265	10,567
Loss of disposal of property		—	14
Loss of bond defeasance		1,162	—
Net (gains) losses on investments		(12,071)	6,135
Post-retirement benefit changes other than net periodic benefit costs		(309)	997
Present value adjustment on annuities payable		(418)	712
Present value adjustment on contribution receivable		(45)	(260)
Change in allowance for doubtful accounts – contributions receivable		(168)	77
Change in allowance for doubtful accounts – student, sponsor and other receivables		506	(1,433)
Contributions and grants restricted for capital and endowment		(13,263)	(3,049)
Decrease (increase) in operating assets:			
Student, sponsor and other receivables		2,195	4,275
Contributions receivable		(1,606)	381
Prepaid expenses and other assets		(524)	72
Trusts held by others		(505)	175
Increase (decrease) in operating liabilities:			
Accounts payable and accrued expenses		(431)	2,375
Deferred revenue		7,591	(964)
Annuities payable		398	174
Accrued post-retirement benefits		141	117
Conditional asset retirement obligations		(407)	—
Net cash provided by operating activities		45,348	25,464
Cash flows from investing activities:			
Proceeds from sales of investments		107,267	130,736
Purchase of investments		(110,920)	(132,169)
Purchases of land, buildings and equipment		(27,403)	(15,620)
Decrease in accounts payable and accrued expenses for property, plant and equipment		—	(113)
Withdrawals from deposits with bond trustee		115,862	40,336
Additions to deposits with bond trustees		(189,870)	(39,365)
Loans issued to students		(1,278)	(773)
Collection of student loans		1,514	1,161
Net cash used in investing activities		(104,828)	(15,807)
Cash flows from financing activities:			
Receipts of contributions and grants restricted for capital and endowment		6,149	4,427
Proceeds from borrowing on line of credit		—	2,100
Payment of line of credit		(2,100)	—
Change in annuity obligations		(206)	(256)
Refundable advances for student loans		478	148
Repayments of capital lease obligations		(1,467)	(1,006)
Proceeds from issuance of long-term debt		141,708	—
Refunding of long-term debt		(66,258)	—
Payment of bond issuance costs		(897)	—
Repayments of long-term debt		(229)	(3,363)
Net cash provided by financing activities		77,178	2,050
Net increase in cash		17,698	11,707
Cash and cash equivalents, beginning of year		27,975	16,268
Cash and cash equivalents, end of year	$	45,673	27,975
Supplemental disclosures of cash flow information:			
Cash paid during the year for interest	$	2,786	3,501
Land, buildings and equipment acquired through capital lease obligations		—	6,532
Increase in amounts accrued for purchase of land, buildings and equipment		2,841	—

See accompanying notes to consolidated financial statements.

(1) Organization

Stevens Institute of Technology and Subsidiary (collectively, the University), founded in 1870 and located in Hoboken, New Jersey, educates and inspires students to acquire knowledge needed to lead in the creation, application and management of technology and to excel in solving problems in any profession. The University serves approximately 6,800 students and is accredited by the Middle States Association of Colleges and Schools, the Accreditation Board of Engineering Technology (ABET), and the Association to Advance Collegiate Schools of Business (AACSB).

The University is also committed to a comprehensive growing program of research, which strengthens the educational experience and materially contributes to our nation's goals. In this context, it follows an educational methodology by which faculty, students and colleagues from industry jointly nurture the process of conception, design, and the marketplace realization of new technologies.

The University is the sole owner of Castle Point Holdings, Inc., established for the purpose of providing a corporate interface between the University and enterprise (start-up) companies.

(2) Summary of Significant Accounting Policies

(a) Consolidation

The accompanying consolidated financial statements include the accounts of Stevens Institute of Technology and its wholly owned subsidiary, Castle Point Holdings, Inc. All significant intercompany accounts have been eliminated in consolidation.

(b) Basis of Presentation

The University prepares its consolidated financial statements on the accrual basis of accounting in accordance with Generally Accepted Accounting Principles (U.S. GAAP) and with standards established by the Financial Accounting Standards Board (FASB) for external financial reporting by not-for-profit organizations. Accordingly, the University's resources are classified and reported based upon the existence or absence of donor-imposed restrictions, as follows:

Permanently restricted: net assets subject to donor-imposed stipulations that they be maintained permanently by the University. Donors of these assets generally permit the use of all or part of investment earnings for operating or specific purposes, such as scholarships, chairs and educational and research programs.

Temporarily restricted: net assets subject to donor-imposed restrictions that will be satisfied either by actions of the University or the passage of time.

Unrestricted: net assets that are not subject to donor-imposed restrictions, and therefore are expendable for operating purposes. Unrestricted net assets may be designated for specific purposes by the University's Board of Trustees.

Revenues are reported as increases in unrestricted net assets unless use of the related assets are limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Appreciation or depreciation in the fair value of investments and gains and losses on other assets or liabilities are reported as increases or decreases in unrestricted net assets unless otherwise restricted by explicit donor stipulation or by law. Expirations of temporary restrictions on net assets are reported as net assets released from restrictions.

Contributions, including unconditional promises to give, are recognized as revenues in the period received. Unconditional promises to give are recorded at their net realizable value if they are expected to be collected within one year or at the present value of future cash flows if they are expected to be collected over periods longer than one year. The University has been notified of certain intentions to give under various wills and trusts, the realizable amounts of which 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. At June 30, 2017 and 2016, conditional contributions, including advised bequests, totaled $25,475 and $25,474, respectively. Contributions of assets other than cash are recorded at their estimated fair value at date of donation. Contributions to be received after one year are discounted using a risk-adjusted rate of return. Amortization of discounts is recorded as additional contribution revenue in accordance with donor-imposed restrictions, if any. An allowance for uncollectible contributions receivable is provided based upon management's judgment of prior collection history, type of contribution and nature of fundraising activity. Unrestricted net assets resulting from certain large contributions may be designated by the University's Board of Trustees for capital or long-term investment.

Refundable advances represent obligations of the University to the Federal Government under the Federal Perkins Loan Program.

(c) Cash and Cash Equivalents

Cash is recorded at fair value and comprises highly liquid financial instruments with original maturities of three months or less at time of purchase. At June 30, 2017 and 2016, there were no cash equivalents within the cash balances presented in the accompanying consolidated statement of financial position. Restricted cash was $18,893 and $22,782 at June 30, 2017 and 2016, respectively.

