



**BRYANT UNIVERSITY**

Consolidated Financial Statements

June 30, 2017 and 2016

(With Independent Auditors' Report Thereon)

# BRYANT UNIVERSITY

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KPMG LLP  
One Financial Plaza, Suite 2300  
Providence, RI 02903

## Independent Auditors' Report

The Board of Trustees  
Bryant University:

We have audited the accompanying consolidated financial statements of Bryant University, which comprise the consolidated statements of financial position as of June 30, 2017 and 2016, the related consolidated statements of activities and cash flows for the years then ended, and the related notes to the consolidated financial statements.

### Management's Responsibility for the Financial Statements

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

### Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on 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 consolidated financial position of Bryant University as of June 30, 2017 and 2016, and the changes in its net assets and its cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

**KPMG LLP**

November 15, 2017

**BRYANT UNIVERSITY**

Consolidated Statements of Financial Position

June 30, 2017 and 2016

(Dollars in thousands)

Assets	2017	2016
Cash	\$ 3,609	12,917
Short-term investments (note 3)	44,021	26,959
Accounts receivable, net of allowance of \$1,590 and \$1,458 at June 30, 2017 and 2016, respectively	3,361	2,307
Contributions receivable, net (note 5)	5,763	6,604
Prepaid expenses and other assets	3,155	3,893
Notes receivable, net of allowance of \$211 at June 30, 2017 and 2016 (note 6)	5,862	5,959
Long-term investments (notes 3 and 4)	198,204	182,414
Deposits held by trustees (note 3)	135	14,645
Land, buildings, and equipment, net (note 7)	214,810	210,412
Total assets	\$ 478,920	466,110
<b>Liabilities and Net Assets</b>		
Liabilities:		
Accounts payable and accrued liabilities	\$ 21,174	27,959
Deferred revenues and advance payments	8,709	8,938
Asset retirement obligation	2,012	2,047
Interest rate swaps (note 9)	9,902	14,223
Notes and bonds payable, net (note 8)	114,659	118,152
Refundable advances – U.S. government grants (note 6)	6,700	6,581
Total liabilities	163,156	177,900
Net assets:		
Unrestricted:		
Available for operations	43,407	27,913
Designated for long-term investment	146,675	136,192
Net investment in plant	88,115	90,400
Total unrestricted net assets	278,197	254,505
Temporarily restricted (notes 4 and 10):		
Designated for long-term investment	8,091	6,491
Other temporarily restricted programs	9,572	10,556
Total temporarily restricted	17,663	17,047
Permanently restricted (notes 4 and 11)	19,904	16,658
Total net assets	315,764	288,210
Total liabilities and net assets	\$ 478,920	466,110

See accompanying notes to consolidated financial statements.

**BRYANT UNIVERSITY**

Consolidated Statement of Activities

Year ended June 30, 2017

(Dollars in thousands)

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total 2017</u>
Operating:				
Revenues:				
Tuition and fees	\$ 150,938	—	—	150,938
Residence and dining	39,438	—	—	39,438
Less scholarships and grants	<u>(57,799)</u>	<u>—</u>	<u>—</u>	<u>(57,799)</u>
Net student revenue	132,577	—	—	132,577
Contributions	1,362	—	—	1,362
Net assets released from restrictions (note 12)	2,745	—	—	2,745
Government grants	1,783	—	—	1,783
Long-term investment income used in operations (note 3)	8,156	—	—	8,156
Short-term investment income	292	—	—	292
Public service	206	—	—	206
Auxiliary and other sources	<u>7,903</u>	<u>—</u>	<u>—</u>	<u>7,903</u>
Total operating revenues	<u>155,024</u>	<u>—</u>	<u>—</u>	<u>155,024</u>
Expenses (note 14):				
Instruction	38,390	—	—	38,390
Academic support	14,743	—	—	14,743
Research	6,518	—	—	6,518
Student services	31,667	—	—	31,667
Institutional support	24,107	—	—	24,107
Public service	2,560	—	—	2,560
Auxiliary services	<u>28,061</u>	<u>—</u>	<u>—</u>	<u>28,061</u>
Total operating expenses	<u>146,046</u>	<u>—</u>	<u>—</u>	<u>146,046</u>
Increase in net assets from operating activities	<u>8,978</u>	<u>—</u>	<u>—</u>	<u>8,978</u>
Nonoperating:				
Capital contributions	—	4,549	2,556	7,105
Net assets released from restrictions (note 12)	3,592	(6,337)	—	(2,745)
Long-term investment return, net (note 3)	8,221	2,873	—	11,094
Change in fair value of interest rate swaps (note 9)	4,321	—	—	4,321
Other	(704)	(469)	690	(483)
Capital campaign expenses	<u>(716)</u>	<u>—</u>	<u>—</u>	<u>(716)</u>
Change in net assets from nonoperating activities	<u>14,714</u>	<u>616</u>	<u>3,246</u>	<u>18,576</u>
Change in net assets	23,692	616	3,246	27,554
Net assets:				
Beginning of year	<u>254,505</u>	<u>17,047</u>	<u>16,658</u>	<u>288,210</u>
End of year	<u>\$ 278,197</u>	<u>17,663</u>	<u>19,904</u>	<u>315,764</u>

See accompanying notes to consolidated financial statements.

