KPMG

BENTLEY UNIVERSITY

Financial Statements

June 30, 2017

(With Independent Auditors' Report Thereon)

KPMG LLP
Two Financial Center
60 South Street
Boston, MA 02111

Independent Auditors' Report

The Board of Trustees
Bentley University:

We have audited the accompanying financial statements of Bentley University (the University), which comprise the balance sheet as of June 30, 2017, the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the organization's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the organization's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

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

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Report on Selected Comparative Information

We have previously audited the University's 2016 financial statements, and we expressed an unmodified opinion on those financial statements in our report dated October 31, 2016. In our opinion, the selected comparative information presented herein as of and for the year ended June 30, 2016 is consistent, in all material respects, with the audited financial statements from which it has been derived.

KPMG LLP

October 27, 2017

BENTLEY UNIVERSITY

Balance Sheet

June 30, 2017
(with comparative totals as of June 30, 2016)

(Dollars in thousands)

Assets		**2017**	**2016**
Cash and cash equivalents	$	51,359	44,913
Restricted cash		8,699	13,916
Pledges and accounts receivable, net		4,698	3,783
Other assets		3,357	3,755
Bond proceeds held for construction		3,199	32,802
Student loans, net		6,463	7,243
Investments		271,822	250,558
Property, plant, and equipment, net		287,985	248,369
Total assets	$	637,582	605,339
Liabilities and Net Assets			
Liabilities:			
Accounts payable and accrued liabilities	$	33,461	26,580
Student deposits and deferred income		7,095	6,931
Other liabilities		8,923	8,839
Interest rate swaps		22,267	32,028
Refundable U.S. government grants		6,053	6,490
Bonds and notes payable, net		174,307	177,957
Total liabilities		252,106	258,825
Net assets:			
Unrestricted – net investment in plant		116,877	103,214
Unrestricted – other		154,423	138,760
Total unrestricted		271,300	241,974
Temporarily restricted		63,836	56,775
Permanently restricted		50,340	47,765
Total net assets		385,476	346,514
Total liabilities and net assets	$	637,582	605,339

See accompanying notes to financial statements.

BENTLEY UNIVERSITY

Statement of Activities

June 30, 2017
(with comparative totals for the year ended June 30, 2016)

(Dollars in thousands)

	Unrestricted	Temporarily restricted	Permanently restricted	2017 Total	2016 Total
Changes in unrestricted net assets:					
Operating activities:					
Revenues:					
Tuition and fees	$ 225,001	—	—	225,001	218,054
Residence hall and dining	49,180	—	—	49,180	47,381
Less scholarships and aid	(78,690)	—	—	(78,690)	(75,329)
Net tuition and fees	195,491	—	—	195,491	190,106
Endowment return utilized in operations	10,656	—	—	10,656	10,281
Contributions and private grants	2,567	—	—	2,567	2,549
Government grants	1,274	—	—	1,274	1,155
Other sources	1,744	—	—	1,744	1,395
Other auxiliary enterprises	4,796	—	—	4,796	5,794
Net assets released from restrictions	2,179	—	—	2,179	1,890
Total operating revenues	218,707	—	—	218,707	213,170
Expenses:					
Salaries and wages	98,643	—	—	98,643	93,754
Employee benefits	25,612	—	—	25,612	24,095
Contracted services	13,929	—	—	13,929	13,530
Utilities and maintenance	9,818	—	—	9,818	11,150
All other supplies and services	33,778	—	—	33,778	32,527
Depreciation and amortization	20,608	—	—	20,608	19,547
Interest	6,832	—	—	6,832	6,605
Total expenses	209,220	—	—	209,220	201,208
Increase in net assets from operating activities	9,487	—	—	9,487	11,962
Nonoperating activities:					
Contributions and private grants	280	2,800	2,072	5,152	4,490
Investment return	16,757	10,905	81	27,743	(6,692)
Endowment return utilized in operations	(6,836)	(3,820)	—	(10,656)	(10,281)
Change in fair value of interest rate swaps	9,761	—	—	9,761	(7,833)
Net assets released from restrictions	—	(2,179)		(2,179)	(1,890)
Other	(123)	(645)	422	(346)	(1,131)
Increase (decrease) in net assets from nonoperating activities	19,839	7,061	2,575	29,475	(23,337)
Change in net assets	29,326	7,061	2,575	38,962	(11,375)
Net assets at beginning of year	241,974	56,775	47,765	346,514	357,889
Net assets at end of year	$ 271,300	63,836	50,340	385,476	346,514

