UNIVERSITY
OF MIAMI

FINANCIAL STATEMENTS

Fiscal years ended MAY 31, 2016 and 2015

(With Independent Auditor's Report Thereon)

RSM

Independent Auditor's Report

RSM US LLP

To the Board of Trustees
University of Miami
Coral Gables, Florida

Report on the Financial Statements
We have audited the accompanying financial statements of the University of Miami (the University), which comprise the statements of financial position as of May 31, 2016 and 2015, 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 audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the 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 entity'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 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 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 the University of Miami as of May 31, 2016 and 2015, 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.

RSM US LLP

Fort Lauderdale, Florida
August 25, 2016

UNIVERSITY OF MIAMI
STATEMENTS OF FINANCIAL POSITION
As of May 31, 2016 and 2015
(in millions)

Assets		**May 2016**		May 2015
Cash and cash equivalents	**$**	**381.7**	$	130.3
Accounts and loans receivable, net		**437.8**		410.7
Contributions receivable, net		**146.9**		158.3
Other assets		**77.3**		67.5
Investments		**994.4**		1,133.9
Property and equipment, net		**1,721.8**		1,664.1
Trusts held by others		**45.6**		49.1
Total Assets	**$**	**3,805.5**	$	3,613.9
Liabilities				
Accounts payable and accrued expenses	**$**	**221.9**	$	227.5
Deferred revenues and other deposits		**101.5**		107.1
Accrued pension and postretirement benefit costs		**259.9**		217.6
Other liabilities		**189.9**		178.2
Actuarial liability of annuities payable		**7.1**		8.8
Liability for medical self-insurance		**109.5**		97.2
Government advances for student loans		**22.7**		23.2
Bonds and notes payable		**1,151.7**		943.5
Total Liabilities		**2,064.2**		1,803.1
Net Assets				
Unrestricted		**779.3**		857.4
Temporarily restricted		**462.1**		474.9
Permanently restricted		**499.9**		478.5
Total Net Assets		**1,741.3**		1,810.8
Total Liabilities and Net Assets	**$**	**3,805.5**	$	3,613.9

See accompanying notes to financial statements.

UNIVERSITY OF MIAMI
STATEMENTS OF ACTIVITIES
For the years ended May 31, 2016 and 2015
(in millions)

	May 2016	May 2015
Changes in unrestricted net assets		
Operating activities		
Operating revenues		
Tuition and fees, net	**$ 517.2**	$ 504.8
Grants and contracts, net	**507.7**	476.6
Net patient revenue - medical professional practice	**407.3**	385.3
Net patient revenue - hospitals and clinics	**1,137.9**	1,054.7
Gifts and trusts	**64.5**	69.6
Net assets released from restrictions	**27.3**	22.3
Endowment spending distribution	**38.4**	34.9
Investment return	**.1**	4.8
Auxiliary enterprises, net	**118.5**	117.3
Other sources	**37.6**	38.4
Total operating revenues	**2,856.5**	2,708.7
Operating expenses		
Compensation and benefits	**1,695.6**	1,596.3
Supplies and services	**687.1**	633.7
Depreciation	**136.5**	130.9
Utilities and maintenance	**75.9**	75.6
Interest	**39.7**	37.7
Other	**198.6**	212.1
Total operating expenses	**2,833.4**	2,686.3
Change in unrestricted net assets from operating activities	**23.1**	22.4
Non-Operating activities		
Endowment, annuity and other investment return, net of distributions	**(30.1)**	(.2)
Gifts and trusts	**8.2**	6.4
Net (loss) gain on long lived assets and business units	**(3.2)**	7.4
Loss on early extinguishment of debt	**(16.8)**	-
Net assets released from restrictions	**7.3**	1.2
Transfer to permanently restricted net assets	**(.8)**	(.5)
Change in unrestricted net assets from non-operating activities	**(35.4)**	14.3
Postretirement benefits related changes other than net periodic benefit cost	**(65.8)**	(53.4)
Decrease in unrestricted net assets	**(78.1)**	(16.7)
Changes in temporarily restricted net assets		
Endowment, annuity and other investment return, net of distributions	**(58.3)**	(7.9)
Gifts and trusts for property and equipment	**77.6**	86.7
Changes in value of annuities payable and trusts held by others	**(.1)**	.8
Net assets released from restrictions for property and equipment	**(34.8)**	(23.5)
Endowment spending distribution	**2.8**	2.6
(Decrease) increase in temporarily restricted net assets	**(12.8)**	58.7
Changes in permanently restricted net assets		
Endowment, annuity and other investment return	**(2.9)**	.5
Gifts and trusts	**23.3**	34.2
Net assets released from restrictions	**.2**	-
Transfer from unrestricted net assets	**.8**	.5
Increase in permanently restricted net assets	**21.4**	35.2
(Decrease) increase in total net assets	**(69.5)**	77.2
Net Assets		
Beginning of year	**1,810.8**	1,733.6
End of year	**$ 1,741.3**	$ 1,810.8

See accompanying notes to financial statements.

UNIVERSITY OF MIAMI
STATEMENTS OF CASH FLOWS
For the years ended May 31, 2016 and 2015
(in millions)

	May 2016	May 2015
Cash flows from operating activities		
(Decrease) increase in total net assets	**$ (69.5)**	$ 77.2
Adjustments to reconcile (decrease) increase in total net assets to net cash provided by operating activities		
Net realized and unrealized (gains) losses on investments and other assets	**67.5**	(25.3)
Gifts for plant expansion and endowment	**(87.1)**	(110.3)
Depreciation	**136.5**	130.9
Provision for doubtful accounts	**101.4**	109.3
Net loss (gain) on sale and/or disposal of other assets and property and equipment	**2.3**	(2.2)
Present value adjustment on annuities payable and trusts held by others	**.3**	(.1)
Amortization of debt premiums, discounts and issue costs	**(2.6)**	(1.8)
Loss on early extinguishment of debt	**16.7**	-
Change in operating assets and liabilities		
Decrease (increase) in		
Accounts and loans receivable, net	**(131.9)**	(151.9)
Contributions receivable, net	**24.2**	20.9
Other assets	**(10.7)**	12.3
Increase (decrease) in		
Accounts payable and accrued expenses	**(5.6)**	53.0
Deferred revenues, annuities payable and other liabilities	**0.3**	33.6
Accrued pension and postretirement benefit costs	**42.3**	(27.3)
Medical self-insurance	**12.3**	.2
Government advances for student loans	**(.5)**	.7
Net cash provided by operating activities	**95.9**	119.2
Cash flows from investing activities		
Purchases of investments	**(198.2)**	(498.3)
Proceeds from the sales and maturities of investments and sales of property and equipment	**279.3**	559.3
Capital expenditures for property and equipment	**(194.5)**	(205.3)
Student and shared appreciation mortgage loans:		
New loans made	**(5.5)**	(4.4)
Principal collected	**8.9**	8.3
Net cash used in investing activities	**(110.0)**	(140.4)
Cash flows from financing activities		
Gifts for plant expansion and endowment	**67.7**	17.0
Proceeds from the issuance of debt	**823.4**	127.2
Payments to retire bonds and notes payable	**(625.6)**	(78.2)
Net cash provided by financing activities	**265.5**	66.0
Cash and cash equivalents		
Net increase	**251.4**	44.8
Beginning of year	**130.3**	85.5
End of year	**$ 381.7**	$ 130.3

See accompanying notes to financial statements.

1. ORGANIZATION

The University of Miami (the University) is a private not-for-profit institution located in South Florida. Founded in 1925, the University owns and operates educational and research facilities as well as a health care system. Its mission is to educate and nurture students, to create knowledge through innovative research programs, to provide service to our community and beyond, and to pursue excellence in health care.

These financial statements include the accounts of the University's departments and facilities, including its hospitals and clinics. All significant intercompany accounts and transactions have been eliminated in the preparation of these statements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND REPORTING PRACTICES

Basis of Presentation

The financial statements of the University have been prepared on the accrual basis of accounting and in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP) for not-for-profit organizations.

The three net asset categories as reflected in the accompanying financial statements are as follows:

- **Unrestricted** - Net assets which are free of donor-imposed restrictions. It includes the University's investment in property and equipment and amounts designated by management for support of operations, programs, and facilities expansion. The University has determined that any donor-imposed restrictions for current or developing programs and activities are generally met within the operating cycle of the University and, therefore, the University's policy is to record these net assets as unrestricted. This category includes all revenues, expenses, gains and losses that are not changes in permanently or temporarily restricted net assets.