(d) Concentrations of Credit Risk

Cash and investments are exposed to interest rate, market, and credit risks. The University maintains its cash in various bank deposit accounts that, at times, may exceed federally insured limits. To minimize risk, the University's cash accounts are placed with high credit quality financial institutions and the University's investment portfolio is diversified among a variety of asset categories, which are held by several investment managers. The University regularly evaluates its depository arrangements and investment strategies.

(e) Student Accounts and Loans Receivable

Student accounts receivable represent credit extended to students with no underlying collateral. Such balances are due at the beginning of each semester and are stated net of an allowance for doubtful accounts. The University determines its allowance based on the anticipated net realizable value of expected collections. Student loans receivable principally represent loans under the Federal Perkins Loan Program. Student loans under the Federal Perkins Program are guaranteed by the federal government.

(f) Investments

The fair value of investments, which consist of fixed income and equity securities, is based on quoted market prices at June 30th. Investments in pooled private equity and other alternative investment funds are stated at estimated fair value based on the net asset value (NAV) of the funds as a practical expedient. Values of these funds, which may invest in both nonmarketable and market-traded securities, are provided by the general partner of the fund and reviewed by management for reasonableness.

(g) Deposits with Bond Trustee

Deposits with bond trustee represent funds held by the trustee, as required by bond indentures, and invested by the trustee in short-term marketable securities classified under Level 1 within the fair value hierarchy of the Accounting Standards Codification (ASC) 820, *Fair Value Measurement*. Such resources will be utilized to fund various construction projects or to satisfy certain debt service reserve requirements pursuant to the respective bond indenture agreements.

(h) Split-Interest Agreements

The University's split-interest agreements include charitable remainder trusts and life income funds. The underlying assets of the trust agreements are invested in cash, cash equivalents and equity securities and are carried at fair value. Charitable remainder trusts and life income funds for one or more beneficiaries generally pay lifetime income to those beneficiaries, after which, the principal is made available to the University in accordance with donor stipulations. A liability is established for the present value of the estimated future payments to the beneficiaries, with the difference between the liability and the fair value of the proceeds received by the University recorded as a contribution. The present value calculation is performed using rates prescribed by the Internal Revenue Service.

The University operates a gift annuity program for donors from various states including New Jersey, New York and Maryland. The University maintains assets at least equal to the sum of the reserves on its outstanding annuity agreements. The reserves on the outstanding annuity agreements are consistent with the assumptions underlying the rates adopted by the American Council on Gift Annuities which are in effect at the time of issuance of the gift annuity. In determining the appropriate reserves, an adjustment is made for the obligation to the annuitant and the fair value of the investments. The University's gift annuity reserves are sufficient to meet the state requirements of all of the states in which the program operates.

(Continued)

(i) Trusts Held by Others

Perpetual trusts held by others, for the benefit of the University, are recorded at the fair value of the assets contributed to the trust and are classified within Level 3 of the fair value hierarchy of ASC 820.

(j) Land, Buildings and Equipment

Land, buildings and equipment, purchased for a value of $5 or more and with depreciable lives greater than one year, are stated at cost net of depreciation, or fair value at date of contribution, if donated. Upon disposal of fixed assets, the costs and accumulated depreciation are removed from the accounts, and the resulting gain or loss, if any, is included within nonoperating activities in the accompanying consolidated statement of activities.

Depreciation is calculated using the straight-line method and half-year convention over the following estimated useful lives:

Buildings	40 years
Building improvements	20 years
Furniture, fixtures and equipment	4 to 15 years

(k) Deferred Revenue

Deferred revenue consists of tuition revenue for summer sessions prorated based on the portion of the session that occurs within each fiscal year, as well as unexpended grants from the State of New Jersey for construction, which will be recognized as spent. Also included are unexpended sponsored awards, which represent amounts received from sponsors for which the University has not yet fulfilled its obligations. Such amounts are recorded as revenues when the related services are performed, or obligations are satisfied.

(l) Fair Value Measurement

Fair value is defined as the exchange price that would be received to sell an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. ASC 820 establishes a fair value hierarchy, which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

- Level 1: Quoted prices or published NAVs in active markets for identical assets or liabilities.
- Level 2: Observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.
- Level 3: Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the asset or liabilities.

Fair value estimates are made at a specific point in time, based on available market information and judgments about the financial asset, including estimates of timing, amount of expected future cash flows and the credit standing of the issuer. In some cases, the fair value estimates cannot be substantiated by comparison to independent markets.

(m) Operating Measure

The University classifies its activities in the accompanying consolidated statement of activities as operating and nonoperating. Operating activities principally include all income and expenses related to carrying out the University's educational and research mission. Operating revenues also include contributions and investment return used to fund current operations, in accordance with the University's endowment spending rate policy.

Nonoperating activities principally include investment return in excess of (or less than) amounts authorized for expenditure by the University's Board of Trustees (spending rate policy); contributions and other resources intended for permanently restricted purposes or purchases of capital assets; present value adjustments of annuities payable; gains or losses on disposal of property and equipment; and other activities considered to be a more unusual or nonrecurring nature, if any.

(n) Auxiliary Enterprises

Auxiliary enterprises include revenues and expenses primarily related to student housing, the campus bookstore and student dining facilities. An auxiliary enterprise exists to furnish goods or services to students, faculty, staff, or incidentally to the general public, and charges a fee directly related to, although not necessarily equal to, the cost of the goods or services. The distinguishing characteristic of an auxiliary enterprise is that it is managed as an essentially self-supporting activity. The auxiliary enterprise category includes all expenditures and transfers relating to the operation of auxiliary enterprises, including expenditures for operation and maintenance of plant, interest expense and depreciation expense. Also included are other direct and indirect costs, whether charged directly as expenditures or allocated as a proportionate share of costs of other departments or units.

(o) Sponsored Activities

The University receives sponsored program funding from various governmental sources. The University recognizes revenue associated with direct costs or sponsored programs as the related costs are incurred. Recovery of facilities and administrative (F&A) costs of federally sponsored programs are recorded at cost reimbursement rates negotiated with the University's cognizant agency, the Office of Naval Research. In fiscal 2017, the revenue from sponsored activities comprised $23,686 associated with direct costs, and $7,143 associated with F&A recoveries from all sponsors, including the federal government. The corresponding amounts for fiscal 2016 were $25,264 and $6,846, respectively.