See accompanying notes to financial statements.

BENTLEY UNIVERSITY

Statement of Cash Flows

June 30, 2017
(with comparative totals for the year ended June 30, 2016)

(Dollars in thousands)

	2017	2016
Operating activities:		
Change in net assets	$ 38,962	(11,375)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	20,608	19,547
Net realized and unrealized (gains) losses on investments	(26,328)	7,728
Contributions restricted for long-term purposes	(2,636)	(1,370)
Change in fair value of interest rate swaps	(9,761)	7,833
Changes in operating assets, net	263	433
Changes in operating liabilities, net	4,775	676
Net cash provided by operating activities	25,883	23,472
Investing activities:		
Proceeds from sales and maturities of investments	44,149	52,160
Purchases of investments	(39,084)	(45,101)
Additions of property, plant, and equipment	(58,608)	(24,320)
Net cash used in investing activities	(53,543)	(17,261)
Financing activities:		
Contributions restricted for long-term purposes	2,636	1,370
Repayments on bonds	(3,350)	(3,190)
Proceeds from long-term borrowings	—	40,434
Bond issuance costs	—	(432)
Change in bond proceeds held for construction	29,603	(32,802)
Net change in restricted cash	5,217	(5,340)
Net cash provided by financing activities	34,106	40
Change in cash and cash equivalents	6,446	6,251
Cash and cash equivalents at beginning of year	44,913	38,662
Cash and cash equivalents at of end of year	$ 51,359	44,913
Supplemental disclosure:		
Cash paid for interest	$ 7,740	6,257
Increase in accounts payable from capital additions	1,916	1,090

See accompanying notes to financial statements.

(1) Description of the University

Bentley University (Bentley or the University) is a business university enrolling approximately 4,300 undergraduate students and 1,400 graduate students, including 25 PhD students. Bentley was founded in 1917 and is set on 163 acres in Waltham, Massachusetts, 10 miles west of Boston.

Academic programs at Bentley combine advanced business curriculum with rich, diverse arts and sciences programs. Bentley is dedicated to preparing a new kind of organizational leader – one with deep technical skills, broad global perspectives, and high ethical standards. The University offers 23 undergraduate majors and a comprehensive graduate program that includes PhD programs in Business and Accountancy, a professional and two cohort-based MBA programs, eight Masters of Science degrees and an integrated MS+MBA. Bentley also delivers custom executive education programs.

Bentley is accredited by the New England Association of Schools and Colleges (NEASC). Graduate and undergraduate business programs are accredited by the Association to Advance Collegiate Schools of Business (AACSB International), which also grants a separate accreditation to Bentley programs in accountancy. The University is also one of three U.S. institutions to be accredited by EQUIS (European Quality Improvement System).

(2) Summary of Significant Accounting Policies

(a) Basis of Financial Statement Presentation

The accompanying financial statements are presented on the accrual basis of accounting in accordance with U.S. generally accepted accounting principles (GAAP) and 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 in the following three categories of net assets:

Unrestricted Net Assets – Represent those net assets that the University may use at its discretion. Within the Unrestricted Net Assets (UNA) category, net investment in plant (after accumulated depreciation and associated debt, net of bond proceeds held for construction) is reported separately from all other UNA to distinguish it as unexpendable.

