

BRIGHAM YOUNG UNIVERSITY - HAWAII

REPORTS ON AUDITS OF THE FINANCIAL STATEMENTS
for the years ended December 31, 2016 and 2015
AND FEDERAL GRANT COMPLIANCE
for the year ended December 31, 2016
(As required by the Single Audit Act and Uniform Guidance)

EIN: 99-0083825

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Report of Independent Auditors

To the Board of Trustees of Brigham Young University - Hawaii:

Report on the Financial Statements

We have audited the accompanying financial statements of Brigham Young University - Hawaii, which comprise the statements of financial position as of December 31, 2016 and 2015, and the related statements of activities and of cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on the financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 our 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, we consider internal control relevant to Brigham Young University - Hawaii'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 Brigham Young University - Hawaii'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 Brigham Young University - Hawaii as of December 31, 2016 and 2015, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.



Other Matters

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards for the year ended December 31, 2016 is presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated April 28, 2017 on our consideration of Brigham Young University - Hawaii's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters for the year ended December 31, 2016. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Brigham Young University - Hawaii's internal control over financial reporting and compliance.

PriceWaterhouseCoopers LLP

April 28, 2017

BRIGHAM YOUNG UNIVERSITY - HAWAII
STATEMENTS OF FINANCIAL POSITION

December 31, 2016 and 2015

(in thousands of dollars)

	<u>2016</u>	<u>2015</u>
Assets		
Cash	\$ 16,323	\$ 12,423
Accounts and notes receivable, net of allowances of \$640 and \$800	9,790	7,650
Inventories, prepaid expenses and other assets	4,714	3,337
Investments	210,288	207,779
Beneficial interest in trusts	5,994	5,826
Land, buildings and equipment, net	<u>216,464</u>	<u>166,661</u>
Total Assets	<u>\$ 463,573</u>	<u>\$ 403,676</u>
Liabilities and Net Assets		
Liabilities		
Accounts payable, accrued liabilities and deposits	\$ 20,220	\$ 10,428
Deferred revenue	5,425	5,307
Annuities payable	1,117	2,034
Retirement and postretirement benefits obligation	27,175	30,861
Loans and notes payable to a Church affiliate	<u>108,663</u>	<u>93,327</u>
Total Liabilities	<u>162,600</u>	<u>141,957</u>
Net Assets		
Unrestricted		
Operations	6,343	17,783
Designated for specific purposes	81,400	81,929
Invested in land, buildings and equipment	<u>107,801</u>	<u>73,163</u>
Total unrestricted	<u>195,544</u>	<u>172,875</u>
Temporarily restricted		
Operations	59,058	47,245
Beneficial interest in trusts	<u>3,599</u>	<u>3,591</u>
Total temporarily restricted	<u>62,657</u>	<u>50,836</u>
Permanently restricted		
True endowment	40,377	35,773
Beneficial interest in trusts	<u>2,395</u>	<u>2,235</u>
Total permanently restricted	<u>42,772</u>	<u>38,008</u>
Total Net Assets	<u>300,973</u>	<u>261,719</u>
Total Liabilities and Net Assets	<u>\$ 463,573</u>	<u>\$ 403,676</u>

See notes to financial statements

BRIGHAM YOUNG UNIVERSITY - HAWAII
STATEMENT OF ACTIVITIES
For the Year Ended December 31, 2016
(in thousands of dollars)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Revenues and Other Support				
Tuition and fees	\$ 20,096			\$ 20,096
Less student aid	<u>8,547</u>			<u>8,547</u>
Net tuition and fees	11,549			11,549
Appropriations from a Church affiliate	76,822			76,822
Contributions and grants	5,455	\$ 10,913	\$ 2,450	18,818
Investment gain, net	8,561	6,925	-	15,486
Auxiliary enterprises, net of student aid of \$2,813	22,519			22,519
Other	162			162
Net assets released from restrictions	<u>3,703</u>	<u>(6,017)</u>	<u>2,314</u>	<u>-</u>
Total Revenues and Other Support	<u>128,771</u>	<u>11,821</u>	<u>4,764</u>	<u>145,356</u>
Expenses				
Instruction and academic support	50,096			50,096
General and administrative	22,080			22,080
Student support	9,339			9,339
Auxiliary enterprises	<u>28,273</u>			<u>28,273</u>
Total Expenses	<u>109,788</u>			<u>109,788</u>
Increase in Net Assets before Retirement and Postretirement Plans Adjustment	18,983	11,821	4,764	35,568
Retirement and Postretirement Plans Adjustment	<u>3,686</u>			<u>3,686</u>
Increase (Decrease) in Net Assets	22,669	11,821	4,764	39,254
Net Assets Beginning of Year	<u>172,875</u>	<u>50,836</u>	<u>38,008</u>	<u>261,719</u>
Net Assets End of Year	<u>\$ 195,544</u>	<u>\$ 62,657</u>	<u>\$ 42,772</u>	<u>\$ 300,973</u>