(p) Income Taxes

The University has been classified as an organization described under Section 501(c)(3) of the Internal Revenue Code (the Code) and, therefore, is exempt from Federal income taxes under Section 501(a) of the Code and similar State of New Jersey tax provisions. Federal law imposes tax on income that is not related to an organization’s tax-exempt purposes or otherwise excluded under the Code.

The University has processes presently in place to ensure the maintenance of its tax-exempt status, to identify and report unrelated income, determine its filing and tax obligations in jurisdictions for which it has nexus, and to review other matters that may be considered tax positions. Management of the University believes there are no uncertain tax positions.

(q) Use of Estimates

The preparation of consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. The most significant estimates include valuation of alternative investments that do not have readily determinable fair values; actuarially determined costs associated with split-interest agreements and accrued post-retirement benefit obligations; conditional asset retirement obligations; and the recoverability of receivables. Actual results could differ from those estimates.

(r) Prior Year Summarized Financial Information

While comparative information is not required under U.S. GAAP, the University believes this information is useful and has included certain summarized comparative financial information from its fiscal year 2016 consolidated financial statements. Such summarized comparative information is not intended to be a complete presentation in accordance with U.S. GAAP. Accordingly, such information should be read in conjunction with the University’s consolidated financial statements as of and for the year ended June 30, 2016, from which it was derived.

(s) Reclassifications

Certain amounts in the fiscal year 2016 financial statements have been reclassified to conform to the current year presentation.

(Continued)

(Dollars in thousands)

(3) Student, Sponsor and Other Receivables

Student, sponsor and other receivables, net, as of June 30, 2017 and 2016, consisted of the following:

		2017	2016
Student	$	6,995	7,908
Sponsored contracts and grants		8,864	9,562
Student loans		6,264	6,645
Other		2,430	2,869
		24,553	26,984
Less:			
Allowance for doubtful student accounts		(2,174)	(2,403)
Allowance for doubtful sponsor accounts		(560)	(1,504)
Allowance for doubtful student loan accounts		(1,149)	—
Allowance for doubtful other accounts		(701)	(171)
		(4,584)	(4,078)
Student, sponsor and other receivables, net	$	19,969	22,906

A majority of the student loans outstanding are associated with the Federal Perkins Loan Program. At June 30, 2017 and 2016, student loans represented 1% and 2% of total assets, respectively. The availability of funds for loans under the program is dependent on reimbursements to the pool from repayments on outstanding loans. Funds advanced by the Federal government of $5,836 and $5,358 at June 30, 2017 and 2016, respectively, are ultimately refundable to the U.S. government and are classified as liabilities in the consolidated statement of financial position. Outstanding loans canceled under the program result in a reduction of the funds available for future loans and a decrease in the liability to the U.S. government.

At June 30, 2017 and 2016, the following amounts were outstanding receivables under the Federal Perkins Loan Program:

		Less than 30 days	Less than 90 days	Less than 180 days	Less than 360 days	Greater than 360 days	Total
June 30:							
2017	$	4,623	94	43	25	1,252	6,037
2016		5,042	140	22	61	1,008	6,273

(Dollars in thousands)

Also included in student loan receivables are private student loan and direct lending receivables totaling $227 and $372 in fiscal year 2017 and 2016, respectively. Allowances for doubtful accounts are established based on prior collection experiences and current economic factors, which, in management's judgment, could influence the ability of loan recipients to repay the amounts per the loan terms.

(4) Contributions Receivable

Contributions receivable, net, as of June 30, 2017 and 2016, consisted of the following:

		2017	2016
Amounts due in:			
Less than one year	$	8,973	3,986
One to five years		18,592	13,659
Greater than five years		3,985	5,185
		31,550	22,830
Less discount to present value		(1,450)	(1,495)
		30,100	21,335
Less allowance for doubtful contributions		(937)	(1,105)
Contributions receivable, net	$	29,163	20,230

A discount for contributions receivable to be received over periods longer that the one year from date of contribution is provided using a risk-adjusted rate of return. The discount rates used range from 1.47% to 3.25%.

At June 30, 2017 and 2016, approximately 67% and 59%, respectively, of gross contributions receivable is due from five donors. For the year ended June 30, 2017, approximately 49% of contributions revenue was received from a single donor.

(Continued)

(Dollars in thousands)

(5) Investment and Trusts Held by Others

The fair value of investments and trusts held by others at June 30, 2017 and 2016 comprised the following:

		2017	2016
Cash and cash equivalents	$	1,964	848
Mutual funds invested in equities		91,776	83,364
Mutual funds invested in fixed income		43,393	39,888
Pooled private equity		15,927	14,797
Pooled alternative investments		19,045	17,380
Other		111	157
		172,216	156,434
Split-interest agreements		2,790	3,054
Total investments		175,006	159,488
Trusts held by others		4,361	3,650
Total investments and trusts held by others	$	179,367	163,138

Investment valuations are established and classified based on a variety of inputs. The input classifications or levels, by investment category, are shown in the following tables:

2017		Total		Level 1	Level 2	Level 3
Investments:						
Cash and cash equivalents	$	1,964		1,964	—	—
Mutual funds invested in equities		91,776		91,776	—	—
Mutual funds invested in fixed income		43,393		43,393	—	—
Split-interest agreements		2,790		2,790	—	—
Other		111		48	—	63
		140,034	$	139,971	—	63
Investments reported at NAV or its equivalent:						
Pooled private equity		15,927				
Pooled alternative investments		19,045				
Total investments	$	175,006				
Trusts held by others	$	4,361		—	—	4,361

(Dollars in thousands)

2016		Total		Level 1	Level 2	Level 3
Investments:						
Cash and cash equivalents	$	848		848	—	—
Mutual funds invested in equities		83,364		83,364	—	—
Mutual funds invested in fixed income		39,888		39,888	—	—
Split-interest agreements		3,054		3,054	—	—
Other		157		85	—	72
		127,311	$	127,239	—	72
Investments reported at NAV or its equivalent:						
Pooled private equity		14,797				
Pooled alternative investments		17,380				
Total investments	$	159,488				
Trusts held by others	$	3,650		—	—	3,650

There were no transfers in or out of Levels 1, 2 or 3 within the fair value hierarchy during the years ended June 30, 2017 and 2016.