- **Temporarily Restricted** - Net assets whose use by the University is limited by donor-imposed stipulations that either expire with the passage of time or that can be fulfilled or removed by actions of the University pursuant to those stipulations. These net assets are available for program purposes, i.e., education, research, public service, and scholarships, as well as for buildings and equipment.

- **Permanently Restricted** - Net assets whose use by the University is limited by donor-imposed stipulations that neither expire with the passage of time nor can be fulfilled or otherwise removed by actions of the University. These net assets are invested in perpetuity, the income from which is expended for program purposes, i.e., education, research, public service, and scholarships.

Use of Estimates

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP) requires that management make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, and expenses during the reporting period as well as the disclosure of contingent assets and liabilities. Actual results could differ from those estimates.

Income Taxes

The University is exempt from federal income taxes under Section 501(c) (3) of the Internal Revenue Code, except for unrelated business income tax which is insignificant. Accordingly, no provision for income taxes is made in the financial statements. At May 31, 2016, there were no uncertain tax positions. The University files tax returns with U.S. federal and other tax authorities for which generally the statute of limitations may go back to the year ended May 31, 2013.

Cash Equivalents

All highly liquid investments with a maturity of three months or less when purchased are considered to be cash equivalents.

At May 31, 2016, cash equivalents include $132.2 of amounts held in escrow that are restricted by the 2015A and 2015B bonds for certain project costs (see note 10).

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND REPORTING PRACTICES (Continued)

Investments

Investments are reported at fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. See note 5 for fair value measurements. Realized gains and losses are recognized at date of disposition based on the difference between the net proceeds received and the purchased value of the investment sold, using the specific identification method. Unrealized gains and losses are recognized for the change in fair value between reporting periods. Interest and dividend income is recognized when earned.

The University's investments include various types of investment securities which are exposed to various risks such as interest rate, market, and credit risk. Due to the level of risk associated with certain investment securities and the level of uncertainty related to changes in the value of investment securities, it is possible that changes in risks in the near term could materially affect the amounts reported in the financial statements.

Revenue Recognition

Tuition and fees revenue is reported in the fiscal year in which educational programs are primarily conducted. Auxiliary revenue charges are directly related to the costs of the services provided. Revenue received before it is earned is deferred. Scholarships and fellowships awarded to students for tuition, fees, and room and board are based upon need and merit, and are netted against tuition and fees, and auxiliary enterprises revenue in the statements of activities as follows (in millions):

	2016	2015
Scholarships and fellowships:		
Institutionally funded	$ 197.5	$ 186.7
Externally funded - gifts and grants	10.4	11.5
Total amount netted against tuition and fees revenue	$ 207.9	$ 198.2
Amount netted against auxiliary enterprises revenue	$ 14.3	$ 15.0

Grants and contracts revenue from sponsored grants and contracts, including facilities and administrative costs recovery, are recognized when allowable expenses are incurred under such agreements.

Medical professional practice, and hospitals and clinics revenue (net patient revenue) are recorded based upon established billing rates less allowances for contractual adjustments, discounts, and allowances for doubtful accounts (bad debts). Revenues are recorded in the period the services are provided based upon the estimated amounts due from the patients and third-party payors, including federal and state agencies (under the Medicare and Medicaid programs), managed care health plans, commercial insurance companies, and employers. Estimates of contractual allowances represent the difference between established rates for services and amounts reimbursed by third-party payors based upon the payment terms specified in the related contractual agreements. Third-party payors' contractual payment terms are generally based upon predetermined rates per diagnosis, per diem rates or discounted fee-for-service rates.

Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount. The estimated reimbursement amounts are adjusted in subsequent periods as cost reports are prepared and filed and as final settlements are determined. In the opinion of management, adequate provisions for adjustments that may result from such reviews and audits have been made through May 31, 2016, in the accompanying financial statements. The impact of such adjustments to operating revenues for the years ended May 31, 2016 and 2015 was an increase of $3.2 million and a decrease of $1.1 million, respectively. Approximately 10.1% and 10.4% of total operating revenue was derived from services rendered under the Medicare program during the years ended May 31, 2016 and 2015, respectively.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND REPORTING PRACTICES (Continued)

Revenue Recognition (Continued)

Gifts of cash, property and marketable securities are recorded as revenue at fair value when received. Unconditional pledges (note 4) are recognized as revenue based on the estimated present value of the future cash flows, net of allowances, when the commitment is received. Pledges made and collected in the same reporting period are recorded when received in the appropriate net asset category. Conditional pledges are recorded as revenue only when donor stipulations are substantially met.

Auxiliary Enterprises

Auxiliary enterprises include residence halls, food services, retail stores, and athletics. Fee charges are directly related to the costs of services rendered and are recognized as revenue when the services or goods are delivered.

Annuities Payable and Trusts Held by Others

Certain gift annuities, charitable lead and remainder annuity trust agreements have been entered into with donors. Assets reported under these agreements are valued at fair value based on either the present value of expected cash flows or the value of the University's share of the underlying assets. These assets are included in trusts held by others on the statements of financial position, except for gift annuities which are included in cash and cash equivalents and investments. Gift annuities included in cash and cash equivalents, and investments totaled $17.1 and $20.7 million at May 31, 2016 and 2015, respectively. Generally, revenue from gift annuities and trusts is recognized at the date the agreements are established net of liabilities for the present value of the estimated future payments to donors and/or other beneficiaries.

The liabilities are adjusted during the term of the gift annuities for changes in the value of the assets, accretion of the discount, and other changes in the estimates of future benefits.

The University is also the beneficiary of certain perpetual trusts which are also included in trusts held by others on the statements of financial position. The fair value of the trusts, which are based on either the present value of the estimated future cash receipts or the fair value of the assets held in the trust, are recognized as assets and gift and trust revenue as of the date the University is notified of the establishment of the trust. The carrying value of the assets is adjusted for changes in fair value.

Medical School

Faculty physicians, in addition to teaching and conducting research, engage in the practice of medicine, which generates patient care revenue. Revenues and expenses, including compensation and administrative operations from the practice of medicine, are reflected as University revenues and expenses.

The University and the Public Health Trust of Miami-Dade County, Florida (PHT), owner and operator of Jackson Memorial Hospital (JMH), have entered into an affiliation agreement related to their independent missions within the designated land and facilities that comprise the Jackson Memorial Medical Center. Pursuant to that agreement, the PHT provides clinical facilities for the teaching of the University's medical students. Medical education of its students is the sole responsibility of the University. In addition, the University has agreed to permit its faculty to apply for privileges at JMH to train and supervise JMH house staff (interns, residents, and fellows) and to treat hospital patients in their capacity as members of JMH's attending medical staff. All such treatment and training is the sole responsibility of the PHT in its capacity as the legal owner and operator of the Jackson Health System's public hospitals and clinics and its statutory teaching hospital (JMH). The affiliation agreement provides the terms for the mutual reimbursement of services provided.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND REPORTING PRACTICES (Continued)

Insurance

The University manages property and liability risks through a combination of commercial insurance policies and self-insurance.

The University is self-insured for medical professional liability and maintains commercial excess loss coverage within specified limits. Provisions for medical professional liability claims and related costs are based on several factors, including an annual actuarial study using a discount rate of 3.0% at May 31, 2016 and 2015.

Property and Equipment

Property and equipment is stated at cost less accumulated depreciation and amortization. Depreciation is computed on a straight-line basis over the estimated useful lives of the related assets. Depreciation is not recorded on land, art objects and construction in progress. Leasehold improvements are amortized over the lesser of the lease term or the useful life.

Cost associated with the development and installation of internal-use software are accounted for in accordance with the Intangibles – Goodwill and Other, Internal Use Software subtopic of the FASB ASC. Accordingly, internal-use software costs are expensed or capitalized according to the provisions of the accounting standard. Capitalized software costs are included in computers and software.

Facilities and Administrative Cost Recovery

The Federal government reimburses the University for facilities and administrative costs incurred in connection with research grants and contracts based on approved rates through 2016. Facilities and administrative cost recovery from government and private sources included in grants and contracts revenues totaled $65.7 and $64.0 million during the years ended May 31, 2016 and 2015, respectively.