Temporarily Restricted Net Assets – Result from contributions and other inflows of assets whose use by the University is limited by donor–imposed stipulations that either expire by the passage of time or can be fulfilled and removed by actions of the University pursuant to those stipulations. Investment return on donor-restricted endowments is recognized within temporarily restricted net assets until appropriated for expenditure under the University’s spending policy and a qualifying expenditure is incurred.

Permanently Restricted Net Assets – Result from contributions whose use by the University is limited by donor-imposed stipulations that neither expire by passage of time nor can be fulfilled or otherwise removed by actions of the University. Such net assets consist primarily of the historical gift value of the University’s donor-restricted endowment funds.

(b) Cash Equivalents

For purposes of the statement of cash flows, cash equivalents include treasuries and short-term instruments not held for future long-term investment with original maturities of three months or less.

(c) Restricted Cash

Restricted cash represents required deposits with a bond holder, in accordance with the bond covenants, and collateral cash for certain interest rate swaps, as described in notes 5 and 6.

(d) Pledges and Accounts Receivable

Pledges and accounts receivable are stated net of allowance for doubtful accounts and discount to present value.

(e) Tuition and Related Revenues

Tuition, fees, residence hall, and dining revenue are recorded at published rates. Financial aid and scholarships provided directly by the University for students is then netted against the student-derived revenue to arrive at net student tuition and fees.

(f) Contributions

Contributions, including unconditional promises from donors, are nonreciprocal, unconditional transfers of assets, or cancellations of liabilities, and are initially recognized at fair value. Contributions received without donor-imposed restrictions are recorded as unrestricted revenue. Contributions received with donor-imposed restrictions are reported as increases in temporary restricted or permanently restricted net assets based on donors' restrictions. Contributions of noncash assets are recorded at estimated fair value on the date of the contribution.

(g) Property, Plant, and Equipment

Land, buildings, plant renovations, and equipment are stated at cost at the date of acquisition or renovation or at estimated fair value at the date of donation in the case of gifts. Purchases of library books are expensed as incurred. Minor renovations and repairs are charged to operations as incurred. Depreciation of plant and equipment is computed on a straight-line basis over the useful lives of buildings (40–60 years), building and improvements (5–30 years), and equipment and furnishings (2–10 years). Interest incurred on tax-exempt debt used to finance building construction is added to the cost of the asset, net of any income earned on temporarily invested debt proceeds during construction.

(h) Student Loans

Student loans include funds advanced to the University by the U.S. government under the Federal Perkins Loan Program (the Program). Student loans under the Program are subject to significant restrictions and generally have long-term maturities. Such funds are 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 and are reported as refundable advances.

(i) Bond Premiums and Issuance Costs

Bond premiums and issuance costs are amortized through the final maturity date of the respective bond issues.

(j) Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the dates of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates.

(k) Income Taxes

The University is a tax-exempt organization as described in Section 501(c)(3) of the Internal Revenue Code and is generally exempt from income taxes pursuant to Section 501(a) of the Code, as amended. Accordingly, it is generally not subject to income taxes except to the extent it has taxable income from activities that are not related to its exempt purpose. The University believes it has taken no significant uncertain tax positions as of June 30, 2017 or 2016.

(l) Statement of Activities

The statement of activities reports the changes in net assets from operating and nonoperating activities. Nonoperating activities reflect contributions for long-term investments and capital projects and the investment return in excess of the amount utilized in operations, as described in note 7. In addition, nonoperating activities include changes in the values of split-interest agreements and interest rate swaps, net assets released from restrictions for capital purposes, postretirement benefit obligation changes other than net periodic costs, and certain other nonrecurring transactions. All other activity is classified in operating activities.

All contributions are considered available for unrestricted use unless specifically restricted by donors. Amounts received that are restricted by the donor as to time or for specific purposes are reported as temporarily restricted or permanently restricted support that increases those net asset classes. When a qualifying expenditure occurs or a time restriction expires, temporarily restricted net assets are reduced and unrestricted net assets are correspondingly increased as net assets released from restrictions in the statement of activities.