The following table summarizes the changes in value of the Level 3 investments for the fiscal year ended June 30, 2017:

		Other	Trust held by others
Balance as of June 30, 2016	$	72	3,650
(Distributions) new trusts		(6)	472
Unrealized (losses) gains		(3)	239
Balance as of June 30, 2017	$	63	4,361

The following table summarizes the changes in value of the Level 3 investments for the fiscal year ended June 30, 2016:

		Other	Trust held by others
Balance as of June 30, 2015	$	75	3,825
Unrealized losses		(3)	(175)
Balance as of June 30, 2016	$	72	3,650

(Continued)

(Dollars in thousands)

The University diversifies its investments both by asset class and within asset classes. As a general practice, all investments of the University are managed by external investment management firms.

Investments reported at NAV as calculated by respective investment managers are subject to capital calls and specific redemption terms. Investments, valued using NAV at June 30, 2017, are as follows:

		Fair value	Unfunded commitments	Redemption frequency (if currently eligible)	Redemption notice period (days)
Pooled alternatives:					
Equity long/short (a)	$	2	—	Quarterly	45 days
Multi-strategy (b)		19,043	—	Quarterly	91 days
		19,045	—		
Pooled private equity:					
Real estate fund (c)		1,217	217	Not eligible	
Private equity (d)		14,710	19,097	Not eligible	
		15,927	19,314		
Total investments reported at NAV	$	34,972	19,314		

The information below includes description of the investments by class, valuation estimates used, and the redemption terms by investment class.

a. Equity long/short includes investments in hedge funds that typically combine core long holdings of equities and some short sales of stock, stock index options, or other derivative securities. The portfolios generally have a net long position. The long positions are expected to appreciate. The short positions are expected to generate an ongoing positive return, as well as act as a hedge against adverse performance in the fund's long portfolio. The fair values of the investments in this class have been estimated using the NAV per share of the investments.

b. Multi-strategy invests in hedge funds that pursue multiple strategies to diversify risks and reduce volatility. The hedge funds' portfolio for this class includes investments in funds of funds, public and private equity and fixed income, long-term and short-term equities and credit. The fair values of the investments in this class have been estimated using the NAV per share of the investments.

(Dollars in thousands)

c. The real estate fund includes investments in undervalued or inappropriately capitalized U.S. and non-U.S. real estate assets and corporate real estate. They also include public and private real estate companies in growth/emerging markets with strong real estate fundamentals. The fair values of the investments in this class have been estimated using the NAV of the University's ownership interest in partners' capital. Each investment has specific terms regarding redemptions and/or terminations. Upon termination of the partnership, investments in the funds are liquidated and distributed. Investments representing 69% of the value in this class will terminate on December 31, 2018 and 31% have been terminated and distributions are being made through the liquidation of the underlying assets. The distributions may take more than one year.

d. Private equity includes several private equity funds that invest primarily in strategies and markets that demonstrate the potential to produce attractive returns due to market inefficiencies and/or companies with a strong potential for change, as well as managers who demonstrate differentiated capabilities in pursuing their strategies. The investments consist of 43% in Natural Resources, 38% in U.S. Private Equities, 17% in International Private Equities, and 2% in Venture Capital. These investments cannot be redeemed. Upon termination of the partnership, distributions will be made through the liquidation of the underlying assets. The distributions may take more than one year after the partnership termination date. The fair values of the investments in this class have been estimated using the NAV of the University's ownership in partners' capital.

The components of investment return (loss) for the years ended June 30, 2017 and 2016 are as follows:

		2017	2016
Dividends and interest	$	4,070	3,335
Net realized gains		2,595	708
Net unrealized appreciation (depreciation)		9,476	(6,843)
Investment management fees		(850)	(841)
Total investment return (loss)		15,291	(3,641)
Endowment distribution, net of amounts returned to endowment		(6,365)	(6,262)
Net investment return (loss)	$	8,926	(9,903)

In addition to the gross endowment distribution, net noninvestment return totaling $182 and $108 in fiscal 2017 and 2016, respectively, was included in the investment return in support of operations on the accompanying consolidated statement of activities.

(Dollars in thousands)

Total calculated endowment distribution, less amounts associated with true endowments whose fair value is less than the original gift value, is defined as endowment distribution-gross and is presented as part of operating activities on the accompanying consolidated statement of activities. A ratable portion of the endowment distributions associated with chairs and professorships that are unnamed for a portion of the fiscal year is transferred back to the specific endowment fund, and presented within nonoperating activities.

(6) Endowment

The University's endowment fund consists of 378 and 374 individual funds established for a variety of purposes, including both donor-restricted endowment funds and funds designated by the University's Board of Trustees to function as endowments at June 30, 2017 and 2016, respectively. Net assets associated with endowment funds, including funds designated by the Board of Trustees to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

(a) Relevant Law

The University follows New Jersey State Uniform Prudent Management of Institutional Funds Act (UPMIFA). In accordance with UPMIFA, the University considers the following factors in making a determination to appropriate for expenditure or accumulate donor-restricted endowment funds: the purpose, duration, and preservation of the endowment fund; expected total return of investments; general economic conditions and the possible effect of inflation or deflation; other resources of the institution; and the investment policy of the institution.

While UPMIFA does not require it unless the donor gift instrument contains an express provision, the University generally requires the preservation of the fair value of the original gift, as of the gift date of the donor-restricted endowment funds. Following this approach, the University classifies as permanently restricted net assets (a) the original value of gifts donated to its permanent endowment, (b) its original value of subsequent gifts to its permanent endowment, and the (c) accumulations to its permanent endowment made in accordance with the directions of the applicable donor gift instrument, at the time the accumulation is added to the fund.

Accumulated gains resulting from donor-restricted endowment funds that are not classified in permanently restricted net assets are 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.