Impairment of Long-Lived Assets

U.S. GAAP requires that long-lived assets held by an entity, including intangible assets, be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset group may not be recoverable. No asset impairments were recorded by the University in fiscal years 2016 and 2015.

Recent Accounting Pronouncements

In May 2015, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2015-07, *Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or its equivalent).* This ASU amends the fair value accounting rules to remove the requirement to categorize within the fair value hierarchy all investments for which fair value is measured using the net asset value per share as a practical expedient. The University adopted this standard for the fiscal year ended May 31, 2016 and retroactively applied to May 31, 2015.

Effective for financial statements issued for fiscal years beginning after December 15, 2015, the FASB issued an amendment to “ASU No. 2015-03, Interest—Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs” (ASU 2015-03). ASU 2015-03 requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. The recognition and measurement guidance for debt issuance costs are not affected by the amendments in this ASU 2015-03. Although the University is not required to adopt this standard until the fiscal year ending May 31, 2017, the University decided to adopt this standard for the fiscal year ended May 31, 2016, and retroactively applied to May 31, 2015.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND REPORTING PRACTICES (Continued)

Recent Accounting Pronouncements (Continued)

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*. The guidance in this ASU supersedes the leasing guidance in Topic 840, *Leases*. Under the new guidance, lessees are required to recognize lease assets and lease liabilities on the balance sheet for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the income statement. The new standard is effective for fiscal years beginning after December 15, 2018. We are currently evaluating the impact of our pending adoption of the new standard on our financial statements.

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*, requiring an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The updated standard will replace most existing revenue recognition guidance in U.S. GAAP when it becomes effective and permits the use of either a full retrospective or retrospective with cumulative effect transition method. In August 2015, the FASB issued ASU 2015-14 which defers the effective date of ASU 2014-09 one year making it effective for annual reporting periods beginning after December 15, 2017. The University has not yet selected a transition method and is currently evaluating the effect that the standard will have on the financial statements.

Subsequent events

The University evaluated events and transactions occurring subsequent to May 31, 2016, through August 25, 2016, the date of issuance of the financial statements. During this period, there were no subsequent events requiring recognition or disclosure in the financial statements.

Reclassifications

Certain amounts in the prior year's financial statements have been reclassified to conform to the current year's presentation.

3. ACCOUNTS AND LOANS RECEIVABLE

At May 31, accounts and loans receivable consist of the following (in millions):

	2016	2015
Accounts and loans receivable, net:		
Patient care	$ 254.6	$ 235.3
Grants, contracts and other	109.8	100.4
Shared appreciation mortgages	26.8	31.4
Student	17.5	15.0
Student loans, net	29.1	28.6
Total	$ 437.8	$ 410.7

3. ACCOUNTS AND LOANS RECEIVABLE (Continued)

Approximately 12.4% and 11.9% of receivables was derived from services rendered under the Medicare program during the years ended May 31, 2016 and 2015, respectively.

Accounts and loans receivable, and student loans receivable are net of allowances for doubtful accounts of $146.0 and $.6 million, respectively, for 2016 and $127.2 and $.6 million, respectively, for 2015.

Shared appreciation mortgages were provided as part of a program to attract and retain excellent faculty and senior administrators through home mortgage financing assistance. Shared appreciation notes amounting to $29.3 and $33.9 million (gross of $2.5 million allowance for doubtful accounts) at May 31, 2016 and 2015, respectively, from University faculty and senior administrators are collateralized by second mortgages on residential properties. The program was suspended effective December 31, 2008 with limited exceptions.

Student loans are made primarily pursuant to federal programs and availability of funding. The related receivables have significant government restrictions as to marketability, interest rates, and repayment terms. Their fair value is not readily determinable.

4. CONTRIBUTIONS RECEIVABLE (PLEDGES)

Unconditional pledges are recorded at the present value of their future cash flows using a discount rate commensurate with the risk involved at the time the pledge is recorded. They are expected to be realized in the following periods at May 31, (in millions):

	2016	2015
In one year or less	$ 43.5	$ 44.8
Between one year and five years	86.0	99.8
More than five years	58.2	56.1
	187.7	200.7
Discount of $23.2 and allowance of doubtful pledges $17.6 for 2016 and $20.6 and $21.8 for 2015, respectively	(40.8)	(42.4)
Total	$ 146.9	$ 158.3

The methodology for calculating the allowance is based on the administration's review of individually significant outstanding pledges, analysis of the aging of payment schedules for all outstanding pledges, as well as other factors including current economic conditions.

5. FAIR VALUE OF FINANCIAL INSTRUMENTS

The valuation methodologies used for other investment instruments measured at fair value consisted of:

Variable Rate Swap Agreement

The University entered into an interest rate swap agreement on October 25, 2004 to manage the market risk associated with outstanding variable-rate debt. The swap agreement provides that the University receive a variable rate based on 3-month LIBOR and pay a fixed rate of 4.2% and matures on April 3, 2034. Parties to the interest rate swap agreement are subject to market risk for changes in interest rates as well as risk of credit loss in the event of nonperformance by the counterparty. The University deals only with high quality counterparties that meet rating criteria for financial stability and creditworthiness. The estimated cumulative fair value loss of the swap agreement was $4.7 and $4.4 million for the years ended May 31, 2016 and 2015, respectively, and is included in other investments, net in the tables that follow. Changes in the fair value, which for fiscal year 2016 and 2015 amounted to an unrealized loss of $(.3) and $(.3) million, respectively, are recorded as non-operating activities in the statements of activities. The notional amount was $16.6 and $17.3 million for fiscal year 2016 and 2015, respectively.

5. FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

Fair Value Measurements

Investments

The fair market value of investments at May 31, 2016 and 2015 amounted to $994.4 and $1,133.9 million, with a cost basis of $933.8 and $996.0 million, respectively. Short term investments consist primarily of commercial paper and U.S. Treasury securities with original maturities when purchased in excess of three months. Categories included in limited partnerships and limited liability companies and other investments, represent alternative investments which are valued at the net asset value (NAV) of the entities as determined by the fund managers. The majority of investments are combined in investment pools with each individual account subscribing to or disposing of shares on the basis of the fair value per share. At May 31, 2016 and 2015, the fair value of the University's primary investment pool (the Growth Pool) amounted to $854.3 and $1,003.7 million, with a cost basis of $796.3 and $871.8 million, respectively. The Growth Pool is managed by multiple investment managers with asset allocation per the University's investment policy. The total net unrealized gain (loss) on investments for the years ended May 31, 2016 and 2015 was $(77.4) and $(59.5) million, respectively.

FASB ASC 820 provides the framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The following describes the hierarchy of inputs used to measure fair value and the primary valuation methodologies used by the University for investments measured at fair value:

Level 1 — Valuations for assets and liabilities traded in active exchange markets, such as the New York Stock Exchange. Level 1 also includes U.S. Treasury and federal agency securities and federal agency mortgage-backed securities, which are traded by dealers or brokers in active markets. Inputs to the valuation methodologies include unadjusted quoted prices in active markets for identical assets or liabilities that are accessible at the measurement date.

Level 2 — Valuations for assets traded in less active dealer or broker markets. Inputs to the valuation methodologies include quoted prices from third party pricing services for identical or similar assets in active and/or inactive markets; inputs other than quoted prices that are observable for the asset or liability; or inputs that are derived principally from or corroborated by observable market data by correlation or other means.

Level 3 — primarily consists of trusts recorded at fair value based on the underlying value of the assets in the trust or discounted cash flow of the expected payment streams. The trusts reported at Level 3 are primarily perpetual trusts managed by third parties invested in stocks, mutual funds, and fixed income securities that are traded in active markets with observable inputs, which would result in Level 1 and 2 hierarchal reporting. However, since the University will never receive the trust assets, these perpetual trusts are reported as Level 3.

The University uses the NAV of hedge funds and limited partnerships as fair value as a practical expedient except where certain conditions exist. Those conditions include, changes to key personnel, material amendments to key terms, material pending litigations, imposition of gates and redemption fees. Investments recorded at NAV are not classified in the fair value hierarchy.