**BRYANT UNIVERSITY**

Consolidated Statement of Activities

Year ended June 30, 2016

(Dollars in thousands)

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total 2016</u>
Operating:				
Revenues:				
Tuition and fees	\$ 144,260	—	—	144,260
Residence and dining	39,382	—	—	39,382
Less scholarships and grants	<u>(54,163)</u>	<u>—</u>	<u>—</u>	<u>(54,163)</u>
Net student revenue	129,479	—	—	129,479
Contributions	1,645	—	—	1,645
Net assets released from restrictions (note 12)	2,606	—	—	2,606
Government grants	1,447	—	—	1,447
Long-term investment income used in operations (note 3)	7,854	—	—	7,854
Short-term investment income	355	—	—	355
Public service	228	—	—	228
Auxiliary and other sources	<u>6,408</u>	<u>—</u>	<u>—</u>	<u>6,408</u>
Total operating revenues	<u>150,022</u>	<u>—</u>	<u>—</u>	<u>150,022</u>
Expenses (note 14):				
Instruction	35,099	—	—	35,099
Academic support	13,833	—	—	13,833
Research	6,530	—	—	6,530
Student services	30,143	—	—	30,143
Institutional support	22,785	—	—	22,785
Public service	2,591	—	—	2,591
Auxiliary services	<u>26,278</u>	<u>—</u>	<u>—</u>	<u>26,278</u>
Total operating expenses	<u>137,259</u>	<u>—</u>	<u>—</u>	<u>137,259</u>
Increase in net assets from operating activities	<u>12,763</u>	<u>—</u>	<u>—</u>	<u>12,763</u>
Nonoperating:				
Capital contributions	—	3,926	646	4,572
Net assets released from restrictions (note 12)	3,813	(6,419)	—	(2,606)
Long-term investment return, net (note 3)	(13,504)	(804)	—	(14,308)
Change in fair value of interest rate swaps (note 9)	(4,069)	—	—	(4,069)
Other	185	(108)	(25)	52
Capital campaign expenses	<u>(730)</u>	<u>—</u>	<u>—</u>	<u>(730)</u>
Change in net assets from nonoperating activities	<u>(14,305)</u>	<u>(3,405)</u>	<u>621</u>	<u>(17,089)</u>
Change in net assets	(1,542)	(3,405)	621	(4,326)
Net assets:				
Beginning of year	<u>256,047</u>	<u>20,452</u>	<u>16,037</u>	<u>292,536</u>
End of year	\$ <u>254,505</u>	<u>17,047</u>	<u>16,658</u>	<u>288,210</u>

See accompanying notes to consolidated financial statements.

**BRYANT UNIVERSITY**

Consolidated Statements of Cash Flows

Years ended June 30, 2017 and 2016

(Dollars in thousands)

	<u>2017</u>	<u>2016</u>
Cash flows from operating activities:		
Change in net assets	\$ 27,554	(4,326)
Adjustment to reconcile change in net assets to cash provided by operating activities:		
Depreciation	17,291	16,062
Amortization of bond issuance cost and premium	(198)	(198)
Gift of asset	(4)	(11)
Net unrealized and realized (gain) loss on long-term investments	(18,100)	7,324
Net loss on disposal of assets	48	20
Contributions for property, plant, and equipment investing activities	(1,827)	(293)
Contributions for property, plant, and equipment financing activities	(82)	(621)
Contributions received for long-term investment	(2,834)	(753)
(Decrease) increase in value of interest rate swaps	(4,321)	4,069
Decrease in asset remediation obligation	(35)	(35)
Change in working capital	828	7,168
Net cash provided by operating activities	<u>18,320</u>	<u>28,406</u>
Cash flows from investing activities:		
Purchase of land, buildings, and equipment	(29,247)	(55,845)
Contributions for property, plant, and equipment	1,827	293
Sale of land, buildings, and equipment	203	229
Capitalization of interest	(5)	(1,594)
Proceeds from maturities and sales of investments	47,563	70,043
Cost of purchases of investments	(62,316)	(72,793)
Change in deposits held by bond trustees	14,510	27,366
Change in notes receivable, net	97	110
Net cash used in investing activities	<u>(27,368)</u>	<u>(32,191)</u>
Cash flows from financing activities:		
Contributions received for long-term investment	2,834	753
Contributions for property, plant, and equipment	82	621
Repayment of principal on notes and bonds payable	(3,295)	(3,225)
Increase in refundable advances – U.S. government grants	119	103
Net cash used in financing activities	<u>(260)</u>	<u>(1,748)</u>
Change in cash	(9,308)	(5,533)
Cash, beginning of year	<u>12,917</u>	<u>18,450</u>
Cash, end of year	\$ <u><u>3,609</u></u>	\$ <u><u>12,917</u></u>
Supplemental disclosure:		
Change in accounts payable from property, plant, and equipment	\$ (7,316)	3,977

See accompanying notes to consolidated financial statements.