Dividends, interest, and realized and unrealized gains (losses) on long-term investments are reported as follows:

- Increases in permanently restricted net assets if the terms of the gift require these to be added to the principal
- Increases (decreases) in temporarily restricted net assets if the terms of the gift or relevant state law imposes restrictions on the use of the income and gains
- Increases (decreases) in unrestricted net assets in all other cases

(m) Split-Interest Agreements

The University's split-interest agreements with donors consist of irrevocable charitable gift annuities and charitable remainder trusts held by the University. For such split interest agreements, the contributed assets are included as part of investments at fair value. Contribution revenue, net of the accompanying obligation, is recognized as of the date the donated assets are transferred to the University and liabilities are recorded for the present value of the estimated future payments to the beneficiaries. These liabilities amounted to $2,870 and $2,987 at June 30, 2017 and 2016, respectively, and are reported within other liabilities on the balance sheet. The split-interest liabilities are adjusted during the term of the agreements consistent with changes in the value of the assets and actuarial assumptions.

(n) Derivative Instruments

The University utilized interest-rate swap agreements with counterparties to effectively convert its variable-rate debt to fixed rates. The swaps' fair values and changes therein are recognized in the University's financial statements. Differences between the fixed and variable rates in effect at each interest due date are settled net under each swap, increasing or decreasing interest expense. The fair value of the swap instruments considers the estimated benefit or cost to the University to cancel the agreements as of the reporting dates, and is based on option pricing models that consider interest rates and other market factors, as well as the credit risks of the parties to the agreements. Interest rate volatility, remaining outstanding principal, and time to maturity will affect the swaps' fair values at subsequent reporting dates.

(o) Related-Party Transactions

Members of the University's Board of Trustees and senior management may, from time to time, be associated, either directly or indirectly, with companies doing business with the University. The University has a written conflict of interest policy that requires, among other things, that no member of the Board of Trustees may participate in any decision in which he or she has a material financial interest. Each Trustee and senior manager is required to certify compliance with the conflict of interest policy on an annual basis as well as disclose any potential related-party transactions to the audit committee. When such a relationship exists, the University requires that such transactions be conducted at arms' length, with terms that are fair and reasonable to and for the benefit of the University. For senior management, the University requires annual disclosure of significant financial interests in, or governance of employment or consulting relationships with, entities doing business with the University. When such relationships exist, measures are taken to appropriately manage the actual or perceived conflict in the best interest of the University.

(p) Fair Value Measurements

Fair value represents the price that would be received upon the sale of an asset or paid upon the transfer of a liability in an orderly transaction between market participants as of the measurement date. GAAP establishes a fair value hierarchy that prioritizes inputs used to measure fair value into three levels:

- Level 1 – Quoted prices (unadjusted) in active markets that are accessible at the measurement date for assets or liabilities

- Level 2 – Observable prices that are based on inputs not quoted in active markets, but corroborated by market data
- Level 3 – Unobservable inputs are used when little or no market data is available

The fair value hierarchy gives the highest priority to Level 1 inputs and the lowest priority to Level 3 inputs. In determining fair value, the University utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs to the extent possible. Investments measured using net asset value as a practical expedient to estimate fair value, as described in note 3, are not classified in the fair value hierarchy.

(q) Benefit Plans

Defined-Contribution Plan – Eligible faculty and staff of the University are participants in a defined-contribution 403(b) retirement plan. The University contributes, for the benefit of the participants, 10% of eligible earnings annually to the plan, up to the IRS maximum per employee. Total expense under this plan for the years ended June 30, 2017 and 2016 amounted to $7,379 and $7,019, respectively.

Postretirement Benefits – The University provides certain healthcare benefits for retired employees covered under the Bentley University Retiree Medical Benefits Plan (the Plan). This plan is closed to employees hired after December 31, 1999. Benefits are paid through an insurance company as claims are settled. The Plan is a noncontributory, defined-benefit plan. The liability as of June 30, 2017 and 2016 amounted to $6,053 and $5,852, respectively, and is reported as other liabilities on the balance sheet.