See notes to financial statements

BRIGHAM YOUNG UNIVERSITY - HAWAII
STATEMENT OF ACTIVITIES
For the Year Ended December 31, 2015
(in thousands of dollars)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Revenues and Other Support				
Tuition and fees	\$ 18,947			\$ 18,947
Less student aid	8,857			8,857
Net tuition and fees	10,090			10,090
Appropriations from a Church affiliate	61,399			61,399
Contributions and grants	4,418	\$ 6,753	\$ 2,657	13,828
Investment loss, net	(540)	(242)	-	(782)
Auxiliary enterprises, net of student aid of \$1,735	20,504			20,504
Other	368			368
Net assets released from restrictions	8,004	(8,189)	185	-
Total Revenues and Other Support	<u>104,243</u>	<u>(1,678)</u>	<u>2,842</u>	<u>105,407</u>
Expenses				
Instruction and academic support	46,150			46,150
General and administrative	20,867			20,867
Student support	10,260			10,260
Auxiliary enterprises	26,130			26,130
Total Expenses	<u>103,407</u>			<u>103,407</u>
Increase in Net Assets before Retirement and Postretirement Plans Adjustment	836	(1,678)	2,842	2,000
Retirement and Postretirement Plans Adjustment	<u>5,568</u>			<u>5,568</u>
Increase (Decrease) in Net Assets	6,404	(1,678)	2,842	7,568
Net Assets Beginning of Year	<u>166,471</u>	<u>52,514</u>	<u>35,166</u>	<u>254,151</u>
Net Assets End of Year	<u>\$ 172,875</u>	<u>\$ 50,836</u>	<u>\$ 38,008</u>	<u>\$ 261,719</u>

See notes to financial statements

BRIGHAM YOUNG UNIVERSITY - HAWAII
STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2016 and 2015
(in thousands of dollars)

	<u>2016</u>	<u>2015</u>
Cash Flows from Operating Activities		
Increase in net assets	\$ 39,254	\$ 7,568
Adjustments to reconcile increase in net assets to net cash provided by operating activities		
Depreciation	8,759	8,088
(Gain) loss on investments	(11,340)	5,086
(Increase) in beneficial interest in trusts	(168)	(37)
Gain on disposal of land, buildings and equipment	(595)	(328)
Non Cash Donations	(519)	-
Contributions restricted for investment in permanently restricted assets	(4,764)	(2,842)
Increase (decrease) due to changes in operating assets and liabilities		
Accounts receivable	(2,140)	(746)
Inventories, prepaid expenses and other assets	(1,377)	(1,325)
Accounts payable, accrued liabilities and deposits	11,440	1,319
Deferred revenue	118	4,991
Retirement and postretirement benefits obligation	(3,686)	(4,817)
Annuities payable	(917)	(41)
Net cash provided by operating activities	<u>34,065</u>	<u>16,916</u>
Cash Flows from Investing Activities		
Proceeds from sale of investments	20,243	64,633
Purchase of investments	(10,893)	(78,628)
Proceeds from disposal of land, buildings and equipment	1,084	423
Purchase of land, buildings and equipment	<u>(60,699)</u>	<u>(36,796)</u>
Net cash used in investing activities	<u>(50,265)</u>	<u>(50,368)</u>
Cash Flows from Financing Activities		
Investments of contributions restricted for investment in permanently restricted assets	4,764	2,842
Proceeds from loans and notes payable to a Church affiliate	33,412	23,601
Payments on loans and notes payable to a Church affiliate	<u>(18,076)</u>	<u>(851)</u>
Net cash provided by financing activities	<u>20,100</u>	<u>25,592</u>
Net increase (decrease) in cash	3,900	(7,860)
Cash, beginning of year	<u>12,423</u>	<u>20,283</u>
Cash, end of year	<u>\$ 16,323</u>	<u>\$ 12,423</u>
Supplemental Data		
Interest paid	\$ 1,076	\$ 999
Purchases of land, buildings and equipment in accounts payable	1,648	1,755

See notes to financial statements

BRIGHAM YOUNG UNIVERSITY – HAWAII
NOTES TO FINANCIAL STATEMENTS

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Brigham Young University – Hawaii (the University), located in Laie, Hawaii, is a non-profit corporation affiliated with The Church of Jesus Christ of Latter-day Saints (the Church).