The level in the fair value hierarchy within which a fair value measurement in its entirety falls is based on the lowest level of any input that is significant to the fair value measurement. The University utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs. There have been no changes in the methodologies used at May 31, 2016.

During the years ended May 31, 2016 and 2015 there were no significant transfers between categories.

5. FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

Fair Value Measurements (continued)

Investments

		Fair Value Measurement at May 31, 2016 (in millions)		
	Total	Level 1	Level 2	Level 3
Assets:				
Short term investments	$ 111.8	$ 100.0	$ 11.8	$ -
Corporate bonds	43.0	-	43.0	-
Debt securities:				
U.S. treasury & other government agencies	.2	.2	-	-
Issued by foreign government	.1	-	.1	-
Publicly traded stocks:				-
Large-mid cap	48.8	48.8	-	-
Small cap	27.0	27.0	-	-
Mutual funds:				
Equities:				
Emerging markets	19.9	-	19.9	-
International	73.2	-	73.2	-
Large-mid cap	72.2	-	72.2	-
Small cap	31.9	-	31.9	-
Fixed income	63.9	-	63.9	-
Balanced	.9	-	.9	-
Multi-asset funds measured at NAV [1]	8.7	-	-	-
Limited partnerships and limited liability companies:				
Equities:				
Emerging markets measured at NAV [1]	44.9	-	-	-
International measured at NAV [1]	127.6	-	-	-
Large-mid cap measured at NAV [1]	101.8	-	-	-
Fixed income measured at NAV [1]	56.5	-	-	-
Private equity measured at NAV [1]	27.2	-	-	-
Other:				
Event arbitrage measured at NAV [1]	47.6	-	-	-
Long-short composite measured at NAV[1]	50.6	-	-	-
Real assets related securities measured at NAV [1]	26.1	-	-	-
Real estate measured at NAV [1]	13.3	-	-	-
Other investments	(2.8)	-	-	-
Total investments	994.4	176.0	316.9	-
Trusts held by others	45.6	-	-	45.6
Total assets	$ 1,040.0	$ 176.0	$ 316.9	$ 45.6

5. FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

Fair Value Measurements (continued)

Investments

	Total	Fair Value Measurement at May 31, 2015 (in millions)		
		Level 1	Level 2	Level 3
Assets:				
Short term investments	$ 33.4	$ 14.0	$ 19.4	$ -
Corporate bonds	73.7	-	73.7	-
Debt securities:				
U.S. treasury & other government agencies	16.8	16.8	-	-
Issued by foreign government	.1	-	.1	-
Publicly traded stocks:				
Large-mid cap	77.9	77.9	-	-
Small cap	29.3	29.3	-	-
Mutual funds:				
Equities:				
Emerging markets	24.5	-	24.5	-
International	80.5	-	80.5	-
Large-mid cap	72.3	-	72.3	-
Small cap	33.9	-	33.9	-
Fixed income	63.2	-	63.2	-
Balanced	.9	-	.9	-
Multi-asset funds measured at NAV [1]	9.4	-	-	-
Limited partnerships and limited liability companies:				
Equities:				
Emerging markets measured at NAV [1]	51.5	-	-	-
International measured at NAV [1]	136.7	-	-	-
Large-mid cap measured at NAV [1]	103.6	-	-	-
Fixed income measured at NAV [1]	79.7	-	-	-
Private equity measured at NAV [1]	31.5	-	-	-
Other:				
Event arbitrage measured at NAV [1]	66.3	-	-	-
Long-short composite measured at NAV [1]	84.9	-	-	-
Real assets related securities measured at NAV [1]	46.2	-	-	-
Real estate measured at NAV [1]	20.0	-	-	-
Other investments	(2.4)	-	-	-
Total investments	1,133.9	138.0	368.5	-
Trusts held by others	49.1	-	-	49.1
Total assets	$ 1,183.0	$ 138.0	$ 368.5	$ 49.1

[1] In accordance with ASC Subtopic 820-10, certain investments that are measured at fair value using the net asset value per share practical expedient have not been classified in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the statements of financial position.

5. FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

Fair Value Measurements (continued)

Investments

The following tables set forth a summary of changes in the fair value of the University's level 3 assets which are valued at net asset value:

	Trusts held by others
May 31, 2014	$ 48.5
Net unrealized gain included in net assets	.6
May 31, 2015	$ 49.1
Net unrealized losses included in net assets	(3.5)
May 31, 2016	$ 45.6

There were no other issuances and settlements for the years ended May 31, 2016 and 2015.

The total level 3 change in value related to trusts held by others at May 31, 2016 and 2015 total $(3.5) and $.6 million, respectively, and are reflected as part of investment return and changes in value of annuities payable and trusts held by others in the statements of activities.

The following tables summarize the University's investments whose fair value is reported using net asset value per share (in millions) using the practical expedient:

	At May 31, 2016			
Investments:	Fair Value	Future Commitments	Redemption Frequency	Days Notice
Limited partnerships and limited liability companies:				
Equities:				
Emerging markets (a)	$ 44.9	$ -	(M)	10-30 days
International (b)	127.6	-	(M)	5-6 days
Large-mid cap (c)	101.8	-	(Q)	60 days
Fixed income (d)	56.5	-	(M)	10-90 days
Private equity (e)	27.2	13.1	*	N/A
Other:				
Event arbitrage (f)	47.6	-	(Q)	65-90 days
Long-short composite (g)	50.6	-	(Q), (A)	45-60 days
Real assets related securities (h)	26.1	7.6	(M) *	10-60 days
Real estate (i)	13.3	4.4	*	N/A
Multi-asset funds	8.7	-	(D)	1 day
Other investments	(2.8)	-	N/A	N/A
Total investments	$ 501.5	25.1		

5. FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

Fair Value Measurements (continued)

Investments

	At May 31, 2015					
Investments:		Fair Value		Future Commitments	Redemption Frequency	Days Notice
Limited partnerships and limited liability companies:						
Equities:						
Emerging markets (a)	$	51.5	$	-	(M)	10-30 days
International (b)		136.7		-	(M)	5-6 days
Large-mid cap (c)		103.6		-	(Q)	60 days
Fixed income (d)		79.7		-	(M), (A)	10-90 days
Private equity (e)		31.5		13.3	*	N/A
Other:						
Event arbitrage (f)		66.3		-	(Q)	65-90 days
Long-short composite (g)		84.9		-	(Q), (A)	45-60 days
Real assets related securities (h)		46.2		9.4	(M), (Q) *	10-60 days
Real estate (i)		20.0		4.1	*	N/A
Multi-asset funds		9.4		-	(D)	1 day
Other investments		(2.4)		-	N/A	N/A
Total investments	$	627.4	$	26.8		

Redemption Frequency: (A) Annually, (Q) Quarterly, (M) Monthly, (D) Daily.

(*) The expected liquidation date for these assets range from 2016 to 2028 and are based on a combination of the inception date of the fund and the expected life of the fund as outlined in the partnership agreement inclusive of the manager's ability to extend the fund's life.

(a) This class consists of investments in small and mid-cap equities domiciled in or with significant underlying exposure to emerging markets. The firms utilize a fundamental, bottom-up process and focus on finding quality companies at compelling valuations.

(b) This class consists of investments in equities domiciled outside of the United States. The firms may utilize all-cap, all-style strategy or may focus on narrower strategies, but all funds have a long time horizon.

(c) This class follows a highly diversified strategy with more than 1,000 holdings held across the independently constructed analyst portfolios. Overall investments are geared to be long/short beta neutral with exposures in line with the S&P 500.

(d) This class consists of investments in debt securities. Some firms focus on buying government bonds throughout the world and may also engage in currency hedges and may do so via futures. Other firms focus on buying below investment grade corporate debt.

(e) This class consists of investments in private equity. These firms will make direct investments in private companies or in one case the firm manages a fund of funds that makes commitments to other private equity, venture capital and buyout funds. These firms invest across all sectors in both the US and globally. The portfolios are illiquid and will be locked for 10 – 12 years.

(f) This class consists of event arbitrage firms that invest in equity and credit securities. The strategy utilizes a bottom up process where each position is judged on its relative risk/reward versus short term interest rates.

(g) This class consists of hedge funds that focus on decentralized stock selection, predominately long equity strategy with some opportunistic debt investing. Firms typically hold 10-20 long positions and 5-15 shorts positions, with a gross exposure usually below 140%, focused on the small and mid-cap portion of the market.

5. FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

Fair Value Measurements (continued)

(h) This class consists of investments that hedge inflation through the holding of real assets directly or indirectly. Indirectly holding may occur through a fund of funds with underlying holdings in publicly traded mutual funds that invest commodity markets, fixed income securities, and equities. Direct holding may occur through direct investment in private companies in the energy and mining sector. The later holding is illiquid and will be locked for 10 – 12 years.

(i) This class consists of investments in underlying properties via debt and/or equity positions. These firms look to uncover real estate opportunities in traditional properties (commercial, residential, industrial, etc.) but will also look for more unique opportunities. The firms vary in focus from regional to global. These investments are illiquid and will typically exist for 10 – 12 years.

The University's investment policy and strategy for its investments, as established by the Investment Committee (the Committee) of the Board and ratified by the Executive Committee of the Board, is to provide for growth of capital with a moderate level of volatility by investing assets based on its target allocations. The weighted average target allocations for University assets is 55.0% equity securities, 10.0% fixed income, and 35.0% other investments. Equity securities include investments in large-mid cap and small cap companies primarily located in the United States, as well as international companies similar to the S&P 500, Russell 2000 and MSCI Indexes. Fixed income securities include corporate bonds of companies from diversified industries, mortgage-backed securities, and U.S. treasuries similar to the Barclays Capital Aggregate and Citigroup World Gov't Bond Indexes. Other investments include private equity funds, real estate funds, and hedge funds similar to those of the HFRI Fund of Funds, S&P 500, DJ/UBS Commodity, and NCREIF Property Indexes. Investments periodically are rebalanced to meet established target allocations. In addition, the Committee reviews its investment policy and target allocations periodically and effects changes when required, to ensure that strategic objectives are achieved.

Investment Return

The University's endowment spending distribution policy is to distribute five percent of the three-year moving average fair market value of the endowment investment pool. This policy is designed to protect the purchasing power of the endowment and to minimize the effect of capital market fluctuations on operating budgets.

The components of total investment return as reflected in the statements of activities are as follows (in millions):

	2016	2015
Operating:		
Endowment spending distribution	$ 38.4	$ 34.9
Investment return	.1	4.8
Total operating investment return	38.5	39.7
Non-Operating:		
Unrestricted:		
Endowment interest and dividend income, realized and unrealized losses, net of endowment spending distribution	(21.4)	(2.9)
Other net realized and unrealized gains (losses)	(8.7)	2.7
Total unrestricted non-operating investment return	(30.1)	(.2)
Temporarily restricted:		
Investment loss, net of endowment spending distribution	(58.3)	(7.9)
Endowment distributions reinvested	2.8	2.6
Permanently restricted investment return	(2.9)	.5
Total non-operating investment loss	(88.5)	(5.0)
Total investment return	$ (50.0)	$ 34.7

6. FAIR VALUE OF OTHER FINANCIAL INSTRUMENTS

The carrying amounts of cash and cash equivalents, patient, student and other receivables, accounts payable and accrued expenses approximate fair value due to the short maturity of these financial instruments. The carrying amounts of notes payable with variable interest rates approximate their fair value since the variable rates reflect current market rates for notes with similar maturities and credit quality. The fair value of bonds payable with fixed interest rates, which is classified as level 2 within the fair value hierarchy, is based on rates assumed to be currently available for bond issues with similar terms and average maturities. The estimated fair value of these bonds payable at May 31, 2016 and 2015 approximated $1,142.9 and $851.5 million, respectively. The carrying amounts of these bonds payable at May 31, 2016 and 2015 were $1,030.5 and $819.3 million, respectively.

7. PROPERTY AND EQUIPMENT

Property and equipment and related accumulated depreciation and amortization at May 31 consist of the following (in millions):

	Useful Lives	2016	2015
Land	-	$ 90.1	$ 87.4
Land improvements	20 years	115.7	111.0
Buildings and building improvements	8 to 50 years	1,866.2	1,800.1
Leasehold improvements	1 to 50 years	50.0	49.8
Construction in progress	-	189.1	137.0
Moveable equipment	3 to 20 years	580.5	556.8
Computers and software	5 to 15 years	169.3	158.1
Library materials	12 years	114.0	116.5
Art objects	-	56.1	55.7
		3,231.0	3,072.4
Accumulated depreciation and amortization		(1,509.2)	(1,408.3)
Total		$ 1,721.8	$ 1,664.1

Interest on borrowings is capitalized during construction, net of any project specific borrowings' investment income earned through the temporary investment of project borrowings. Net interest expense of $6.4 and $4.2 million was capitalized for the years ended May 31, 2016 and 2015, respectively.

8. ENDOWMENT

As required by accounting principles generally accepted in the United States of America, net assets associated with endowment funds, including funds designated by the Board to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

Quasi endowment funds are resources segregated for long-term investment and include investment return on unrestricted investments, and other resources designated by the Board for future programs and operations.

Spending Policy

The University's endowment spending distribution policy in support of its programs is to distribute five percent of the three-year moving average fair market value of the endowment investment pool. New endowments must be received prior to December 31 in order to activate the spending distribution for the next fiscal year. In addition, no distribution is made from an endowment until its funding reaches, by December 31, the level stipulated by policy. Further, endowments to establish Chairs and Professorships have an additional delay of one year before distributions are made.

8. ENDOWMENT (Continued)

Return Objectives and Risk Parameters

The University has adopted investment and spending policies to protect the purchasing power of the endowment and to minimize the effect of capital market fluctuations on operating budgets.

The intent of the University's policy for its primary investment pool (the Growth Pool), as approved by the Board, is to achieve a rate of return equal to or greater than the respective benchmark, while assuming a moderate level of risk. To satisfy its long-term rate-of-return objectives, the University relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The University targets a diversified asset allocation that places a greater emphasis on equity based investments to achieve its long-term return objectives within prudent risk constraints. The current long-term return objective is to earn a return of at least the Consumer Price Index plus 5%, net of fees. Actual returns in any given year may vary from this amount.

Application of Relevant Law

The Board's interpretation of its fiduciary responsibilities for donor-restricted endowments under Uniform Prudent Management of Institutional Funds Act in Florida (FL UPMIFA) is that it is required to use reasonable care and caution as would be exercised by a prudent investor, in considering the investment management and expenditures of endowment funds. In accordance with FL UPMIFA, the Board may expend so much of an endowment fund as the Board determines to be prudent for the uses and purposes for which the endowment fund is established, consistent with the goal of conserving the long-term purchasing power of the endowment fund.

FL UPMIFA specifies that unless stated otherwise in the gift instrument, donor-restricted assets in an endowment fund are restricted assets until appropriated for expenditure. Barring the existence of specific instructions in gift agreements for donor-restricted endowments, the University's policy is to report (a) the historical value for such endowments as permanently restricted net assets and (b) the net accumulated appreciation as temporarily restricted net assets. The amounts appropriated for expenditure are based on the endowment spending rate per unit and the number of units for each fund.

The unspent market appreciation of donor-restricted endowment funds is presented as temporarily restricted net assets until appropriated for expenditure by the University. When losses on the investments of a donor-restricted endowment fund exceed the net appreciation classified in temporarily restricted net assets, the excess loss reduces unrestricted net assets. Gains that restore the fair value of the assets of the endowment fund to the fund's required level (historic dollar value) are classified as an increase to the same class of net assets that was previously reduced for the excess loss - unrestricted net assets. After the fair value of the assets of the endowment fund equals the required level, gains are again available for expenditure, and those gains that are restricted by the donor are classified as increases in temporarily restricted net assets.

At May 31, 2016 and 2015, the net deficiency in the market value of certain endowment related assets which fell below the donor required level amounted to $5.8 and $.8 million, respectively, and resulted from unfavorable market fluctuations that occurred shortly after the investment of new permanently restricted contributions, as well as continued appropriations for certain programs deemed prudent by the University.