(r) Prior Year Information

Prior year information presented is not intended to constitute a full presentation in accordance with GAAP and has been derived from, and should be considered in conjunction with, the University's 2016 financial statements.

(3) Investments

The overall investment objective of the University is to invest its assets in a prudent manner that will achieve a long-term rate of return sufficient to fund a portion of its annual operating activities and increase investment value after inflation while providing adequate liquidity with reasonable risk. The University diversifies its investments among various asset classes incorporating multiple strategies and managers. Major investment decisions are authorized by the Investment Committee of the Board of Trustees, which oversees the University's investment program in accordance with established guidelines.

(a) Investment Strategies

In addition to traditional stocks and fixed income securities, the University may also hold shares or units in traditional institutional funds as well as in alternative investment funds involving hedged strategies, private equity, and real asset 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, and are valued accordingly. Private equity funds employ buyout and venture capital strategies and focus on investments in turn-around situations. Real asset funds generally hold interests in public real estate investment trusts (REITs) and commodities, including oil, gas, and gold. Private equity and real asset strategies therefore often require the estimation of fair values by the fund managers in the absence of readily determinable market values. Because of the inherent uncertainties of valuation, these estimated fair values may differ significantly from values that would have been used had a ready market existed, and the differences could be material.

(Dollars in thousands)

Investments are reported at estimated fair value. If an investment security is owned directly by the University and an active market with quoted prices exists, the market price of an identical security is used as reported fair value. 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 are generally reported at the net asset value (NAV) reported by the fund managers, unless the fund has a readily determinable fair value, which 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 for an amount different from NAV. 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. As of June 30, 2017 and 2016, the University had no plans or intentions to sell investments at amounts different from NAV.

The University's investments are summarized in the following table by strategy and, as applicable, their fair value hierarchy classification as of June 30:

	2017					2016
	Measured	Measured in Fair Value Hierarchy				
	at NAV	Level 1	Level 2	Level 3	Total	Total
Long-term investment strategies:						
Cash	$ —	5,438	—	—	5,438	16,429
U.S. Treasuries	—	6,982	—	—	6,982	15,491
Municipal bonds	—	—	2,672	—	2,672	2,866
Equities:						
Domestic	45,749	24,278	—	518	70,545	58,976
Global	18,470	69,154	—	—	87,624	62,254
U.S. real estate equity mutual funds	—	14,348	—	—	14,348	14,985
Hedged equity funds of funds	44,671	—	—	—	44,671	42,237
Private equity and venture capital funds	20,640	—	—	—	20,640	21,038
Commodities	201	15,654	—	—	15,855	13,540
Life insurance	—	—	—	3,047	3,047	2,742
Total investments	$ 129,731	135,854	2,672	3,565	271,822	250,558

(Dollars in thousands)

The following table presents the University's activities for the year ended June 30, 2017 for investments classified in Level 3:

		Balance at June 30, 2016	Additions	Net realized and unrealized gains	Balance at June 30, 2017
Domestic equities	$	470	—	48	518
Life insurance		2,742	301	4	3,047
Total	$	3,212	301	52	3,565

There were no changes in methodologies used at June 30, 2017 and 2016 and there were no transfers among levels during the year ended June 30, 2017 and 2016.

The following summarizes investment return components for the years ended June 30:

		2017	2016
Investment return:			
Interest and dividends	$	3,742	3,114
Net realized and unrealized gains (losses)		26,328	(7,728)
Investment management and advisory fees		(2,327)	(2,078)
Total return	$	27,743	(6,692)

Private equity and venture capital investments are generally made through limited partnerships. Under the terms of these agreements, the University is obligated to remit additional funding periodically as capital is called by the manager. These partnerships have a limited term and, under such agreements, may provide for annual extensions for the purpose of disposing portfolio positions and returning capital to investors. However, depending on market conditions, the inability to execute the fund's strategy, and other factors, a manager may extend the terms of a fund beyond its originally anticipated existence or may wind the fund down prematurely. The University cannot anticipate such changes because they are based on unforeseen events, but should they occur, they might result in less liquidity or return from the investment than originally anticipated. As a result, the timing and amount of future capital calls in any particular future year are uncertain.