## BRYANT UNIVERSITY

### Notes to Consolidated Financial Statements

June 30, 2017 and 2016

(Dollars in thousands)

#### (1) Description of the University

Bryant University (the University) is a private, nonsectarian, co-educational institution of higher education chartered under the laws of the State of Rhode Island, composed of a College of Business and a College of Arts and Sciences. The University was founded in 1863 and is located in Smithfield, Rhode Island, on approximately 435 acres. The University offers programs leading to bachelor's degrees in business administration, information technology and international business, each with various concentrations and minors, as well as a bachelor's of arts degree and a bachelor's of science degree, each with various majors and minors. Additionally, the University offers graduate programs leading to master's degrees in accounting, business administration, taxation, communications, and physician assistant studies along with certificate programs in business analytics, and graduate studies in communications and sustainability practices.

The University has a wholly owned consolidated single-member LLC, BRU LLC. The purpose of the single-member LLC is to own and manage real estate and to conduct or engage in any lawful business or purpose related thereto. All significant intercompany transactions and balances have been eliminated in consolidation.

The University has a Wholly Foreign Owned Enterprise, Bryant China (H.K.) Limited, which is a consolidated, private LLC incorporated in Hong Kong, China. The purpose of the entity is to be the investment vehicle for the Bryant Zhuhai academic program, located in Guangdong Province, China. This program has a unique collaboration with the Beijing Institute of Technology Zhuhai to provide a four-year joint undergraduate degree program which mirrors Bryant's nationally recognized curriculum vigor, quality of faculty and is taught in English. All significant intercompany transactions and balances have been eliminated in consolidation.

#### (2) Summary of Significant Accounting Policies

The accompanying consolidated financial statements, which are presented on the accrual basis of accounting, have been prepared to focus on the University as a whole and to present balances and transactions according to the existence or absence of donor-imposed restrictions.

##### (a) Net Assets

Net assets, revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets and changes therein are classified as follows:

- *Permanently restricted net assets* – Net assets subject to donor-imposed stipulations that they be maintained permanently by the University. Generally, the donors of these assets permit the University to use all or part of the income and gains, if any, on related investments for general or specific purposes.
- *Temporarily restricted net assets* – Net assets subject to donor-imposed stipulations that may or will be met by actions of the University and/or the passage of time.
- *Unrestricted net assets* – Net assets not subject to donor-imposed stipulations which the University may use at its discretion.

## BRYANT UNIVERSITY

### Notes to Consolidated Financial Statements

June 30, 2017 and 2016

(Dollars in thousands)

Revenues are reported as increases in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulations or law. Expirations of temporary restrictions on net assets, that is, the donor-imposed stipulated purpose has been accomplished and/or the stipulated time period has elapsed, are reported as net assets released from restrictions between the applicable classes of net assets.

Dividends, interest, and net gains (losses) on investments are reported as follows:

- as increases in permanently restricted net assets if the terms of the gift or the University's interpretation of relevant state law requires that they be added to the principal of a permanently restricted fund;
- as increases (decreases) in temporarily restricted net assets if the terms of the contributions impose restrictions on the current use of the income and/or net gains; and
- as increases (decreases) in unrestricted net assets in all other cases.

Contributions, including unconditional promises to give, are recognized as revenues in the period received. Contributions subject to donor-imposed stipulations that are met in the same reporting period are reported as unrestricted revenues. Promises to give that are scheduled to be received after the consolidated statements of financial position dates are shown as increases in temporarily restricted net assets and are released to unrestricted net assets when the purpose and/or time restrictions are met. Promises to give subject to donor-imposed stipulations that the corpus be maintained permanently are recognized as increases in permanently restricted net assets. Conditional promises to give are not recognized until they become unconditional, that is, when the conditions on which they depend are substantially met. Contributions of assets other than cash are recorded at their estimated fair value. The University reports contributions of land, buildings, or equipment as unrestricted revenues unless the donor places restrictions on their use. Contributions of cash or other assets that must be used to acquire long-lived assets are reported as unrestricted revenues provided the long-lived assets are placed in service in the same reporting period. Otherwise, the contributions are reported as temporarily restricted support until the assets are acquired and placed in service.

Unconditional promises to give that are receivable as of the end of the fiscal year are recorded at their net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of estimated future cash flows. The discounts on those amounts are computed using a risk-free interest rate applicable to the year in which the promise is expected to be received. Amortization of the discount is recorded as additional contribution revenue in accordance with the donor-imposed restrictions, if any.

The University adheres to the American Institute of Certified Public Accountants (AICPA), *Not for Profit Organizations Audit and Accounting Guide*, in reporting expenses by their functional classification. Accordingly, depreciation, interest, and operations and maintenance expenses have been allocated to functional classifications based on building square footage. In addition, total fundraising expenses were \$3,174 and \$3,015 for the years ended June 30, 2017 and 2016, respectively.

## BRYANT UNIVERSITY

### Notes to Consolidated Financial Statements

June 30, 2017 and 2016

(Dollars in thousands)

#### **(b) Short-Term Investments**

Short-term investments include cash equivalents having daily liquidity and a bond fund with an average duration of four months or less.