Endowment net assets consisted of the following at June 30, 2017:

		Unrestricted	Temporarily restricted	Permanently restricted	Total
Donor-restricted endowment funds	$	(49)	80,221	93,545	173,717
Board-designated endowment funds		10,217	—	—	10,217
Total net assets	$	10,168	80,221	93,545	183,934

(Dollars in thousands)

Endowment net assets consisted of the following at June 30, 2016:

		Unrestricted	Temporarily restricted	Permanently restricted	Total
Donor-restricted endowment funds	$	(216)	71,763	86,189	157,736
Board-designated endowment funds		8,289	—	—	8,289
Total net assets	$	8,073	71,763	86,189	166,025

Changes in endowment net assets for the year ended June 30, 2017 are as follows:

		Unrestricted	Temporarily restricted	Permanently restricted	Total
Endowment net assets, June 30, 2016	$	8,073	71,763	86,189	166,025
Investment return, net		938	14,195	—	15,133
Contributions		—	—	1,444	1,444
Appropriation for expenditure		(256)	(6,109)	—	(6,365)
Distributions returned to endowment		—	329	—	329
Reclassification of net assets		1,413	43	5,912	7,368
Endowment net assets, June 30, 2017	$	10,168	80,221	93,545	183,934

Changes in endowment net assets for the year ended June 30, 2016 are as follows:

		Unrestricted	Temporarily restricted	Permanently restricted	Total
Endowment net assets, June 30, 2015	$	7,950	80,929	84,802	173,681
Investment loss, net		(317)	(3,199)	—	(3,516)
Contributions		—	—	1,908	1,908
Appropriation for expenditure		(323)	(6,674)	—	(6,997)
Distributions returned to endowment		28	707	—	735
Reclassification of net assets		735	—	(521)	214
Endowment net assets, June 30, 2016	$	8,073	71,763	86,189	166,025

(b) Return Objectives and Risk Parameters

The University’s primary investment objectives are to invest its endowment principal to achieve growth of both principal value and income over time sufficient to preserve and/or increase the real (inflation adjusted) purchasing power of the assets, and to provide a stable source of perpetual financial support.

(c) Strategies Employed for Achieving Objectives

The University relies on a total return strategy in which active equity managers/funds are expected to achieve an annualized total rate of return over a three-to five-year period, which exceeds an agreed upon benchmark rate of return, net of costs and fees. Total return is defined as dividend and interest income plus realized and unrealized capital appreciation or depreciation. Active fixed income managers are expected to exceed appropriate market indices, net of costs and fees. When index funds are used, the return should closely track with the appropriate index.

(d) Spending Rate Policy

The University maintains an investment pool for its long-term investments. The pool is managed to achieve the maximum prudent long-term total return. The University's Board of Trustees has authorized a spending rate designed to fulfill the following objectives:

- Preserve the value of the investment pool in real terms (after inflation); and
- Provide a predictable flow of funds to support operations.

For the years ended June 30, 2017 and 2016, the spending rate permitted the use of total returns (dividend and interest income and appreciation) at a rate of 4.5% and 4.6%, respectively, of the average year-end fair value of the investment pool over a three-year period. Endowment funds for which the total return is permanently restricted by donors, if any, are excluded from the spending rate.

(e) Funds with Deficiencies

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the value of accumulated gifts. At June 30, 2017 and 2016, the aggregate deficiencies of this nature totaling $49 and $216, respectively, were reported within unrestricted net assets. These deficiencies principally resulted from unfavorable market fluctuations that occurred shortly after the investment of new permanently restricted contributions. Subsequent gains that restore the fair value of the assets of the endowment fund to the required level will be classified as an increase in unrestricted net assets.

(Continued)

(Dollars in thousands)

(7) Land, Buildings and Equipment, Net

At June 30, 2017 and 2016, property, plant and equipment, net consisted of the following:

		2017	2016
Land	$	1,763	1,763
Buildings and improvements		241,938	221,373
Furniture, fixtures and equipment		58,658	46,349
Construction in progress		24,909	27,539
		327,268	297,024
Less accumulated depreciation and amortization		(158,435)	(146,170)
Total land, buildings and equipment, net	$	168,833	150,854

Depreciation and amortization expense, excluding accretion, totaled $12,265 and $10,567 for the years ended June 30, 2017 and 2016, respectively. Construction in progress includes costs associated with the Academic Gateway Complex, North Building, Babbio Garage Extension, Workday Student system, costs associated with the campus plan, and various other campus improvements. The commitments to complete these projects at June 30, 2017 are approximately $11.2 million.

(8) Long-Term Debt and Line of Credit

Long-term debt at June 30, 2017 and 2016 consisted of the following:

Bond issue		2017	2016	Maturity date	Interest rate range
(a) 1998 Revenue Bonds Series I	$	—	3,820	7/1/2028	4.25%–5.38%
(b) 2003 Dormitory Safety Trust Fund Series A		15	30	1/15/2018	— %
(c) 2005 Higher Education Capital Improvement Fund Series A		—	448	9/1/2019	3.00%–5.00%
(d) 2006 Higher Education Capital Improvement Fund Series A		—	129	9/1/2024	4.00%–4.50%
(e) 2007 Revenue Refunding Series A		—	61,475	7/1/2034	4.63%–5.25%
(f) 2014 Higher Education Equipment		690	799	6/1/2023	5.00 %
(g) 2016 Higher Education Capital Improvement Fund Series A		490	—	9/1/2024	2.84 %
(h) 2016 Higher Education Capital Improvement Fund Series B		8,523	—	9/1/2036	4.73 %
(i) 2017 Revenue Bonds Series A		119,905	—	7/1/2047	4.00%–5.00%
Long-term debt, net		129,623	66,701		

(Dollars in thousands)

Bond issue		2017	2016	Maturity date	Interest rate range
Plus unamortized bond premium	$	12,673	42		
Less unamortized bond issuance costs		(890)	(747)		
	$	141,406	65,996		

(a) Revenue Bonds, 1998 Series I

During August 1998, the University arranged a $17,000 loan with the New Jersey Educational Facilities Authority (the Authority). The 1998 Revenue Series I Bonds are a special obligation of the Authority payable from and secured by a pledge of revenue obtained by the Authority pursuant to the mortgage loan agreement between the Authority and the University. Principal and interest payments on the long-term debt are made by the University on a semiannual basis to the trustee. In 2008, $6,050 of principal amount was refunded with the proceeds of the 2007 Revenue Refunding Series A Bonds and in 2017, the 1998 Series I was refunded with a portion of the proceeds from the 2017 Revenue Bond Series A.