(Dollars in thousands)

The following table presents liquidity information for investments at June 30, 2017:

	Daily	Monthly	Quarterly	Annual	Rolling lock-ups	Illiquid	Total
U.S. Treasuries and cash	$ 12,420	—	—	—	—	—	12,420
Municipal bonds	2,672	—	—	—	—	—	2,672
Equity funds	60,435	32,997	45,749	—	18,165	823	158,169
U.S. real estate equities mutual funds	14,348	—	—	—	—	—	14,348
Hedged equity funds of funds	—	—	—	17,219	27,452	—	44,671
Private equity and venture capital funds	—	—	—	—	—	20,640	20,640
Commodities	15,654	—	—	—	—	201	15,855
Life insurance	—	—	—	—	—	3,047	3,047
	$ 105,529	32,997	45,749	17,219	45,617	24,711	271,822

Included in the equity funds and hedged equity funds of funds is $45,025 subject to three–year rolling lockups from these funds, $10,352 of which currently expire December 31, 2017, $5,814 expire June 30, 2018, $23,720 expire December 31, 2019 and $5,139 expire January 1, 2020. Also included in the equity funds is $592 subject to a two-year lockup that expires on November 1, 2018. Private equity and venture capital funds are expected to liquidate within 5 to 10 years. The University had unfunded future commitments to invest in these funds at June 30, 2017 of $10,216. For redemption purposes, the equity funds require 1-60 days' notice, hedged equity funds require 90-100 days' notice, and all other liquid investments require one-day notice.

(4) Property, Plant, and Equipment

Property, plant, and equipment as of June 30 are as follows:

	June 30, 2016	2017 Additions	2017 Retirements	June 30, 2017
Land	$ 31,871	—	—	31,871
Buildings and building improvements	360,347	37,719	—	398,066
Equipment and furnishings	49,361	9,101	(9,515)	48,947
Construction in progress	12,325	13,704	—	26,029
	453,904	60,524	(9,515)	504,913
Less accumulated depreciation	(205,535)	(20,908)	9,515	(216,928)
Property, plant and equipment, net	$ 248,369	39,616	—	287,985

Depreciation expense was $20,908 and $19,769 for the years ended June 30, 2017 and 2016, respectively.

(Dollars in thousands)

(5) Bonds Payable

Outstanding bonds payable as of June 30 are as follows:

		2017	2016
Massachusetts Development Finance Agency (MDFA):			
Series 2010 Revenue Bonds, 3.5% to 5.00%, due serially through July 1, 2028	$	29,835	31,385
MDFA: Series 2013A Issue Variable rate (1.43% as of June 30, 2017), due serially through July 1, 2030		65,993	67,793
MDFA: Series 2013B Issue Variable rate 1.22% as of June 30, 2017), due serially commencing July 1, 2030 through July 1, 2033		37,157	37,157
MDFA: Series 2016 Revenue Bonds, 3.125% to 5.00%, due serially commencing July 1, 2034 through July 1, 2040		36,225	36,225
		169,210	172,560
Net premium and debt issuance costs		5,097	5,397
Bonds payable, net	$	174,307	177,957

On March 8, 2016, the University issued Massachusetts Development Finance Agency Series 2016 Revenue Bonds in the amount of $36,225. Proceeds from these bonds are being utilized for the renovation of an academic building, as well as other various campus renovations. The University incurred $432 in costs associated with this issue, which have been capitalized and will be amortized over the life of the bond. The Series 2016 Revenue Bonds were issued with an original premium of $4,209 which is also being amortized over the life of the bond.