8. ENDOWMENT (Continued)

Endowment net assets consist of the following (in millions):

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
At May 31, 2015:				
Donor-restricted endowment funds:				
At historical value	$ -	$ 30.3	$ 416.1	$ 446.4
Accumulated net (depreciation) appreciation	(.8)	258.1	-	257.3
Quasi endowment funds	183.6	-	-	183.6
Total	$ 182.8	$ 288.4	$ 416.1	$ 887.3
At May 31, 2016:				
Donor-restricted endowment funds:				
At historical value	$ -	$ 34.3	$ 444.0	$ 478.3
Accumulated net (depreciation) appreciation	(5.8)	203.2	-	197.4
Quasi endowment funds	168.9	-	-	168.9
Total	$ 163.1	$ 237.5	$ 444.0	$ 844.6

Changes in endowment net assets for the fiscal years ended May 31, 2016 and 2015 consist of (in millions):

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Balance, May 31, 2014	$ 186.2	$ 292.5	$ 386.7	$ 865.4
Endowment investment return:				
Investment income	1.1	4.5	-	5.6
Net appreciation (realized and unrealized)	4.0	17.2	-	21.2
Total investment return	5.1	21.7	-	26.8
Gifts and Trusts	-	1.8	28.9	30.7
Endowment spending distribution for programs	(8.1)	(29.5)	-	(37.6)
Endowment distributions reinvested	.1	2.6	-	2.7
Net transfers from quasi endowment funds	(.5)	-	-	(.5)
Other	-	(.7)	.5	(.2)
Balance, May 31, 2015	$ 182.8	$ 288.4	$ 416.1	$ 887.3
Endowment investment return:				
Investment income	2.3	8.7	-	11.0
Net depreciation (realized and unrealized)	(15.3)	(33.0)	-	(48.3)
Total investment return	(13.0)	(24.3)	-	(37.3)
Gifts and Trusts	.1	4.0	27.1	31.2
Endowment spending distribution for programs	(8.5)	(32.7)	-	(41.2)
Endowment distributions reinvested	.1	2.8	-	2.9
Net transfers to quasi endowment funds	1.6	-	-	1.6
Other	-	(.7)	.8	.1
Balance, May 31, 2016	$ 163.1	$ 237.5	$ 444.0	$ 844.6

9. PENSION AND OTHER POSTRETIREMENT BENEFIT PLANS

The University has two non-contributory retirement plans, the Faculty Retirement Plan and the Employee Retirement Plan. These two plans were closed to employees hired after May 31, 2007. Effective June 1, 2007 a new retirement plan was established, the Retirement Savings Plan.

The University also sponsors an unfunded, defined benefit postretirement health plan that covers all full-time and part-time regular employees who elect coverage and satisfy the plan's eligibility requirements when they retire. The plan is contributory with retiree contributions established as a percentage of the total cost for retiree health care and for the health care of their dependents. The University pays all benefits on a current basis.

The Retirement Savings Plan (Savings Plan) is a defined contribution plan in which the University makes an automatic core contribution of 5% of pay with a dollar-for-dollar match on voluntary contributions up to an additional 5% of pay once the employee meets certain eligibility requirements. Eligible employees can begin making voluntary contributions to the Savings Plan at any time. Participation is limited to faculty and staff hired on or after June 1, 2007 or who elected, prior to June 1, 2007, to transfer to this plan from the Faculty Retirement Plan or from the Employee Retirement Plan. Core and matching contributions to the Savings Plan for 2016 and 2015 were $46.5 and $43.5 million, respectively.

The Retirement Savings Plan II (Savings Plan II) is a defined contribution plan the University established, effective January 1, 2008, that covers substantially all employees of the University of Miami Hospital (UMH). The plan is available to employees who meet certain eligibility requirements and requires that UMH match certain percentages of participants' contributions up to certain maximum levels. Eligible employees can begin making voluntary contributions to the Savings Plan II at any time. Core and matching contributions to the Savings Plan II were $6.7 and $6.5 million for the years ended May 31, 2016 and 2015, respectively.

Faculty Retirement Plan (Faculty Plan) is a defined contribution plan for eligible faculty hired between September 30, 1977 and May 31, 2007, and certain faculty hired on or before September 30, 1977, who ceased participation in the Employee Retirement Plan. Under the terms of the Faculty Plan, the University makes contributions to individual retirement accounts for each eligible faculty member. Payment from the retirement account commences when the faculty member has separated from service and elects to begin distributions in accordance with plan provisions.

Contributions to the Faculty Plan are based upon a combination of compensation, tenure status, length of service, and other factors and are funded as accrued. These contributions were $22.9 and $24.6 million for the years ended May 31, 2016 and 2015, respectively. In addition to the above noted plans, there are deferred compensation arrangements for certain employees, principally clinical faculty, the liability for which is included in other liabilities.

The Employee Retirement Plan (Employee Plan) is a defined benefit plan primarily for full-time non-faculty employees hired before June 1, 2007. Employee Plan assets are held by a Trustee. The benefit is based on the higher of two formulas: a formula based on years of service and the employee's compensation for the consecutive five year period of employment that produces the highest average; and a cash balance benefit formula determined each year based on compensation and investment earnings.

9. PENSION AND OTHER POSTRETIREMENT BENEFIT PLANS (Continued)

On April 29, 2014, the Employee Plan was also amended to allow all terminated vested employees a one-time opportunity, during a 60-day window ending May 31, 2015, to cash out their benefit without having to reach the normal retirement date. The Employee Plan was amended on April 29, 2014 to transfer employees from the Employee Plan to the Savings Plan at time of long term disability approval effective June 1, 2014. The amounts settled approximated $43.5 million, which was less than the sum of the service cost and the interest cost. Therefore, settlement accounting was not required.

On June 2, 2014, the Employee Plan was amended to eliminate benefit accruals for participants who become eligible for disability benefits under the University's Long-Term Disability Plan on or after June 1, 2014. This amendment also extended the meaning of "spouse" to include a person of the same-sex or gender.

On April 30, 2015, the Employee Plan was amended to allow full lump sum payments for participants' whose pension starting date occurs on or after June 1, 2015. In addition, participants who had previously taken partial or hardship lump sum payments may elect to take any residual benefit as a lump sum.

The measurement date for the Employee Plan and postretirement health plan is May 31 for fiscal years 2016 and 2015.

The following benefit payments, which reflect expected future service, are expected to be paid, for the fiscal years ending May 31 (in millions):

	Pension Benefits	Postretirement Benefits
2017	$ 52.6	$ .1
2018	54.3	.2
2019	55.7	.2
2020	56.9	.2
2021	56.1	.2
2022-2026	287.5	1.3

The University expects to contribute $50.0 million to the Employee Plan and $.1 million to its postretirement health plan during the fiscal year ending May 31, 2017.

9. PENSION AND OTHER POSTRETIREMENT BENEFIT PLANS (Continued)

The tables that follow provide a reconciliation of the changes in the plans' projected benefit obligations, fair value of assets and funded status (in millions):

	Pension Benefits		Postretirement Benefits	
	2016	2015	2016	2015
Change in Benefit Obligation				
Benefit obligation at beginning of year	$ 928.3	$ 909.6	$ 7.3	$ 6.2
Service cost – benefits attributed to employee service during period and administrative expenses	19.7	18.9	.5	.6
Interest costs accrued to measure benefit obligation at present value	38.8	38.4	.2	.3
Plan participant contributions	-	-	.6	.6
Actuarial loss (gain)	21.5	61.3	(4.3)	.3
Benefits paid and administrative expenses	(54.8)	(73.8)	(.6)	(.7)
Plan amendments	-	(26.1)	-	-
Benefit obligation at end of year	953.5	928.3	3.7	7.3
Change in Plan Assets				
Employee Plan assets at fair value at beginning of year	718.0	670.9	-	-
Investment return on Employee Plan assets	(15.4)	21.4	-	-
Benefits paid and Employee Plan expenses	(54.8)	(73.8)	(.6)	(.7)
Employer contributions	49.5	99.5	-	-
Plan participant contributions	-	-	.6	.7
Employee Plan assets at fair value at end of year	697.3	718.0	-	-
Funded status				
Accrued pension and postretirement benefit costs recognized on the statements of financial position	$ (256.2)	$ (210.3)	$ (3.7)	$ (7.3)
Amounts recognized in unrestricted net assets consist of:				
Net actuarial loss (gain)	$ 417.3	$ 351.8	$ (3.9)	$ .3
Prior service credit	(37.3)	(41.8)	(.5)	(.5)
	$ 380.0	$ 310.0	$ (4.4)	$ (.2)

At May 31, 2016 and 2015, the accumulated benefit obligation of the Employee Plan was $933.7 and $884.9 million, respectively, $236.4 and $166.9 million, respectively, in excess of Employee Plan assets.