Under the 1998 Revenue Series I Bonds, the mortgage loan agreement requires the University to establish and maintain all original funds as deposits with a trustee in a debt service reserve account and construction and other escrow accounts similar to a construction loan whereby the Trustee, as evidenced by University payments, releases funds during construction. As of June 30, 2016, such deposits amounted to $621.

(b) 2003 Dormitory Safety Trust Fund Series A

On January 15, 2004, the University entered into a loan agreement with the Authority for improvements of dormitory safety facilities, including fire prevention and sprinkler systems. The loan agreement was financed through the issuance of bonds by the Authority. The University's portion of the funds amounted to $244. In accordance with the loan agreement, the University is required to provide principal payments of the annual debt service in fifteen annual installments. The State of New Jersey is obligated to provide the interest payments of the annual debt service.

(c) 2005 Higher Education Capital Improvement Fund Series A Bonds

In 2005, the Authority issued bonds to advance refund the 2000A and 2000B Capital Improvement Funds. The advance refunding added to principal while lowering the overall debt service and did not generate new grants. The remaining balance represents the University's share of the bonds outstanding that funded the original grants made to the University under the 2000A and 2000B programs. These bonds were advanced refunded by the 2016 Higher Education Capital Improvement Fund Series A Bonds (see (g) below).

(d) 2006 Higher Education Capital Improvement Fund Series A Bonds

In 2006, the Authority issued bonds to advance refund the 2000A and 2000B Capital Improvement Funds. The advance refunding added to principal while lowering the overall debt service and did not generate new grants. The remaining balance represents the University's share of the bonds outstanding that funded the original grants made to the University under the 2000A and 2000B programs. These bonds were advanced refunded by the 2016 Higher Education Capital Improvement Fund Series A Bonds (see (g) below).

(e) 2007 Revenue Refunding Bonds Series A

On July 24, 2007, the University entered into a loan agreement with the Authority to refinance the costs of certain projects through the refunding of the 2002 Series C Bonds, the 2004 River Street Dorm Series B, and a portion of the 1998 Series I Bonds. In accordance with the bond agreement, the University is required to pay interest only for five years and then repay the principal and interest annually for the remaining 26 years. The University granted as security for this loan, a pledge of and first lien on tuition and fee collections. In 2017, the 2007 Series A was refunded with a portion of the proceeds from the 2017 Revenue Bond Series A.

Under the 2007 Series A Bonds, the mortgage loan agreement requires the University to establish and maintain all original funds as deposits with a trustee in a debt service reserve account and other escrow accounts. At June 30, 2017 and 2016, such deposits amounted to $2 and $5,789, respectively.

(f) Equipment Leasing Fund

In April 2013, the University was awarded $7,250 in capital improvement grants from the State of New Jersey for two information technology infrastructure projects. A portion of the award, $4,500, is being funded under the Higher Education Equipment Leasing Fund, using bonds issued by the Authority. On January 1, 2014, the University entered into lease agreements with the Authority, which require that the University pay one-fourth (25%) of the debt service of the underlying bonds, totaling $987. The agreement requires the University to establish and maintain all original funds as deposits with a trustee, whereby the Trustee, as evidenced by University payments, releases funds during construction. As of June 30, 2016, such deposits amounted to $70.

(g) 2016 Higher Education Capital Improvement Fund Series A Bonds

In 2016, the Authority issued bonds to advance refund the 2005A and 2006A Capital Improvement Funds. The advance refunding added to principal while lowering the overall debt service and did not generate new grants. The remaining balance represents the University's share of the bonds outstanding that funded the original grants made to the University under the 2005A and 2006A programs.

(Dollars in thousands)

(h) 2016 Higher Education Capital Improvement Fund Series B Bonds

In June 2016, the University was awarded $19,250 in capital improvement grants from the State of New Jersey for the Academic Gateway Project. A portion of the award, $17,435, is being funded under the Higher Education Equipment Capital Improvement Fund, using bonds issued by the Authority. On December 1, 2016, the University entered into a grant agreement with the Authority, which requires that the University pay one-half (50%) of the debt service of the underlying bonds, totaling $8,523. The agreement requires the University to establish and maintain all original funds as deposits with a trustee in an account, whereby the Trustee, as evidenced by University payments, releases funds during construction. As of June 30, 2017, such deposits amounted to $16,226.

(i) 2017 Revenue Bonds Series A

On April 1, 2017, the University entered into a loan agreement with the Authority for bonds with principal of $119,905 to i.) refinance the costs of certain capital projects through the refunding of the 2007 Series A Bonds and the 1998 Series I Bonds; and ii.) finance capital projects for construction, renovation, expansion and equipping of certain university research and academic buildings and a garage. The University granted as security for this loan, a pledge of and lien on tuition and fee collections. The loan has a negative pledge which states that no additional liens of greater than $10 million shall be pledged upon three certain campus buildings unless a provision is made to secure the bonds equally and ratably with such liens. Under the 2017 Series A Bonds, the loan agreement requires the University to establish and maintain all original funds as deposits with a trustee in a separate account. At June 30, 2017, such deposits amounted to $64,569.

Principal and interest payments for each of the next five years and thereafter are as follows:

		Principal	Interest	Total
Fiscal year ending June 30:				
2018	$	1,815	3,457	5,272
2019		3,125	6,209	9,334
2020		3,040	6,070	9,110
2021		3,193	5,920	9,113
2022		3,218	5,765	8,983
Thereafter		115,232	80,006	195,238
Total	$	129,623	107,427	237,050

(Dollars in thousands)

Interest expense related to long-term debt is $4,162 and $3,742 for the years ended June 30, 2017 and 2016, respectively, of which $950 has been capitalized in 2017. No amounts were capitalized in 2016.

(i) Line of Credit

The University has a $25,000 line of credit with TD Bank for general corporate purposes, which may include the temporary financing of capital projects. This facility bears interest at ninety (90) basis points above the LIBOR one-month rate and has an unused fee of three (3) basis points. This line of credit became effective May 20, 2016 and expires on May 20, 2019. There is one financial covenant: Debt Service Ratio of not less than 1.15 to 1.0 that is tested annually at fiscal year-end. The interest rates for the line of credit were 2.025% and 1.375% at June 30, 2017 and 2016, respectively. At June 30, 2017, there were no amounts outstanding under the TD Bank line of credit. At June 30, 2016, there was $2,100 outstanding, which temporarily funded the initial spending during the fiscal year ended June 30, 2016 on capital projects that were subsequently bond funded in fiscal year ended June 30, 2017.