Basis of Accounting

The financial statements of the University have been prepared on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America. The underlying accounting of the University is maintained in accordance with the principles of fund accounting. These principles require that the resources of the University be classified into groups or funds in accordance with activities or objectives specified for the resources.

University net assets are classified into three categories: Unrestricted, Temporarily Restricted, and Permanently Restricted. These categories are determined based on the existence or absence of donor-imposed restrictions upon resources provided to the University. Unrestricted net assets are available for a variety of purposes and have no donor-imposed restrictions or all restrictions have been met. Temporarily restricted net assets include funds with stipulated time or purpose restrictions. When those restrictions are satisfied, temporarily restricted net assets are reclassified to unrestricted net assets and are reported in the Statement of Activities as net assets released from restrictions. However, if a restriction is fulfilled in the same period in which the contribution is received, the University reports the contribution as unrestricted. Permanently restricted net assets have restrictions that require them to be maintained in perpetuity.

Cash

Cash includes cash on hand, cash in depository institutions and cash in an interest bearing cash management account maintained with a Church affiliate (Note 6) that is available on demand and is not covered by federal depository insurance.

Inventories

Inventories include retail store inventory stated at the lower of cost (retail inventory method) or market and materials and supplies stated at the lower of cost (first-in, first-out method) or market.

Investments

Investments with readily determinable fair values are carried at fair value. Investments that have no readily determinable fair value are carried at either original cost or estimated fair value at the date of donation.

Beneficial Interest in Trusts

The University is named as a beneficiary of certain irrevocable trusts. Revenues and assets included in the financial statements are based on the net present value of expected proceeds from those trusts.

Land, Buildings and Equipment

Land, buildings and equipment are stated at acquisition cost or at estimated fair value at time of donation. Gifts of long-lived assets are treated as unrestricted support unless explicit donor restrictions specify otherwise. Depreciation is computed using the straight-line method and the following useful lives:

Buildings	10 to 50 years
Improvements	5 to 25 years
Furniture, fixtures, and equipment	3 to 10 years
Library books	25 years

Collections

The University maintains several collections, which are not reported for financial statement purposes. These collections include works of art, natural history (living and artifacts) and other similar objects. Collections are held for public exhibition, education and research in furtherance of the University's goal to provide public service. Proceeds from the sale of collection items are held and used to acquire other collection items that are expensed at the time of purchase. Various University departments have the responsibility to control, preserve and protect these collections.

Annuities Payable

Annuities payable represent the University's estimated annuity obligation to certain donors and their designees under contractual gift agreements that are maintained by a Church affiliate (Note 6). No significant financial benefit is being or can be realized by the University until the contractual obligations are released. The University uses the actuarial method of recording annuities when received. Under this method, when a gift is received, the present value of the aggregate annuity obligation is recorded as a liability, based upon life expectancy tables. The remainder is recorded as a contribution on the Statement of Activities. Annually, the University makes an adjustment to record the actuarial gain or loss due to re-computation of the liability based upon the revised life expectancy.

Revenue Recognition

Appropriations from a Church affiliate (Note 6) are recorded as revenue when received. Tuition, housing, student fees and other revenues are recognized as income in the period earned. Amounts received but not yet earned are recorded as deferred revenue.

Contributions are recorded at fair value at the time gifts are received. Unconditional promises to give to the University are recognized when the promise is formally acknowledged. Conditional promises to give to the University are recognized when the conditions on which they depend are substantially met.

Fair Value Measurements

Certain financial instruments and retirement and postretirement plan assets are carried at fair value, as discussed in Notes 8 and 9, respectively. See "New Accounting Pronouncement" below.

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value is based on assumptions that market participants would use, including a consideration of non-performance risk.

