BRYANT UNIVERSITY

Consolidated Financial Statements

June 30, 2018 and 2017

(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, 2018 and 2017, 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.

Auditors' 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, 2018 and 2017, 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

October 29, 2018

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BRYANT UNIVERSITY

Consolidated Statements of Financial Position

June 30, 2018 and 2017

(Dollars in thousands)

Assets		2018	2017
Cash	$	7,584	3,609
Short-term investments (note 3)		54,867	44,021
Accounts receivable, net of allowance of $1,576 and $1,590 at June 30, 2018 and 2017, respectively		3,632	3,361
Contributions receivable, net (note 5)		6,306	5,763
Prepaid expenses and other assets		3,750	3,155
Notes receivable, net of allowance of $218 and $211 at June 30, 2018 and 2017, respectively (note 6)		5,772	5,862
Long-term investments (notes 3 and 4)		205,856	198,204
Deposits held by trustees (note 3)		147	135
Land, buildings, and equipment, net (note 7)		212,059	214,810
Total assets	$	499,973	478,920
Liabilities and Net Assets			
Liabilities:			
Accounts payable and accrued liabilities	$	24,818	21,174
Deferred revenues and advance payments		9,966	8,709
Asset retirement obligation		2,060	2,012
Interest rate swaps (note 9)		7,124	9,902
Notes and bonds payable, net (note 8)		111,043	114,659
Refundable advances – U.S. government grants (note 6)		6,414	6,700
Total liabilities		161,425	163,156
Net assets:			
Unrestricted:			
Available for operations		49,478	43,407
Designated for long-term investment		154,127	146,675
Net investment in plant		91,710	88,115
Total unrestricted net assets		295,315	278,197
Temporarily restricted (notes 4 and 10):			
Designated for long-term investment		9,304	8,091
Other temporarily restricted programs		12,732	9,572
Total temporarily restricted		22,036	17,663
Permanently restricted (notes 4 and 11)		21,197	19,904
Total net assets		338,548	315,764
Total liabilities and net assets	$	499,973	478,920

See accompanying notes to consolidated financial statements.

BRYANT UNIVERSITY

Consolidated Statement of Activities

Year ended June 30, 2018

(Dollars in thousands)

		Unrestricted	Temporarily restricted	Permanently restricted	Total 2018
Operating:					
Revenues:					
Tuition and fees	$	157,705	—	—	157,705
Residence and dining		40,028	—	—	40,028
Less scholarships and grants		(61,761)	—	—	(61,761)
Net student revenue		135,972	—	—	135,972
Contributions		2,724	—	—	2,724
Net assets released from restrictions (note 12)		2,112	—	—	2,112
Government grants		1,965	—	—	1,965
Long-term investment income used in operations (note 3)		8,205	—	—	8,205
Short-term investment income		647	—	—	647
Public service		242	—	—	242
Auxiliary and other sources		7,546	—	—	7,546
Total operating revenues		159,413	—	—	159,413
Expenses (note 14):					
Instruction		40,136	—	—	40,136
Academic support		14,448	—	—	14,448
Research		6,973	—	—	6,973
Student services		32,980	—	—	32,980
Institutional support		24,005	—	—	24,005
Public service		2,573	—	—	2,573
Auxiliary services		28,507	—	—	28,507
Total operating expenses		149,622	—	—	149,622
Increase in net assets from operating activities		9,791	—	—	9,791
Nonoperating:					
Capital contributions		—	5,807	1,295	7,102
Net assets released from restrictions (note 12)		1,659	(3,771)	—	(2,112)
Long-term investment return, net (note 3)		4,647	2,407	—	7,054
Change in fair value of interest rate swaps (note 9)		2,778	—	—	2,778
Other		(1,164)	(70)	(2)	(1,236)
Capital campaign expenses		(593)	—	—	(593)
Change in net assets from nonoperating activities		7,327	4,373	1,293	12,993
Change in net assets		17,118	4,373	1,293	22,784
Net assets:					
Beginning of year		278,197	17,663	19,904	315,764
End of year	$	295,315	22,036	21,197	338,548

See accompanying notes to consolidated financial statements.