The following table provides the components of net periodic pension cost for the plans (in millions):

	Pension Benefits		Postretirement Benefits	
	2016	2015	2016	2015
Service cost:				
Benefits attributed to employee service during periods and administrative expenses	$ 19.7	$ 18.9	$ .5	$ .6
Interest costs accrued to measure benefit obligation at present value	38.8	38.4	.3	.3
Expected return on Employee Plan assets	(54.0)	(51.5)	-	-
Amortization of prior service cost/(credit) - includes changes in pension formula and cost of Employee Plan amendments	(4.5)	(4.5)	(.1)	(.1)
Recognized net actuarial loss	25.4	16.8	(.1)	-
Net periodic benefit cost	$ 25.4	$ 18.1	$ .6	$ .8

9. PENSION AND OTHER POSTRETIREMENT BENEFIT PLANS (Continued)

The net actuarial loss and prior service credit expected to be recognized in net periodic benefit cost over the next fiscal year are as follows (in millions):

	Pension Benefits	Postretirement Benefits
Net actuarial loss (gain)	$ 42.8	(.2)
Prior service credit	(4.5)	(.1)

An 8.0% annual rate of increase in the per capita cost of covered health care benefits was assumed for 2016. The rate is assumed to decrease each year until reaching the ultimate of 5.1% in 2097. Assumed health care cost trend rates have an effect on the amounts reported for the health care plan. A load factor was applied to the trend rates to reflect the impact of excise tax in 2020 and beyond. A 1% change in assumed health care cost trend rates would have the following effect (in millions):

	1% Increase	1% Decrease
Effect on total of service and interest cost components of net periodic postretirement health care benefit cost	$ .1	$ (.1)
Effect on the health care component of the accumulated postretirement benefit obligation	.5	(.4)

The following weighted-average assumptions were used for the above calculations:

	Pension Benefits		Postretirement Benefits	
	2016	2015	2016	2015
Discount rate for benefit obligation	4.00%	4.25%	3.95%	4.20%
Discount rate for net periodic benefit cost	4.25%	4.55%	4.20%	4.40%
Expected return on Employee Plan assets	7.80%	7.80%	N/A	N/A
Rate of compensation increase related to net periodic benefit cost	3.70%/4.20%	3.70%/4.20%	N/A	N/A

The rate of compensation increase assumption related to the benefit obligation is 2.5% thru fiscal year 2020, and 3.0% thereafter. To develop the expected long-term rate of return for the Employee Plan assets, the University considered the historical returns of the major market indicators relating to the target asset allocation, as well as the current economic and financial market conditions.

The University has elected to adopt mortality tables issued in October 2014 by the Society of Actuaries. The mortality assumptions selected are the mixed-collar adjusted RP-2014 sex distinct pre- and post-annuitant mortality tables. These rates have been projected to 2014 using one-dimensional Scale BB. These tables represent recent mortality experience for a large US population dataset that is reasonably representative of the population covered under the Plan. Mortality improvement is also assumed beyond the valuation date because recent experience evidenced by Social Security beneficiaries indicates that longevity has continued to improve. For years after 2014, generational improvement is projected using scale MP-2014, modified to converge to a .75% long term rate of mortality improvement in 2022 for ages 65-84, lesser improvement rates are used at older ages.

9. PENSION AND OTHER POSTRETIREMENT BENEFIT PLANS (Continued)

Employee Plan Assets

The investment policy and strategy, as established by the University, is to provide for growth of capital with a moderate level of volatility by investing in various asset classes. The University has adopted a dynamic glide path asset allocation. Each asset class is tied to a dynamic asset allocation using suitable market indices to represent each class.

The current glide path asset allocation of Employee Plan assets for a funded ratio of at least but no more than 85% is as follows: 25% fixed income; 50.5% equities; and 24.5% other investments. Equity securities include registered mutual funds, unregistered limited partnerships, and 103-12 investment entities which invest in large cap, mid cap, small cap and emerging companies primarily located in the United States, as well as international and emerging markets companies whose benchmarks are tied to the S&P 500, Russell 2000 and MSCI Indexes. Fixed income securities include collective investment funds which invest in corporate bonds of companies from diversified industries, mortgage-backed securities, and U.S. treasuries whose benchmarks are tied to Barclay's Capital U.S. Credit Index, Barclay's Capital U.S. Long Gov't Credit Index, and Barclay's Capital Strips 15+ Yr Index. Other investments include investments in hedge funds, private equity funds, long-short composites, real estate, event arbitrage and common collective trusts investing in real assets related securities similar to those of the HFRI Fund of Funds, S&P 500, Bloomberg Commodity Index, and NCREIF Property Index. The University rebalances its investments periodically to meet the glide path allocations. The University also reviews its investment policy periodically to determine if the policy or allocations require change.

During the years ended May 31, 2016 and 2015 there were no significant transfers between the fair value hierarchy categories. See note 5 for fair value measurement narrative disclosures.

9. PENSION AND OTHER POSTRETIREMENT BENEFIT PLANS (Continued)

Employee Plan Assets (continued)

		Fair Value Measurement at May 31, 2016 (in millions)		
	Total	Level 1	Level 2	Level 3
Common stocks:				
Large-mid cap	$ 26.4	$ 26.4	$ -	$ -
Small cap	19.1	19.1	-	-
Registered mutual funds:				
Equities:				
Emerging markets	13.3	-	13.3	-
International	39.6	-	39.6	-
Large-mid cap	43.9	-	43.9	-
Unregistered limited partnerships and limited liability companies:				
Equities:				
Emerging markets measured at NAV [1]	20.2	-	-	-
Large-mid cap measured at NAV [1]	64.3	-	-	-
Private equity measured at NAV [1]	10.7	-	-	-
Other:				
Event arbitrage measured at NAV [1]	27.7	-	-	-
Real estate measured at NAV [1]	7.7	-	-	-
Long-short composite measured at NAV [1]	14.7	-	-	-
Money market accounts	26.7	26.7	-	-
Common collective trusts:				
Fixed income measured at NAV [1]	251.6	-	-	-
Real assets related securities measured at NAV [1]	15.0	-	-	-
103-12 Investment entities:				
Equities:				
International measured at NAV [1]	76.0	-	-	-
Small cap	30.3	-	30.3	-
Fixed income measured at NAV [1]	6.8	-	-	-
Other investments				
Private equity measured at NAV [1]	3.6	-	-	-
Long-short composite measured at NAV [1]	.1	-	-	-
Fixed income measured at NAV [1]	.4	-	-	-
Real assets related securities measured at NAV [1]	.1	-	-	-
Total	$ 698.2	$ 72.2	$ 127.1	$ -

9. PENSION AND OTHER POSTRETIREMENT BENEFIT PLANS (Continued)

Employee Plan Assets (continued)

	Total	Fair Value Measurement at May 31, 2015 (in millions) Level 1	Level 2	Level 3
Common stocks:				
Large-mid cap	$ 44.5	$ 44.5	$ -	$ -
Small cap	21.1	21.1	-	-
Registered mutual funds:				
Equities:				
Emerging markets	16.4	-	16.4	-
International	43.5	-	43.5	-
Large-mid cap	43.2	-	43.2	-
Unregistered limited partnerships and limited liability companies:				
Equities:				
Emerging markets measured at NAV [1]	23.2	-	-	-
Large-mid cap measured at NAV [1]	65.4	-	-	-
Private equity measured at NAV [1]	12.1	-	-	-
Other:				
Event arbitrage measured at NAV [1]	36.1	-	-	-
Long-short composite measured at NAV [1]	34.8	-	-	-
Real estate measured at NAV [1]	12.0	-	-	-
Real assets related securities measured at NAV [1]	8.9	-	-	-
Money market accounts	17.3	17.3	-	-
Common collective trusts:				
Fixed income measured at NAV [1]	187.9	-	-	-
Real assets related securities measured at NAV [1]	17.2	-	-	-
103-12 Investment entities:				
Equities:				
International measured at NAV [1]	81.4	-	-	-
Small cap	31.6	-	31.6	-
Fixed income measured at NAV [1]	6.9	-	-	-
Other investments:				
Private equity measured at NAV [1]	4.2	-	-	-
Long-short composite measured at NAV [1]	.1	-	-	-
Fixed income measured at NAV [1]	10.2	-	-	-
Real assets related securities measured at NAV [1]	.1	-	-	-
Total	718.1	$ 82.9	$ 134.7	$ -

[1] In accordance with ASC Subtopic 820-10, certain investments that are measured at fair value using the net asset value per share practical expedient have not been classified in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the statements of financial position.