#### **(c) Investments**

Investments are reported at fair value. If an investment is held directly by the University and an active market with quoted prices exists, the University reports the fair value as the market price of the security. The University also holds shares or units in nonmarketable securities including alternative investments such as private partnership, venture capital, hedge funds, and real assets strategies. Such alternative investment funds may hold securities or other financial instruments for which a ready market exists and are priced accordingly. In addition, such funds may hold assets which require the estimation of fair values in the absence of readily determinable market values. Such valuations are determined by fund managers and generally consider variables such as operating results, comparable earnings multiples, projected cash flows, recent sales prices, and other pertinent information, and may reflect discounts for the illiquid nature of certain investments held.

The three levels of the fair value hierarchy are:

- Level 1 – inputs are quoted prices in active markets for identical assets or liabilities that the University has the ability to access at measurement date.
- Level 2 – inputs are other than quoted prices included in Level 1 that are either directly or indirectly observable for the assets or liabilities.
- Level 3 – inputs are derived from valuation methodologies, including pricing models, discounted cash flow models and similar techniques, and are not based on market, exchange, dealer, or broker traded transactions. In addition, Level 3 valuations incorporate assumptions and projections that are not observable in the market, and significant professional judgment in determining the fair value assigned to such assets or liabilities.

Investments in funds that are not considered to have a readily determinable fair value are valued at net asset value (NAV) as a practical expedient or its equivalent are not included in the three levels described above.

#### **(d) Use of Estimates**

The preparation of consolidated financial statements in conformity with U.S. generally accepted accounting principles (GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities, as of the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. The current economic environment increases the uncertainty in those estimates.

## **BRYANT UNIVERSITY**

### Notes to Consolidated Financial Statements

June 30, 2017 and 2016

(Dollars in thousands)

#### **(e) Land, Buildings, and Equipment**

Land, constructed and purchased property, and equipment are carried at historical cost. Long-lived fixed assets, with the exception of land, are depreciated using the straight-line method over their estimated useful lives, which range from two to forty years.

#### **(f) Deferred Revenues**

Students' reservation deposits, along with advance payments for tuition, room, board, and certain expenditures that relate to the University's summer or fall sessions, have been deferred and will be recorded as unrestricted revenues and expenses, respectively, in the year in which they are earned or incurred.

#### **(g) Tax Status**

The University is a tax-exempt organization as described in Section 501(c)(3) of the Internal Revenue Code (the Code) and is generally exempt from income taxes pursuant to Section 501(a) of the Code. BRU LLC is a wholly owned single-member LLC, a disregarded entity for tax purposes. Bryant China (H.K.) Limited is a foreign corporation for tax purposes. Any tax liability of BRU LLC or Bryant China (H.K.) Limited is reported by the University. The University believes it has taken no significant uncertain tax positions.

#### **(h) Operations**

The consolidated statements of activities report the changes in unrestricted, temporarily restricted, and permanently restricted assets from operating and nonoperating activities. Unrestricted operating revenues consist of those items attributable to the University's primary mission of providing education. It includes investment earnings on the University's operating funds. Investment earnings on the University's unrestricted long-term investments and all realized and unrealized gains and losses, net of the amount appropriated for operations, are classified as nonoperating. Net assets released from restrictions for capital purposes are also classified as nonoperating. Additionally, unrestricted operating revenues include contributions received related to annual fund support, while all other contributions and related capital campaign fundraising expenses are classified as nonoperating. Changes in the fair values of the University's interest rate swaps are classified as nonoperating.

#### **(i) Asset Retirement Obligations**

The fair value of a liability for legal obligations associated with asset retirements is recognized in the period in which it is incurred, if a reasonable estimate of the fair value of the obligation can be made. When the liability is initially recorded, the cost of the asset retirement obligation is capitalized by increasing the carrying amount of the related long-lived asset. Over time, the liability is accreted to its present value each period, and the capitalized cost associated with the retirement obligations is depreciated over the useful life of the related asset. Upon settlement of the obligation, any difference between the cost to settle the asset retirement obligation and the liability recorded is recognized as a gain or loss in the consolidated statements of activities. The University had an asset retirement obligation of \$2,012 and \$2,047 as of June 30, 2017 and 2016, respectively.

## BRYANT UNIVERSITY

### Notes to Consolidated Financial Statements

June 30, 2017 and 2016

(Dollars in thousands)

#### **(j) Fair Value of Financial Instruments**

The University discloses fair value information about all financial instruments for which it is practicable to estimate fair value. The University's financial instruments not carried at fair value are carried at net realizable value, which approximates fair value. Such financial instruments consist of cash and short-term investments, accounts receivable, other assets, accounts payable and accrued liabilities, deferred revenues and advance payments, which would be classified in Level 1 of the fair value hierarchy. The University further determined that the differences between the carrying values and estimated fair values of its other financial assets and liabilities at June 30, 2017 and 2016 were not material.

#### **(3) Investments**

The investment objective of the University is to invest its assets in a prudent manner to achieve a long-term rate of return sufficient to fund a portion of its spending and to increase investment value after inflation. The University diversifies its investments among asset classes by incorporating several strategies and managers. Major investment decisions are authorized by the University's Trustees Investment Committee that oversees the University's investments.