BRYANT UNIVERSITY

Consolidated Statement of Activities

Year ended June 30, 2017

(Dollars in thousands)

	Unrestricted	Temporarily restricted	Permanently restricted	Total 2017
Operating:				
Revenues:				
Tuition and fees	$ 150,938	—	—	150,938
Residence and dining	39,438	—	—	39,438
Less scholarships and grants	(57,799)	—	—	(57,799)
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	7,903	—	—	7,903
Total operating revenues	155,024	—	—	155,024
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	28,061	—	—	28,061
Total operating expenses	146,046	—	—	146,046
Increase in net assets from operating activities	8,978	—	—	8,978
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	(716)	—	—	(716)
Change in net assets from nonoperating activities	14,714	616	3,246	18,576
Change in net assets	23,692	616	3,246	27,554
Net assets:				
Beginning of year	254,505	17,047	16,658	288,210
End of year	$ 278,197	17,663	19,904	315,764

See accompanying notes to consolidated financial statements.

BRYANT UNIVERSITY

Consolidated Statements of Cash Flows

Years ended June 30, 2018 and 2017

(Dollars in thousands)

		2018	2017
Cash flows from operating activities:			
Change in net assets	$	22,784	27,554
Adjustment to reconcile change in net assets to cash provided by operating activities:			
Depreciation		17,050	17,291
Amortization of bond issuance cost and premium		(241)	(198)
Gift of asset		(17)	(4)
Net unrealized and realized gain on long-term investments		(13,803)	(18,100)
Net loss on disposal of assets		73	48
Contributions for property, plant, and equipment investing activities		(282)	(1,827)
Contributions for property, plant, and equipment financing activities		(65)	(82)
Contributions received for long-term investment		(884)	(2,834)
Decrease in value of interest rate swaps		(2,778)	(4,321)
Increase (decrease) in asset remediation obligation		48	(35)
Change in working capital		(818)	828
Net cash provided by operating activities		21,067	18,320
Cash flows from investing activities:			
Purchase of land, buildings, and equipment		(10,247)	(29,247)
Contributions for property, plant, and equipment		282	1,827
Sale of land, buildings, and equipment		202	203
Capitalization of interest		—	(5)
Proceeds from maturities and sales of investments		110,832	47,563
Cost of purchases of investments		(115,527)	(62,316)
Change in deposits held by bond trustees		(12)	14,510
Change in notes receivable, net		90	97
Net cash used in investing activities		(14,380)	(27,368)
Cash flows from financing activities:			
Contributions received for long-term investment		884	2,834
Contributions for property, plant, and equipment		65	82
Repayment of principal on notes and bonds payable		(3,375)	(3,295)
(Decrease) increase in refundable advances – U.S. government grants		(286)	119
Net cash used in financing activities		(2,712)	(260)
Change in cash		3,975	(9,308)
Cash, beginning of year		3,609	12,917
Cash, end of year	$	7,584	3,609
Supplemental disclosure:			
Change in accounts payable from property, plant, and equipment	$	4,311	(7,316)

See accompanying notes to consolidated financial statements.

(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.

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. Bryant China (H.K.) Limited has a wholly owned consolidated single-member LLC, Zhuhai Bryant Educational Consulting Co., Ltd., which was incorporated in Zhuhai, China. The purpose of Bryant China (H.K.) Limited and its subsidiary, Zhuhai Bryant Educational Consulting Co., Ltd., is to be the investment vehicles 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.

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 $3,017 and $3,174 for the years ended June 30, 2018 and 2017, respectively.

(b) Short-Term Investments

Short-term investments include money market funds and a time deposit having daily liquidity and a bond fund with an average duration of less than two months.

(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.

(Continued)

(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 and Zhuhai Bryant Educational Consulting Company are foreign corporations for tax purposes. Any tax liability of BRU LLC, Bryant China (H.K.) Limited, or Zhuhai Bryant Educational Consulting Company is reported by the University. The University believes it has taken no significant uncertain tax positions.

On December 22, 2017, the President signed into law H.R. 1, originally known as the Tax Cuts and Jobs Act. The new law (Public Law No. 115-97) includes substantial changes to the taxation of individuals, businesses, multinational enterprises and others. In addition to many generally applicable provisions, the law contains several specific provisions that result in changes to the tax treatment of tax-exempt organizations and their donors. The University has reviewed these provisions and the potential impact and concluded the enactment of H.R. 1 will not have a material effect on the operations of the organization.

(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.

(Continued)

(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 $2,060 and $2,012 as of June 30, 2018 and 2017, respectively.

(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, 2018 and June 30, 2017, the University had no specific plans or intentions to sell investments at amounts different than NAV.