(9) Post-Retirement Benefits

The University provides health benefits to substantially all of its employees. Upon retirement, employees may be eligible for continuation of these benefits. Amounts are accrued for such benefits during the years employees provide services to the University. The University funds its post-retirement benefit cost on a pay-as-you-go basis.

The following are the details of the University's postretirement benefit obligation for the years ended June 30:

		2017	2016
Change in benefit obligation:			
Benefit obligation at beginning of year	$	6,176	5,062
Service cost		123	106
Interest cost		206	219
Plan participants' contributions		8	8
Amendments/curtailments/special termination		449	—
Actuarial (gain) loss		(556)	1,145
Benefits paid		(398)	(448)
Medicare Part D prescription drug federal subsidy		—	84
Benefit obligation at end of year	$	6,008	6,176

The discount rate used to determine benefit obligations for the years ended June 30, 2017 and 2016 were 3.58% and 3.39%, respectively.

(Dollars in thousands)

Assumed healthcare cost trend rates can have a significant effect on the amounts reported for the healthcare plans. A one percentage point change in the healthcare cost trend rates would have the following effects:

		One percentage point increase	One percentage point decrease
Effect on post-retirement benefit obligation	$	57	(50)
Effect on total of service and interest cost components		2	(2)

The following presents details of the University's post-retirement benefit plan assets and costs for the years ended June 30:

		2017	2016
Change in plan assets:			
Fair value of plan assets at beginning of year	$	—	—
Contributions (employer and plan participants')		398	364
Medicare Part D prescription drug federal subsidy		—	84
Benefits paid		(398)	(448)
Fair value of plan assets at end of year	$	—	—
Components of accrued benefit cost:			
Funded status	$	(6,008)	(6,176)
Unamortized prior service benefit (cost)		165	(306)
Unamortized actuarial net loss		2,870	3,650
Accrued benefit cost	$	(2,973)	(2,832)
Components of net periodic benefit cost:			
Service cost	$	123	106
Interest cost		206	219
Amortization of unrecognized prior service cost credit		(22)	(62)
Amortization of net loss		224	210
Net periodic benefit cost	$	531	473

(Continued)

(Dollars in thousands)

The following weighted average assumptions were used to determine net periodic benefit cost for the years ended June 30:

	2017	2016
Discount rate	3.39 %	4.12 %
Assumed pre-65 medical trend rates at June 30:		
Healthcare cost trend rate assumed	5.70	6.00
Prescription drug cost trend rate assumed	10.50	10.50
Rate to which the cost trend rate is assumed to decline (the ultimate trend rate)	3.89	3.89
Fiscal year that the rate reaches the ultimate trend rate	2075	2075

	2017	2016
Post-retirement benefit changes other than net periodic costs:		
Change in unamortized items:		
Prior service cost for amendments/curtailments	$ 449	—
Actuarial (loss) gain	(556)	1,145
Amortization of:		
Actuarial loss	(224)	(210)
Unrecognized prior service credit	22	62
Total benefit changes other than periodic costs	$ (309)	997

Expected Future Benefit Payments

Shown below are expected gross benefit payments (including prescription drug benefits) and the expected gross amount of subsidy receipts:

	Employer contributions
Year ending June 30:	
2018	$ 405
2019	399
2020	394
2021	386
2022	372
2023 to 2027	1,746

(Continued)

(Dollars in thousands)

Amounts that have not been recognized as components of net periodic benefit cost but are included in unrestricted net assets are as follows:

		2017	2016
Prior service credit (cost)	$	165	(306)
Net loss		2,870	3,650
	$	3,035	3,344

Amounts in unrestricted net assets expected to be recognized as components of net periodic benefit cost during fiscal year 2018 are as follows:

Prior service credit	$	(22)
Net loss		190

(10) Conditional Asset Retirement Obligations

Conditional asset retirement obligations (CARO) are legal obligations associated with the retirement of long-lived assets. These liabilities are recognized for remediation or disposal of asbestos, underground storage tanks, radioactive sources and equipment, and similar hazardous materials. These liabilities were initially recorded at an estimated cost of remediation, with related asset retirement costs capitalized by increasing the carrying amount of the related assets by the same amount as the liability. The University applied retrospective application at the inception of the liability using an inflation rate of 4.40% and a discount rate of 5.19%. Asset retirement costs are subsequently depreciated over the useful lives of the related assets. Subsequent to initial recognition, the University records period-to-period changes in the CARO liability resulting from the passage of time and revisions to either the timing or the amount of the original estimate of undiscounted cash flows associated with abatement projects. In fiscal year 2014, the University modified the inflation rate to 4.0%. The University satisfies CARO liabilities when the related obligations are settled. Accretion charges (credits) in the amount of $293 and $231 for the years ended June 30, 2017 and 2016, respectively, were presented as a component of depreciation and amortization expense.

(11) Pension Plans

The University participates in the Teachers Insurance and Annuity Association/College Retirement Equities Fund (TIAA/CREF), a defined contribution plan, for academic, professional administrative, nonacademic support and union personnel. The University participated in a defined contribution plan underwritten by the Variable Annuity Life Insurance Company (VALIC) for nonacademic support and union personnel. Contributions to the VALIC plan ended in May 2009; those participants are now participants in the TIAA/CREF plan. Certain participants still have assets with VALIC. Retirement costs related to these plans for the years ended June 30, 2017 and 2016 totaled approximately $5,455 and $4,960, respectively.

(Dollars in thousands)

The University also sponsors the Stevens Institute of Technology Non-Academic Staff Employees' Pension Plan. Established in 1973 as a noncontributory defined benefit plan, it covered all nonacademic employees who were not eligible for coverage under the TIAA-CREF defined contribution plan described above. The plan was frozen effective June 30, 1994, after which date, no new participants were accepted into the plan. As of June 30 2017 and 2016, this plan had net assets available for plan benefits of $574 and $623, respectively.