In addition to equity and fixed income investments, the University may also hold shares or units in institutional funds and alternative investment funds involving hedged, private partnership, and natural resource strategies. Hedged strategies involve funds whose managers have the authority to invest in various asset classes at their discretion, including the ability to invest long and short. Funds with hedged strategies generally hold securities or other financial instruments for which a ready market exists, and may include stocks, bonds, put or call options, swaps, currency hedges and other instruments. Private partnership and natural resource funds generally employ buyout, venture capital, and debt related strategies and often require the estimation of fair values by the fund managers in the absence of readily determinable market values.

Fair values for shares in mutual funds are based on share prices reported by the funds as of the last business day of the fiscal year. The University's interests in alternative investment funds that are not considered to have a readily determinable fair value are generally reported at the net asset value (NAV) reported by the fund managers. NAV is used as a practical expedient to estimate the fair value of the University's interest therein, unless it is probable that all or a portion of the investment will be sold by an amount different from NAV. As of June 30, 2017 and June 30, 2016, the University had no specific plans or intentions to sell investments at amounts different than NAV.

**BRYANT UNIVERSITY**

Notes to Consolidated Financial Statements

June 30, 2017 and 2016

(Dollars in thousands)

The University's assets at June 30, 2017 that are reported at fair value are summarized in the following table by their fair value hierarchy classification:

	<u>June 30, 2017</u>	<u>Level 1</u>
Short-term investments		
Investments at fair value:		
Cash equivalents	\$ 36,226	36,226
Fixed income	7,795	7,795
Total short-term investments at fair value	<u>44,021</u>	<u>44,021</u>
Deposits held by trustees:		
Cash and cash equivalents	135	135
Total deposits held by trustees at fair value	135	135
Long-term investments		
Investments at fair value:		
U.S. equities	22,113	22,113
Non-U.S. equities	40,026	40,026
Fixed income	35,321	35,321
Inflation hedging	8,817	8,817
Hedge funds	3,954	3,954
Cash and cash equivalents	3,278	3,278
Total long-term investments at fair value	113,509	113,509
Investments measured at NAV as a practical expedient	84,695	—
Total investments	\$ <u>242,360</u>	<u>157,665</u>

Investments valued at NAV at June 30, 2017 include: equity funds valued at \$9,669 with monthly redemption frequencies and notice periods of 30 days; a hedge fund holdback for possible litigation valued at \$9 with no determinable redemption date; hedge funds valued at \$43,344 with quarterly redemption frequencies and notice periods of 60 to 65 days; hedge funds valued at \$13,395 with annual redemption frequencies and notice periods of 45 to 95 days; and private equity, venture, distressed, real estate and natural resource funds valued at \$18,278 that are illiquid.

**BRYANT UNIVERSITY**

Notes to Consolidated Financial Statements

June 30, 2017 and 2016

(Dollars in thousands)

The University's assets at June 30, 2016 that are reported at fair value are summarized in the following table by their fair value hierarchy classification:

	<u>June 30, 2016</u>	<u>Level 1</u>
Short-term investments		
Investments at fair value:		
Cash equivalents	\$ 19,256	19,256
Fixed income	<u>7,703</u>	<u>7,703</u>
Total short-term investments at fair value	26,959	26,959
Deposits held by trustees:		
Cash and cash equivalents	10,574	10,574
Certificates of deposit	470	470
Fixed Income	<u>3,601</u>	<u>3,601</u>
Total deposits held by trustees at fair value	14,645	14,645
Long-term investments		
Investments at fair value:		
U.S. equities	19,144	19,144
Non-U.S. equities	33,216	33,216
Fixed income	35,746	35,746
Inflation hedging	9,234	9,234
Hedge funds	3,817	3,817
Cash and cash equivalents	<u>2,979</u>	<u>2,979</u>
Total long-term investments at fair value	104,136	104,136
Investments measured at NAV as a practical expedient	<u>78,278</u>	—
Total investments	\$ <u><u>224,018</u></u>	<u><u>145,740</u></u>

Investments valued at NAV at June 30, 2016 include: equity funds valued at \$7,906 with monthly redemption frequencies and notice periods of 30 days; an equity fund holdback valued at \$194 from a full redemption request that will be available in 10 months; a hedge fund holdback for possible litigation valued at \$9 with no determinable redemption date; hedge funds valued at \$38,341 with quarterly redemption frequencies and notice periods of 60 to 65 days; hedge funds valued at \$12,072 with annual redemption frequencies and notice periods of 44 to 95 days; and private equity, venture, distressed, real estate and natural resource funds valued at \$19,756 that are illiquid.

Under the terms of certain limited partnership agreements, the University is obligated to remit additional funding periodically as capital or liquidity calls are exercised by investment managers. The University had outstanding commitments to such limited partnerships of \$13,795 as of June 30, 2017.

The limited partnerships with redemption lock-up periods have various terms and may provide for extensions of one to four years. Some of the partnership agreements allow for multiple extensions.