10. BONDS AND NOTES PAYABLE

Bonds and notes payable at May 31 consist of the following (in millions):

	Series	Maturity	Interest Rate	2016	2015
Miami-Dade County, Florida Educational Facilities Authority	2007A to 2015B	2016 to 2050	1.58% to 5.75%	$ 985.6	$ 788.9
Notes payable to banks and others	-	2016 to 2030	2.0% to 2.38%	14.3	27.8
Notes payable to banks and others	-	2016 to 2021	Variable	111.9	109.5
Par amount of bonds and notes payable				1,111.8	926.2
Net unamortized premium				47.2	24.7
Net unamortized issue costs				(7.3)	(7.4)
Total				$ 1,151.7	$ 943.5

The annual maturities for bonds and notes payable at May 31, 2016 are as follows (in millions):

2017	$ 21.2
2018	21.9
2019	24.5
2020	42.1
2021	84.6
Thereafter	917.5
Total	$ 1,111.8

In December 2014, the University borrowed $16.8 million from a bank to refinance an existing note. The loan has a variable interest rate equal to LIBOR Floating Rate plus .80% per annum, and has a maturity date of December 16, 2019. The outstanding balance at May 31, 2016 and 2015 was $15.6 and $16.5 million respectively.

Effective August 4, 2015, the University entered into a $600.0 million senior credit facility with a syndicate of lenders, including a new revolving credit facility of $500.0 million and a new Term Loan A of $100.0 million. The $250.0 million Tranche A line of credit has a variable interest rate equal to the LIBOR Daily Floating Rate plus 0.70% per annum, and has a maturity date of August 4, 2018. The $250.0 million Tranche B line of credit has a variable interest rate equal to the LIBOR Daily Floating Rate plus 1.00% per annum, and has a maturity date of August 4, 2020. The Term Loan A has a variable interest rate equal to LIBOR Daily Floating Rate plus 0.80% per annum, and has a maturity date of August 4, 2020. The pricing for all three tranches are based on a pricing grid based on the University's credit ratings. At May 31, 2016 there were no amounts outstanding on the Tranche A and B line of credit. The outstanding balance for the Term Loan A at May 31, 2016 was $96.3 million.

In October 2015, the University issued $403.0 million of Series 2015A, and $258.1 million of Series 2015B Revenue and Revenue Refunding Bonds through the Miami-Dade County Educational Facilities Authority (MDCEFA). A portion of the proceeds of the bonds were used to advance refund all of the MDCEFA Series 2007A and Series 2008A bonds, by transferring sufficient proceeds to an escrow account held by a trustee to be used to pay all future debt service on the 2007A and 2008A bonds. As a result, the 2007A and 2008A bonds are considered legally defeased and the liabilities have been removed from these financial statements. The escrow agreement is collateralized by United States Treasury securities. Although the refunding resulted in a loss on early extinguishment of debt of $16.8 million, the new bonds bear lower rates thus achieving significant future savings for the University.

10. BONDS AND NOTES PAYABLE (Continued)

A portion of the proceeds are to be used to finance or refinance all or a part of the costs of the acquisition, construction, renovation and equipping of educational, research, medical, healthcare, parking and other facilities owned and operated by the University, including an ambulatory care center, the acquisition, installation, and implementation of an ERP-Workday system and a nursing simulation hospital.

Total interest paid on all bonds and notes was $47.5 and $43.8 million for the years ended May 31, 2016 and 2015, respectively. All of the bonds and notes payable listed in the table above are unsecured.

11. NET ASSETS

Unrestricted net assets consist of the following at May 31 (in millions):	2016	2015
Designated for operations, programs, facilities expansion and student loans	$ 187.8	$ 130.5
Cumulative pension and postretirement benefits related changes other than net periodic benefit cost	(375.5)	(309.9)
Invested in plant facilities	803.9	854.0
Endowment and similar funds	163.1	182.8
Total unrestricted net assets	$ 779.3	$ 857.4

Temporarily restricted net assets consist of the following at May 31 (in millions):	2016	2015
Gifts for programs and facilities expansion	$ 77.3	$ 29.6
Contributions (pledges) and trusts	136.7	145.0
Life income and annuity funds	10.6	11.9
Endowment and similar funds	237.5	288.4
Total temporarily restricted net assets	$ 462.1	$ 474.9

Permanently restricted net assets consist of the following at May 31 (in millions):	2016	2015
Contributions (pledges) and trusts	$ 55.9	$ 62.4
Endowment and similar funds	444.0	416.1
Total permanently restricted net assets	$ 499.9	$ 478.5

12. GIFTS AND TRUSTS

The University's Advancement Office (Advancement) reports total gifts and trusts based on the Management Reporting Standards issued by the Council for Advancement and Support of Education (CASE). Gifts, trusts, and pledges (gifts and trusts) reported for financial statement purposes are recorded on the accrual basis.

12. GIFTS AND TRUSTS (Continued)

The table below summarizes gifts and trusts received for the years ended May 31, 2016 and 2015, reported in the statements of activities as well as the CASE standards as reported by Advancement (in millions):

	2016	2015
Unrestricted gifts and trusts in support of programs	$ 64.5	$ 69.6
Unrestricted gifts and trusts for plant expansion	8.2	6.4
Temporarily restricted gifts and trusts for programs and plant expansion	77.6	86.7
Permanently restricted endowment gifts and trusts	23.3	34.2
Total gifts and trusts, per statements of activities	173.6	196.9
Increases (decreases) to reflect gifts and trusts per CASE standards (unaudited):		
Pledges, net	13.1	(56.2)
Non-government grants, included in grants and contracts revenue	44.6	50.6
Differences in valuation/recording:		
Funds held in trust by others	(2.7)	(4.2)
Annuity	.2	.7
Timing	2.6	4.0
Donations to supporting organizations recorded under CASE standards only	5.1	2.1
Total gifts and trusts as reported by Advancement	$ 236.5	$ 193.9

13. FUNCTIONAL EXPENSES

Operating expenses are reported in the statements of activities in natural categories. Functional expenses for fiscal years 2016 and 2015 are shown below (in millions):

	2016	2015
Instruction	$ 517.0	$ 503.2
Research	219.8	205.6
Public service	138.6	134.1
Patient care	1,376.2	1,253.5
Auxiliary enterprises	187.0	169.6
Academic support	139.8	140.1
Student services	50.0	44.1
Institutional support	205.0	236.1
Total	$ 2,833.4	$ 2,686.3

Facilities related expenses have been allocated across applicable functional expense categories in the statements of activities based on space usage (in millions):

	2016	2015
Depreciation	$ 136.5	$ 130.9
Interest	39.7	37.7
Operations and maintenance	124.8	130.3
Total	$ 301.0	$ 298.9

14. COMMITMENTS AND CONTINGENCIES

The University had contractual obligations of approximately $131.1 million at May 31, 2016 for various construction projects and purchases of equipment. The University has also entered into professional service agreements with Hospital Corporation of America, Inc. (HCA, Inc.) and various HCA, Inc. affiliates. Future minimum commitments under these agreements range from $3.1 to $10.9 million per year over the next five years, totaling $13.9 million.

The University, in its normal operations, is a defendant in various legal actions. Additionally, amounts received and expended under various federal and state programs are subject to audit by governmental agencies. Management is of the opinion that the outcome of these matters would not have a material effect on the University's financial position or results of operations.

The University leases certain real property. These leases are classified as operating leases and have lease terms ranging up to sixty-eight years. Total lease expense for the years ended May 31, 2016 and 2015 was $33.8 and $32.0 million, respectively. Future minimum lease payments under noncancelable operating leases at May 31, 2016 are as follows (in millions):

2017	$ 13.1
2018	11.3
2019	10.1
2020	8.7
2021	8.0
Thereafter	158.2
Total	$ 209.4