In determining fair value, the University uses various valuation techniques and prioritizes the use of observable inputs. The availability of observable inputs varies from instrument to instrument and depends on a variety of factors, including the type of instrument, whether the instrument is actively traded, and other characteristics particular to the transaction. Equity and fixed income portfolio investments are valued at fair value, based upon the underlying investments, using the net asset values provided by a Church affiliate. Equity securities are valued at the closing price reported on the active market on which the securities are traded. Fixed income securities are generally valued using pricing models maximizing the use of observable inputs. Real estate and limited partnership investments are valued at fair value, based upon the underlying investments, using either the published net asset value per unit or the net asset values provided by the general partners, updated as necessary using analytical tools to benchmark returns, appraisals, public market data and/or inquiry of the general partners.

The University assesses the inputs used to measure fair value using a three-tier hierarchy based on the extent to which inputs used in measuring fair value are observable in the market. Level 1 inputs include quoted prices for identical assets or liabilities in an active market. Level 2 inputs include quoted prices for similar assets and observable inputs such as interest rates, currency exchange rates, commodity rates, and yield curves. Level 3 inputs are not observable in the market and include management's judgments about the assumptions market participants would use in pricing the asset or liability.

Transfers between levels occur when there is a change in the observability of significant inputs. This may occur between Level 1 and Level 2 when the availability of quoted prices changes, or when market activity significantly changes to active or inactive. A transfer between Level 2 and Level 3 generally occurs when the underlying inputs become, or can no longer be, corroborated with observable market data. The University's policy is to recognize all transfers at the end of each reporting period.

Accounting for Retirement and Postretirement Plans

The University recognizes the over/under funded status of retirement and postretirement plans in the statement of financial position. For retirement plans, funding status is measured as the difference between the fair value of plan assets and the projected benefit obligation. For postretirement plans, funding status is measured as the difference between the fair value of plan assets and the accumulated postretirement benefit obligation. The University also recognizes all previously unrecognized actuarial gains and losses, prior service cost, and transition liability in unrestricted net assets and provides all required additional disclosure.

Income Tax Status

The University is exempt from federal and state income tax under Section 501(c)(3) of the Internal Revenue Code. Accordingly, no provision for income taxes is made in the financial statements.

Use of Estimates

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

New Accounting Pronouncement

In May 2015, the Financial Accounting Standards Board issued Accounting Standards Update ("ASU") No. 2015-07, Fair Value Measurement (Topic 820): Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent). The ASU removes the requirement to categorize within the fair value hierarchy, all investments for which fair value is measured using the net asset value per share practical expedient. It also limits disclosures for investments to which the entity has elected to measure the fair value using the practical expedient. Although the ASU is effective for fiscal years beginning after December 15, 2016, the University has elected to early adopt, and has applied it in Notes 8 and 9, retrospectively to all periods presented, as required. There are no effects on the amounts reported in the financial statements.

(2) INVESTMENTS

Investments primarily consist of unitized interests in investment pools managed by a Church affiliate (Note 6). Investments as of December 31, 2016 and 2015 are as follows (in thousands of dollars):

	2016	2015
Investments at fair value:		
Cash equivalents	\$ 345	\$ 338
Equity portfolios, domestic	126,147	121,715
Equity portfolios, international	13,144	13,293
Fixed income portfolios, domestic	56,572	58,872
Total investments at fair value	<u>196,208</u>	<u>194,218</u>
Other investments carried at cost or estimated value at the date of donation:		
Partnership interests	13,390	13,390
Real estate	652	143
Other assets	38	28
Total other investments	<u>14,080</u>	<u>13,561</u>
Total investments	<u>\$ 210,288</u>	<u>\$ 207,779</u>

For the years ended December 31, 2016 and 2015, net investment income includes (in thousands of dollars):

	2016	2015
Dividend and interest income from investments	\$ 4,146	\$ 4,304
Net gain (loss) on investments carried at fair value	<u>11,340</u>	<u>(5,086)</u>
Total investment income (loss), net	<u>\$ 15,486</u>	<u>\$ (782)</u>

(3) BENEFICIAL INTEREST IN TRUSTS

The University is named as a beneficiary or remainderman for a number of irrevocable charitable remainder trusts. Most of these trusts are administered by a Church affiliate (Note 6). Expected receipts from these trusts and unconditional promises to give (fair value determined using discount rates ranging from approximately 1.0 to 3.0 percent) as of December 31, 2016 and 2015, are as follows (in thousands of dollars):