**BRYANT UNIVERSITY**

Notes to Consolidated Financial Statements

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The expirations of the private partnerships' and natural resource funds' redemption lock-up periods are summarized in the table below:

	<b>Amount</b>
Fiscal year:	
2018	\$ 1,923
2019	3,731
2020	5,182
2021	3,391
2022	—
Thereafter	4,051
Total	\$ 18,278

Long-term investment activity consisted of the following for the years ended June 30, 2017 and 2016:

	<b>2017</b>	<b>2016</b>
Long-term investments at beginning of year	\$ 182,414	176,962
Interest and dividends	3,345	3,147
Net realized and unrealized gain (loss)	18,100	(7,324)
Management fees	(2,195)	(2,277)
Total investment gain (loss)	19,250	(6,454)
Contributions	2,834	753
Amount appropriated for operating activities	(8,156)	(7,854)
Interfund transfers, additions and payments	1,862	19,007
Long-term investments at end of year	\$ 198,204	182,414

Management fees have been calculated based on actual costs charged by investment managers and, in the case of mutual funds, based on an approximation of expense ratios on assets under management.

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**(4) Endowment**

The University's endowment consists of approximately 55 individual funds established for a variety of purposes, including both donor-restricted endowment funds (true endowment) and funds designated by the Board of Trustees to function as endowments. 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 Uniform Prudent Management of Institutional Funds Act enacted by the State of Rhode Island (the Act) requires the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. The University classifies as permanently restricted net assets (a) the original value of the gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund.

The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the University in a manner consistent with the standard of prudence prescribed by the Act. In accordance with the Act, the University considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: 1) The duration and preservation of the fund; 2) The purpose of the University and the donor-restricted endowment fund; 3) General economic conditions; 4) The possible effect of inflation and deflation; 5) The expected total return from income and the appreciation of investments; 6) Other resources of the University; 7) The investment policies of the University.

Endowment net asset composition by type of fund consists of the following at June 30, 2017:

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ (5)	8,091	19,441	27,527
Board-designated endowment funds	<u>146,680</u>	<u>—</u>	<u>—</u>	<u>146,680</u>
Total endowed net assets	\$ <u><u>146,675</u></u>	<u><u>8,091</u></u>	<u><u>19,441</u></u>	<u><u>174,207</u></u>

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

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Endowment net assets, June 30, 2016	\$ 136,192	6,491	15,916	158,599
Investment return:				
Investment income, net	741	134	—	875
Net gains	14,712	2,652	—	17,364
Total investment return	15,453	2,786	—	18,239
Contributions	—	—	2,834	2,834
Transfers	2,000	—	691	2,691
Other changes	45	(45)	—	—
Appropriation of endowment assets for expenditure	(7,015)	(1,141)	—	(8,156)
Endowment net assets, June 30, 2017	\$ <u>146,675</u>	<u>8,091</u>	<u>19,441</u>	<u>174,207</u>

Endowment net asset composition by type of fund consists of the following at June 30, 2016:

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ (50)	6,491	15,916	22,357
Board-designated endowment funds	136,242	—	—	136,242
Total endowed net assets	\$ <u>136,192</u>	<u>6,491</u>	<u>15,916</u>	<u>158,599</u>

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

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Endowment net assets, June 30, 2015	\$ 146,576	8,362	15,163	170,101
Investment return:				
Investment income, net	674	111	—	785
Net (losses)	<u>(6,229)</u>	<u>(957)</u>	<u>—</u>	<u>(7,186)</u>
Total investment return	(5,555)	(846)	—	(6,401)
Contributions	—	—	753	753
Transfers	2,000	—	—	2,000
Other changes	(47)	47	—	—
Appropriation of endowment assets for expenditure	<u>(6,782)</u>	<u>(1,072)</u>	<u>—</u>	<u>(7,854)</u>
Endowment net assets, June 30, 2016	\$ <u>136,192</u>	<u>6,491</u>	<u>15,916</u>	<u>158,599</u>

Long-term investments as of June 30, 2017 and 2016 include \$23,997 and \$23,815, respectively, of operating investments, which are not part of the endowment investment pool.

**(b) Funds with Deficiencies**

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below their original contributed value. Deficiencies of this nature are reported in unrestricted net assets and were \$5 as of June 30, 2017 and \$50 as of June 30, 2016. These deficiencies resulted from unfavorable market fluctuations that occurred 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.

**(c) Return Objectives and Risk Parameters**

The University has adopted investment and spending policies for endowment assets that attempt to support the educational mission of the University by providing a reliable source of funds for current and future use. The financial objective is to provide a level of support consistent with the endowment's purchasing power being maintained or enhanced over time. It is expected that professional management and portfolio diversification will reduce volatility and assure a reasonably consistent level of return. Endowment assets include those assets of donor-restricted funds that the University must hold in perpetuity or for a donor-specified period as well as board-designated funds. The primary investment objective of the management of the endowment fund is to maintain and grow the fund's real value by generating average annual real returns that meet or exceed the spending rate, after inflation,

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management fees, and administrative costs. Consistent with this goal, the Board of Trustees and the Investment Committee intend that the endowment fund be managed to maximize total returns consistent with prudent levels of risk, reduce portfolio risk through asset allocation and diversification, and outperform each of the capital markets in which assets are invested.

#### **(d) Strategies Employed for Achieving Objectives**

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 Investment Committee is responsible for establishing an asset allocation policy. The asset allocation policy is designed to attempt to achieve diversity among capital markets and within capital markets, by investment discipline and management style. The Investment Committee designs a policy portfolio in light of the endowment's needs for liquidity, preservation of purchasing power, and risk tolerances.