The MDFA Series 2013 A and B bonds bear interest on a floating rate basis. The University's intention is to hold its existing interest rate swap agreements, described in note 6, through their scheduled expiration. Accordingly, the financing was designed to align the basis and amortization of its debt with its outstanding swap agreements, thereby synthetically fixing the rates of all of its floating rate debt, which aggregated $103,150 at June 30, 2017 and matched the swap notionals. The University pays a tax exempt equivalent of one-month LIBOR plus a spread on the Series 2013A Issue. On the Series 2013B Issue, the University pays the tax-exempt equivalent of the sum of the one-month LIBOR plus a fixed spread.

Bond indentures require the maintenance of certain financial covenants which, among other restrictions, require the University to maintain a deposit of $5,000 with the bond holder which is reported as restricted cash. The University was in compliance with all such covenants at June 30, 2017 and 2016.

(Dollars in thousands)

As of June 30, 2017, the aggregate maturities for all bonds payable for the years ending June 30 were as follows:

		Amount due
Fiscal year:		
2018	$	3,475
2019		4,250
2020		4,445
2021		4,650
2019		4,915
Thereafter		147,475
	$	169,210

The University has a committed line of credit with a bank for a maximum amount of $25,000. There were no balances outstanding under the line at June 30, 2017 and 2016, and there were no borrowings during the years then ended. Borrowing rates on this line of credit are at one-month LIBOR plus 100 basis points. The line expires in January 2020.

(6) Interest Rate Swaps

As of June 30, the following interest rate swap agreements were outstanding:

Counterparty	Expiration date		Remaining notional balance	Swap fixed rate		Fair value of liability at June 30: 2017	2016
JPMorgan	July 1, 2030	$	25,000	3.690%	$	(5,801)	(8,275)
JPMorgan	July 1, 2033		20,000	3.505		(5,198)	(7,508)
Bank of America	July 1, 2033		10,100	3.505		(2,623)	(3,789)
Bank of America	July 1, 2028		15,000	3.630		(2,917)	(4,223)
Bank of New York	July 1, 2028		33,050	4.445		(5,728)	(8,233)
Total		$	103,150		$	(22,267)	(32,028)

In each case, the counterparty pays the University 67% of one-month LIBOR. The swap agreements require the posting of collateral if the mark-to-market liability payable by the University exceeds $7,500 in the aggregate for the JPMorgan swaps and $12,000 for the Bank of New York swap. The two Bank of America swaps contain no collateral requirements. The University must deposit cash collateral to the extent these thresholds are exceeded. The counterparties are required to maintain a minimum credit rating based on provisions contained in the individual swap agreements. The University was required to post collateral for the JPMorgan swaps in the aggregate amount of $3,699 and $8,916 as of June 30, 2017 and 2016, respectively, which is reported as restricted cash on the balance sheet.

Interest rate volatility, remaining outstanding principal, and time to maturity will affect each swap's fair value at subsequent reporting dates. The University currently expects to hold the swaps through their expiration dates, at which point the swap's fair values will reach zero. Because the swap fair values are based predominantly on observable inputs that are corroborated by market data, they are classified as Level 2 of the fair value hierarchy.

(7) Endowment and Other Net Assets

The University's endowment consists of approximately 400 individual funds established for a variety of purposes, including both donor-restricted endowment funds and funds designated by the Board of Trustees to function as endowments.

(a) Relevant Law

The University is subject to the Commonwealth of Massachusetts enacted version of the Uniform Prudent Management of Institutional Funds Act (UPMIFA). This law provides standards to invest in a prudent manner by establishing a duty to minimize cost, diversify the investments, investigate facts relevant to the investment of the fund, consider tax consequences of investment decisions, and ensure investment decisions are made in light of the fund's entire portfolio as a part of an investment strategy having risk and return objectives reasonably suited to the fund and to the University. UPMIFA also permits the University to appropriate for expenditure or accumulate so much of an endowment fund as the University determines to be prudent for the uses, benefits, purposes, and duration for which the endowment fund is established, thereby allowing a fund to be spent below its historical dollar value. Seven criteria are to be used to guide the University in its yearly expenditure decisions: 1) duration and preservation of the endowment fund; 2) the purposes of the University and the endowment fund; 3) general economic conditions; 4) effect of inflation or deflation; 5) the expected total return from income and the appreciation of investments; 6) other resources of the University; and 7) the investment policy of the University.