(12) Net Assets

At June 30, 2017 and 2016, net assets consisted of the following:

		2017	2016
Unrestricted:			
Undesignated	$	84,235	53,068
Endowment		10,168	8,073
Institutional portion of Federal Perkins Loans Program		940	2,657
Total unrestricted		95,343	63,798
Temporarily restricted:			
Education and research programs		16,589	13,868
Capital projects		26,363	26,524
Annuity and life income funds		2,459	2,036
Endowment		80,221	71,763
Total temporarily restricted		125,632	114,191
Permanently restricted:			
Endowment		93,545	86,189
Student loans		2,780	2,719
Annuity and life income funds		1,867	1,650
Total permanently restricted		98,192	90,558
Total net assets	$	319,167	268,547

(Dollars in thousands)

(13) Functional Classification of Expenses

The consolidated statement of activities presents operating expenses based upon their natural classification and before certain allocations such as depreciation and amortization, interest, and operations and maintenance of plant. For the years ended June 30, 2017 and 2016, operating expenses presented by their functional category and allocation of depreciation and amortization, interest, and operations and maintenance of plant were as follows:

2017	Operating expenses before allocations	Depreciation and amortization	Interest	Operations and maintenance of plant	Total operating expenses
Instruction	$ 73,508	2,280	1,013	2,250	79,051
Research	23,795	1,837	548	1,813	27,993
Public services	1,164	—	—	—	1,164
Academic support	24,011	1,793	522	1,770	28,096
Student services	23,135	2,348	428	2,316	28,227
Institutional support	26,518	801	123	790	28,232
Auxiliary enterprises	19,845	3,008	710	2,967	26,530
Total	$ 191,976	12,067	3,344	11,906	219,293

2016	Operating expenses before allocations	Depreciation and amortization	Interest	Operations and maintenance of plant	Total operating expenses
Instruction	$ 71,679	2,686	1,140	2,689	78,194
Research	24,737	1,377	618	1,378	28,110
Public services	1,257	—	—	—	1,257
Academic support	25,911	1,548	587	1,550	29,596
Student services	21,516	1,780	481	1,782	25,559
Institutional support	24,474	557	140	556	25,727
Auxiliary enterprises	19,123	2,850	799	2,852	25,624
Total	$ 188,697	10,798	3,765	10,807	214,067

The allocation of depreciation and amortization on buildings and building improvements is based on square footage occupancy. Depreciation on equipment is allocated to the programs for which the equipment was purchased.

The allocation of operations and maintenance of plant is based upon the square footage occupied by functional areas, excluding the facilities operations.

The allocation of interest expense incurred on long-term debt is based upon the utilization of bond proceeds by functional area.

Fundraising expenses are included within institutional support and totaled $3,129 and $3,049 for the years ended June 30, 2017 and 2016, respectively. Advertising costs are expensed in the year they are incurred. Amounts totaled $885 and $583 for the years ended June 30, 2017 and 2016, respectively.

(14) Commitments and Contingent Liabilities

The University receives funding or reimbursement from Federal government agencies for sponsored activity under government grants and contracts. These grants and contracts provide for reimbursement of indirect (facilities and administrative) costs based on rates negotiated with the Office of Naval Research, which is the University's cognizant Federal agency. The University's facilities and administrative cost reimbursements for the years ended June 30, 2017 and 2016 were based on a final predetermined rate that is not subject to a carry forward provision.

The Defense Contract Audit Agency (DCAA) is responsible for auditing both direct and indirect charges to grants and contracts in support of the Office of Naval Research's negotiating responsibility. The University has final audited rates through fiscal 2009. It is the opinion of management that disallowances, if any, resulting from open years will not have a material effect on the accompanying consolidated financial statements. We anticipate the ongoing DCAA audit will be completed in February 2018.

In July 2014, the University was selected by the State of New Jersey for an audit of its practices regarding unclaimed property. The University has established a reserve for the estimated liability associated with this audit. Since June 2014, major components of the audit have been completed, including resolution of the liability associated with student accounts, payroll and accounts payable. Other smaller areas of the audit are proceeding. It is management's belief that the completion of this audit will not result in additional reserves being required that will have a material impact on the University's consolidated financial statements.

The University is a party to various legal actions arising in the ordinary course of operations. While it is not possible to predict the outcome of these actions at this time, it is the opinion of management that the resolution of these matters will not have a material effect on the University's consolidated financial statements.

(Continued)

(Dollars in thousands)

Operating Leases

The University is party to various operating lease agreements, expiring through 2022, for office equipment, vehicles and student housing. Minimum lease payments due under these agreements are as follows:

Fiscal year ending June 30:		
2018	$	6,978
2019		4,056
2020		1,978
2021		532
2022		315
Total	$	13,859

Rent expense associated with the above leases, for the years ended June 30, 2017 and 2016, totaled $9,236 and $10,147, respectively.

Capital Leases

The University leases equipment under capital lease agreements that expire in fiscal year 2021. The value of the leased equipment of $6,532 is included in furniture, fixtures and equipment while the present value of net minimum lease payments is included in capital lease obligation. The following is a schedule by years of future minimum lease payments under the capital lease together with the present value of the net minimum lease payments as of June 30, 2017:

Fiscal year ending June 30:		
2018	$	1,354
2019		1,042
2020		1,042
2021		910
Total		4,348
Less amounts representing interest		(289)
	$	4,059

Interest expense related to capital lease obligations is $161 and $23 for the years ended June 30, 2017 and 2016, respectively.

(15) Related Party Transactions

Members of the University's Board of Trustees and senior management may, from time to time, be associated, either directly or through interlocking board memberships, with companies doing business with the University. Under the University's conflict-of-interest policy, all business and financial relationships between the University and entities affiliated with trustees and officers are subject to annual review and approval of the Audit Committee of the Board of Trustees. During fiscal years 2017 and 2016, there were no arrangements that required review and approval.

From time to time, the University is the recipient of contributions from donors who are also members of the Board of Trustees. At June 30, 2017 and 2016, contributions receivable included approximately $12,733 and $14,706, respectively, from members of the Board of Trustees.

(16) Subsequent Events

The University evaluated its June 30, 2017 consolidated financial statements for subsequent events through December 8, 2017, the date the consolidated financial statements were issued. In connection with this evaluation, the University is not aware of any significant subsequent events, which would require recognition or disclosure in the accompanying consolidated financial statements.