The University targets a diversified asset allocation that places emphasis on investments in domestic and international equities, fixed income, hedge funds and alternative investments such as private equity, venture capital, natural resource, and real estate, as well as cash equivalents, to achieve its long-term return objectives within prudent risk constraints. The Investment Committee periodically reviews the policy portfolio's asset allocation for possible rebalancing.

Under the University's endowment investment spending policy, up to 5% of the endowment investments' trailing twelve-quarter average market value is appropriated for expenditure.

#### **(5) Contributions Receivable**

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

	<u>2017</u>	<u>2016</u>
Amounts due in:		
Less than one year	\$ 4,016	3,599
One to five years	4,057	4,721
Over five years	266	254
Less discount and allowance for uncollectible contributions	<u>(2,576)</u>	<u>(1,970)</u>
Contributions receivable, net	<u>\$ 5,763</u>	<u>6,604</u>

The risk adjusted discount rate, which ranged from 0.93% to 2.409%, is utilized in determining the fair value of such contributions receivable.

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**(6) Notes Receivable**

Notes receivable include funds advanced to the University by the U.S. government under the Federal Perkins Loan Program (the Program). Such funds may be reloaned by the University after collection, but in the event that the University no longer participates in the Program, the amounts are generally refundable to the U.S. government. Notes receivable are principally amounts under the Program and are subject to significant restrictions. Accordingly, it is not practicable to determine the fair value of such amounts.

**(7) Land, Buildings, and Equipment**

The University's land, buildings, and equipment are composed of the following as of June 30, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Buildings	\$ 336,925	294,758
Furniture, equipment, and other assets	62,675	61,127
Land and improvements	27,030	25,764
Construction in progress	<u>3,508</u>	<u>31,169</u>
	430,138	412,818
Less accumulated depreciation	<u>(215,328)</u>	<u>(202,406)</u>
Land, buildings, and equipment, net	<u>\$ 214,810</u>	<u>210,412</u>

Depreciation expense was \$17,291 and \$16,062 for the years ended June 30, 2017 and 2016, respectively.

**(8) Notes and Bonds Payable**

Notes and bonds payable outstanding as of June 30, 2017 and 2016 are as follows:

	<u>2017</u>	<u>2016</u>
Variable rate, RIHEBC, 2008 Series, due in varying amounts to 2035	\$ 47,135	47,600
2.000%–5.000%, RIHEBC, 2011 Series, due in varying amounts to 2032	19,080	19,965
1.6125%, RIHEBC, 2013 Series, due in varying amounts to 2019	2,330	3,465
3.000%–5.000%, RIHEBC, 2014 Series, due in varying amounts to 2044	44,730	45,540
Add unamortized bond premium	1,783	2,110
Less bond issuance costs	<u>(399)</u>	<u>(528)</u>
Notes and bonds payable, net	<u>\$ 114,659</u>	<u>118,152</u>

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Cash paid for interest was \$5,023 and \$5,125 for the years ended June 30, 2017 and 2016, respectively.

The amount of interest capitalized was \$5 and \$1,594 for the years ended June 30, 2017 and 2016, respectively.

Scheduled annual principal repayments of bonds payable are as follows:

Fiscal year:		
2018	\$	3,375
2019		3,525
2020		3,785
2021		3,930
2022		4,130
Thereafter		<u>94,530</u>
Total principal payments	\$	<u>113,275</u>

In June 2008, the University entered into an agreement with RIHEBC, which provided for the issuance of \$50,420 variable rate, Higher Education Facility Revenue Refunding Bonds, due in varying principal payments or sinking fund payments to June 1, 2035. They are a general obligation of the University, requiring a pledge of tuition and admission fees received in each fiscal year. This bond series is backed by a \$47,863 direct-pay Letter of Credit agreement with a bank, which expires on December 21, 2018. The purpose of issuing the 2008 debt was to refund the 2005 and 2007 variable rate bonds including certain expenses incurred in connection with the issuance. The interest rate was 0.89% and 0.39% for the years ended June 30, 2017 and 2016, respectively.

In November 2011, the University entered into an agreement with RIHEBC, which provided for the issuance of \$23,255 Higher Education Facility Revenue Refunding Bonds, Series 2011 Bonds, due in varying principal payments or sinking fund payments to December 1, 2031. These bonds are a general obligation of the University, requiring a pledge of tuition and admission fees received in each fiscal year. The purpose of issuing the 2011 debt was to refund the 2001 bonds.

In February 2013, the University entered into an agreement with RIHEBC, which provided for the issuance of \$7,825 Higher Education Facility Revenue Refunding Bonds, Series 2013 Bonds, due in varying principal payments or sinking fund payments to June 30, 2019. These bonds are a general obligation of the University, requiring a pledge of tuition and admission fees received in each fiscal year. The bond is a private placement bond with TD Bank. The purpose of issuing the 2014 debt was to refund the 2002 bonds.

In June 2014, the University entered into an agreement with RIHEBC, which provided for the issuance of \$47,095 Higher Education Facility Revenue Bonds, Series 2014 Bonds, due in varying principal payments or sinking fund payments to June 1, 2044. These bonds are a general obligation of the University, requiring a pledge of tuition and admission fees received in each fiscal year. The proceeds are being utilized to finance several construction projects.