The University classifies as permanently restricted net assets (a) the original value of donor-restricted endowment contributions, (b) the original value of subsequent contributions thereto, and (c) accumulations of return thereon made in accordance with the direction of the applicable donor gift instrument, if any. The remaining portion of a donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until such amounts are appropriated for expenditure by the University in a manner consistent with the standard of prudence prescribed by UPMIFA.

(b) Return Objectives and Risk Parameters

The University has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. 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. Under this policy, as approved by the Board of Trustees, the endowment assets are invested in a manner that is intended to produce results that exceed the performance of a mix of several traditional benchmarks reflecting the University's asset allocation while assuming an acceptable level of risk. These benchmarks include the S&P 500 index, Russell 2000, EAFE Index and Barclays Capital Aggregate Bond Index, among others.

(Dollars in thousands)

(c) 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 University targets a diversified asset allocation that places emphasis on investments in equities, including marketable and nonmarketable equities, fixed income and cash, and real assets to achieve its long-term return objectives within acceptable risk constraints.

(d) Spending Policy and How the Investment Objectives Relate to Spending Policy

The University appropriates for distribution up to 5% of the 12 quarter moving average of the market value as of the preceding December 31. The University expects the total return to exceed the current spending policy over time, thereby maintaining the endowment purchasing power. Additional real growth is expected to be provided through new gifts and transfers from operations.

Endowment activities for the years ended June 30, 2017 and 2016 and net asset composition as of those dates are as follows:

	2017				2016
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	2016 Total
Endowment activities for the year ended June 30:					
Beginning fair value	$ 147,467	50,498	43,979	241,944	256,630
Investment return	16,638	10,759	—	27,397	(6,853)
Contributions	—	—	2,636	2,636	1,370
Endowment return utilized	(6,836)	(3,820)	—	(10,656)	(10,281)
Transfer in (out)	1,539	(539)	675	1,675	1,078
Total endowment at June 30	$ 158,808	56,898	47,290	262,996	241,944
Total net assets at June 30:					
Donor-restricted endowment	$ —	54,292	47,290	101,582	91,677
Board-designated endowment	158,808	2,606	—	161,414	150,267
Net investment in plant	116,877	—	—	116,877	103,214
Net reduction from interest rate swap liabilities	(22,267)	—	—	(22,267)	(32,028)
Other	17,882	6,938	3,050	27,870	33,384
Total net assets	$ 271,300	63,836	50,340	385,476	346,514

(Continued)

(Dollars in thousands)

(8) Functional Classification of Expenses

The University reports expenses by their natural classification in the Statement of Activities.

Operating expenses by their functional classification were as follows for the years ended June 30:

		2017	2016
Instruction	$	77,342	75,349
Academic support		18,822	16,954
Student services		37,568	35,128
Institutional support		32,970	32,348
Auxiliary enterprises		42,518	41,429
Total	$	209,220	201,208

Indirect costs such as depreciation, interest, and operations and maintenance expenses, including utilities, have been allocated to functional classifications based on square footage of building space used for that function.

Total fund-raising costs, which are included in institutional support expense, were $6,263 and $5,878 for the years ended June 30, 2017 and 2016, respectively.

(9) Contingencies

The University is engaged in legal cases that have arisen in the normal course of its operations. The University believes that the outcome of these cases will not have a material adverse effect on the financial position of the University.

(10) Subsequent Events

Management has evaluated events subsequent to June 30, 2017 and through October 27, 2017, the date on which the financial statements were issued.