(Dollars in thousands)

The University's assets at June 30, 2018 that are reported at fair value are summarized in the following table by their fair value hierarchy classification:

		June 30, 2018	Level 1
Short-term investments:			
Investments at fair value:			
Cash equivalents	$	41,881	41,881
Fixed income		12,986	12,986
Total short-term investments at fair value		54,867	54,867
Deposits held by trustees:			
Cash and cash equivalents		147	147
Total deposits held by trustees at fair value		147	147
Long-term investments:			
Investments at fair value:			
U.S. equities		15,876	15,876
Non-U.S. equities		47,601	47,601
Fixed income		35,486	35,486
Inflation hedging		10,539	10,539
Hedge funds		3,876	3,876
Cash and cash equivalents		2,968	2,968
Total long-term investments at fair value		116,346	116,346
Investments measured at NAV as a practical expedient		89,510	
Total investments	$	260,870	171,360

Investments valued at NAV at June 30, 2018 include: equity funds valued at $11,253 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 $44,845 with quarterly redemption frequencies and notice periods of 60 to 65 days: hedge funds valued at $14,185 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 $19,218 that are illiquid.

(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:

	June 30, 2017	Level 1
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	44,021	44,021
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	$ 242,360	157,665

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.

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 $11,123 as of June 30, 2018.

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

(Continued)

(Dollars in thousands)

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

		Amount
Fiscal year:		
2019	$	3,553
2020		3,230
2021		3,911
2022		119
2023		1,365
Thereafter		7,040
Total	$	19,218

Long-term investment activity consisted of the following for the years ended June 30, 2018 and 2017:

		2018	2017
Long-term investments at beginning of year	$	198,204	182,414
Interest and dividends		3,572	3,345
Net realized and unrealized gain		13,803	18,100
Management fees		(2,116)	(2,195)
Total investment gain		15,259	19,250
Contributions		884	2,834
Amount appropriated for operating activities		(8,205)	(8,156)
Interfund transfers, additions and payments		(286)	1,862
Long-term investments at end of year	$	205,856	198,204

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.

(Dollars in thousands)

(4) Endowment

The University's endowment consists of 58 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, 2018:

		Unrestricted	Temporarily restricted	Permanently restricted	Total
Donor-restricted endowment funds	$	(3)	9,304	20,325	29,626
Board-designated endowment funds		154,130	—	—	154,130
Total endowed net assets	$	154,127	9,304	20,325	183,756

(Dollars in thousands)

Changes in endowment net assets for the year ended June 30, 2018 are as follows:

		Unrestricted	Temporarily restricted	Permanently restricted	Total
Endowment net assets, June 30, 2017	$	146,675	8,091	19,441	174,207
Investment return:					
Investment income, net		938	181	—	1,119
Net gains		11,551	2,200	—	13,751
Total investment return		12,489	2,381	—	14,870
Contributions		—	—	884	884
Transfers		2,000	—	—	2,000
Other changes		2	(2)	—	—
Appropriation of endowment assets for expenditure		(7,039)	(1,166)	—	(8,205)
Endowment net assets, June 30, 2018	$	154,127	9,304	20,325	183,756

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

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

(Continued)

(Dollars in thousands)

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

		Unrestricted	Temporarily restricted	Permanently restricted	Total
Endowment net assets, June 30, 2016	$	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	$	146,675	8,091	19,441	174,207

Long-term investments as of June 30, 2018 and 2017 include $22,100 and $23,997, 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 $3 as of June 30, 2018 and $5 as of June 30, 2017. 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, management fees, and administrative costs. Consistent with this goal, the Board of Trustees and the

(Dollars in thousands)

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, 2018 and 2017:

		2018	2017
Amounts due in:			
Less than one year	$	4,490	4,016
One to five years		3,002	4,057
Over five years		268	266
Less discount and allowance for uncollectible contributions		(1,454)	(2,576)
Contributions receivable, net	$	6,306	5,763

The risk adjusted discount rate, which ranged from 1.625% to 2.75%, is utilized in determining the fair value of such contributions receivable.

(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.

(Dollars in thousands)

(7) Land, Buildings, and Equipment

The University's land, buildings, and equipment are composed of the following as of June 30, 2018 and 2017:

		2018	2017
Buildings	$	341,724	336,925
Furniture, equipment, and other assets		61,530	62,675
Land and improvements		29,031	27,030
Construction in progress		6,555	3,508
		438,840	430,138
Less accumulated depreciation		(226,781)	(215,328)
Land, buildings, and equipment, net	$	212,059	214,810

Depreciation expense was $17,050 and $17,291 for the years ended June 30, 2018 and 2017, respectively.