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The University has obtained an uncommitted/unsecured line of credit with a bank for a maximum of \$10,000. There is no balance outstanding under the line of credit at June 30, 2017 or June 30, 2016.

The University's bond and letter of credit agreements contain certain covenants, which the University was in compliance with as of June 30, 2017.

**(9) Interest Rate Swaps**

The University has three interest rate swaps, the purpose of which is to swap the variable rate on the underlying \$50,420 debt issued in June 2008 for fixed rates. One interest rate swap was entered into for \$30,000 to obtain a fixed rate of 3.793%. Another two interest rate swaps were entered into for \$10,000 each to obtain fixed rates of 3.856% and 3.790%, respectively. Counterparty payments will continue through June 1, 2035. The liability, representing a negative fair value of all three swap agreements, has been recorded as an unrestricted net liability on the consolidated statements of financial position for the years ended June 30, 2017 and 2016 in the amount of \$9,902 and \$14,223, respectively.

The University entered into these agreements to hedge cash flows attributable to interest payments on the debt issues and does not use such instruments for speculative purposes. The instruments' fair values and changes therein must be measured in the University's net assets. The values of the swap instruments represent the estimated benefit or cost to the University to cancel the agreements at the reporting date, and are based on option pricing models that consider risks and market factors.

Counterparty	Issue date	Effective date	Expiration/termination date	Remaining notional amount	Swap fixed rate	Fair value at June 30 asset (liability)	
						2017	2016
Wells Fargo Bank, N.A.	11/24/08	11/24/08	06/01/35	\$ 29,100	3.793 %	\$ (6,233)	(8,944)
Barclays Bank, PLC	11/24/08	11/24/08	06/01/35	10,000	3.790	(2,153)	(3,087)
Barclays Bank, PLC	11/24/08	11/24/08	06/01/35	7,750	3.856	(1,516)	(2,192)
Totals						\$ (9,902)	(14,223)

Since the swap fair values are based predominantly on observable inputs that are corroborated by market data, they are categorized as Level 2 for purposes of valuation disclosure.

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**(10) Temporarily Restricted Net Assets**

Temporarily restricted net assets consisted of the following as of June 30, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Contributions receivable, net	\$ 5,358	5,921
Purpose restrictions:		
Scholarships	1,132	1,128
Instruction	1,538	1,228
Academic support	18	18
Student services	225	219
Public service	278	217
Buildings and facilities	170	694
Other capital campaign	853	1,131
Cumulative endowment appreciation (note 4)	<u>8,091</u>	<u>6,491</u>
Total purpose restrictions	<u>12,305</u>	<u>11,126</u>
Total temporarily restricted net assets	<u>\$ 17,663</u>	<u>17,047</u>

**(11) Permanently Restricted Net Assets**

Permanently restricted net assets consisted of the following as of June 30, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Contributions receivable, net	\$ 405	683
Other receivables	58	59
Assets for which income is restricted for the following purposes:		
Scholarships	17,821	14,297
Instruction and other programs	<u>1,620</u>	<u>1,619</u>
Total income restricted as to purpose	<u>19,441</u>	<u>15,916</u>
Total permanently restricted net assets	<u>\$ 19,904</u>	<u>16,658</u>

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**(12) Net Assets Released from Restrictions**

Net assets released from donor restrictions by incurring expenses or costs satisfying the restricted purposes or by occurrence of events specified by the donors were as follows:

	<u>2017</u>	<u>2016</u>
Buildings, facilities and other	\$ 3,592	3,813
Scholarships and other programs	<u>2,745</u>	<u>2,606</u>
Total net assets released from restrictions	\$ <u>6,337</u>	<u>6,419</u>

**(13) Retirement Plan**

The University has a defined contribution retirement plan (the Plan) for eligible full-time academic, administrative and service personnel. The Plan is designed in accordance with the provisions of Section 403(b) of the Internal Revenue Code. Contributions are made by the University and the participants to the Teachers' Insurance and Annuity Association – College Retirement Equities Fund (TIAA-CREF) and the Fidelity Service Company, the Plan's investment custodians, based on participant elections. The University's expense under the Plan was \$4,792 and \$4,539 for the years ended June 30, 2017 and 2016, respectively.

**(14) Natural Classification of Operating Expenses**

Operating expenses by their natural classification were as follows for the years ended June 30, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Salaries and wages	\$ 62,679	59,743
Depreciation and amortization of bond issuance cost	17,419	16,191
Fringe benefits	19,342	19,101
Purchased services	9,296	8,552
Food service	7,506	7,175
Interest	4,710	3,151
Utilities and communications	3,513	3,403
Advertising and publications	2,387	2,280
Supplies and postage	1,844	1,909
Facility renovations	1,843	1,614
Other	<u>15,507</u>	<u>14,140</u>
Total operating expenses	\$ <u>146,046</u>	<u>137,259</u>

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**(15) Subsequent Events**

For purposes of determining the effects of subsequent events on these financial statements, management has evaluated events subsequent to June 30, 2017 and through November 15, 2017, the date on which the consolidated financial statements were issued. The University concluded that no material subsequent events have occurred.