(8) Notes and Bonds Payable

Notes and bonds payable outstanding as of June 30, 2018 and 2017 are as follows:

		2018	2017
Variable rate, RIHEBC, 2008 Series, due in varying amounts to 2035	$	46,670	47,135
2.000%–5.000%, RIHEBC, 2011 Series, due in varying amounts to 2032		18,165	19,080
1.6125%, RIHEBC, 2013 Series, due in varying amounts to 2019		1,175	2,330
3.000%–5.000%, RIHEBC, 2014 Series, due in varying amounts to 2044		43,890	44,730
Add unamortized bond premium		1,455	1,783
Less bond issuance costs		(312)	(399)
Notes and bonds payable, net	$	111,043	114,659

Cash paid for interest was $4,871 and $5,023 for the years ended June 30, 2018 and 2017, respectively.

(Continued)

(Dollars in thousands)

Scheduled annual principal repayments of bonds payable are as follows:

Fiscal year:		
2019	$	3,525
2020		3,785
2021		3,930
2022		4,130
2023		4,285
Thereafter		90,245
Total principal payments	$	109,900

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 $47,391 direct-pay Letter of Credit agreement with a bank, which was set to expire on December 21, 2018. The University received an amendment to the direct-pay Letter of Credit which extended the expiration to December 21, 2021. 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 1.48% and 0.89% for the years ended June 30, 2018 and 2017, 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.

The University's bond and letter of credit agreements contain certain covenants, which the University was in compliance with as of June 30, 2018.

(Continued)

(Dollars in thousands)

(9) Interest Rate Swaps

The University has three interest rate swaps, the purpose of which is to swap the variable rate on the underlying debt issued in June 2008 for fixed rates. 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, 2018 and 2017 in the amount of $7,124 and $9,902, 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) 2018	2017
Wells Fargo Bank, N.A.	11/24/08	11/24/08	06/01/35	$ 28,950	3.793 %	$ (4,495)	(6,233)
Barclays Bank, PLC	11/24/08	11/24/08	06/01/35	10,000	3.790	(1,554)	(2,153)
Barclays Bank, PLC	11/24/08	11/24/08	06/01/35	7,450	3.856	(1,075)	(1,516)
Totals						$ (7,124)	(9,902)

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.

(10) Temporarily Restricted Net Assets

Temporarily restricted net assets consisted of the following as of June 30, 2018 and 2017:

	2018	2017
Contributions receivable, net	$ 5,490	5,358
Purpose restrictions:		
Scholarships	1,131	1,132
Instruction	3,669	1,538
Academic support	9	18
Student services	338	225
Public service	777	278
Buildings and facilities	187	170
Other capital campaign	1,131	853
Cumulative endowment appreciation (note 4)	9,304	8,091
Total purpose restrictions	16,546	12,305
Total temporarily restricted net assets	$ 22,036	17,663

(Dollars in thousands)

(11) Permanently Restricted Net Assets

Permanently restricted net assets consisted of the following as of June 30, 2018 and 2017:

		2018	2017
Contributions receivable, net	$	816	405
Other receivables		56	58
Assets for which income is restricted for the following purposes:			
Scholarships		17,130	17,821
Instruction and other programs		3,195	1,620
Total income restricted as to purpose		20,325	19,441
Total permanently restricted net assets	$	21,197	19,904

(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:

		2018	2017
Buildings, facilities and other	$	1,659	3,592
Scholarships and other programs		2,112	2,745
Total net assets released from restrictions	$	3,771	6,337

(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 $4,828 and $4,792 for the years ended June 30, 2018 and 2017, respectively.

(Dollars in thousands)

(14) Natural Classification of Operating Expenses

Operating expenses by their natural classification were as follows for the years ended June 30, 2018 and 2017:

		2018	2017
Salaries and wages	$	64,227	62,679
Depreciation and amortization of bond issuance cost		17,137	17,419
Fringe benefits		20,618	19,342
Purchased services		9,822	9,296
Food service		7,705	7,506
Interest		4,554	4,710
Utilities and communications		3,656	3,513
Advertising and publications		2,216	2,387
Supplies and postage		1,886	1,844
Facility renovations		2,496	1,843
Other		15,305	15,507
Total operating expenses	$	149,622	146,046

(15) Subsequent Events

For purposes of determining the effects of subsequent events on these financial statements, management has evaluated events subsequent to June 30, 2018 and through October 29, 2018, the date on which the consolidated financial statements were issued. The University concluded that no material subsequent events have occurred.