	2016	2015
Less than one year	\$ -	\$ -
One to five years	2,798	916
More than five years	<u>3,196</u>	<u>4,910</u>
Total beneficial interest in trusts and pledged contributions	<u>\$ 5,994</u>	<u>\$ 5,826</u>

(4) LAND, BUILDINGS AND EQUIPMENT

As of December 31, 2016 and 2015, land, buildings and equipment included (in thousands of dollars):

	<u>2016</u>	<u>2015</u>
Land, buildings and improvements	\$ 251,383	\$ 208,588
Furniture, fixtures and equipment	37,343	36,030
Library books and other	12,908	12,586
Construction in progress	<u>58,762</u>	<u>45,648</u>
	360,396	302,852
Less accumulated depreciation	<u>\$ 143,932</u>	<u>\$ 136,191</u>
Total land, buildings and equipment, net	<u>\$ 216,464</u>	<u>\$ 166,661</u>

(5) LOANS AND NOTES PAYABLE TO A CHURCH AFFILIATE

Loans and notes payable consist of unsecured loans extended by a Church affiliate (Note 6) to the University for the acquisition of housing-related facilities and other projects. These loans bear interest at rates ranging from 2 to 3 percent. Maturity dates of all current notes are in 2055.

The amounts of future principal payments as of December 31, 2016 are (in thousands of dollars):

Years ending December 31,	
2017	1,823
2018	1,860
2019	1,898
2020	1,937
2021	1,976
2022 and thereafter	<u>99,169</u>
Total loans and notes payable to a Church affiliate	<u>\$ 108,663</u>

(6) RELATED PARTIES

The University operates under the direction of a Board of Trustees (the Board) composed of General Authorities and other Officers of the Church. The University is provided certain accounting and other management services and is also included in the property and liability insurance programs of Church affiliates, all at no cost to the University.

The following table reflects balances due to and from or administered through Church affiliates, and activities with or processed by Church affiliates, included in the financial statements as of and for the years ended December 31, 2016 and 2015 (in thousands of dollars):

	2016	2015
Cash	\$ 7,670	\$ 3,763
Accounts receivable	1,674	1,248
Investments	196,388	194,389
Beneficial interest in trusts and pledged contributions	5,994	5,826
Accounts payable and accrued liabilities	2,464	1,710
Annuities payable	1,117	2,034
Retirement and postretirement benefits obligation	27,175	30,861
Loans and notes payable	108,663	93,327
Appropriations:		
Operations	47,313	44,936
Other appropriations	6,697	5,663
Capital expenditures	22,812	10,800
Contributions processed from donors	18,820	13,828
Investment income	15,486	(782)
Auxiliary enterprises and other revenue	1,491	2,973
Other revenue - interest	-	-
Expenses:		
Benefit plans	7,475	6,317
Products and services	11,406	10,007
Interest	1,019	999

7) ENDOWMENTS

The University's endowment fund consists of individual donor restricted endowment funds and funds designated by the Board to function as endowments. The net assets associated with endowment funds, including those funds designated by the Board to function as endowments, are classified and reported based on the existence or absence of donor imposed restrictions.

The Board has interpreted the adopted Hawaii "Uniform Prudent Management of Institutional Funds Act" (UPMIFA) as requiring 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. As a result of this interpretation, the University classifies as permanently restricted net assets, (a) the original value of 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 UPMIFA. In accordance with UPMIFA, the University considers the following factors in making a determination to appropriate or accumulate endowment funds:

- The duration and preservation of the fund
- The purposes of the University and the donor restricted endowment fund
- General economic conditions
- The possible effect of inflation and deflation
- The expected total return from income and appreciation of investments
- Other resources of the University
- The investment policies of the University

Where the Board designates unrestricted funds to function as endowments they are classified as unrestricted net assets. Where the Board designates donor restricted non-endowment funds to function as endowments they are classified as temporarily restricted net assets.

The following tables present the University's endowment net asset composition, changes, and net asset classifications as of and for the indicated years (in thousands of dollars):

Endowment Net Asset Composition by Type of Fund as of December 31, 2016

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	\$ -		\$ 40,377	\$ 40,377
Board-designated endowment funds		-	-	-
Total endowment funds	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 40,377</u>	<u>\$ 40,377</u>

Changes in Endowment Net Assets for the year ended December 31, 2016

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	\$ 47,029	\$ 21,278	\$ 35,773	\$ 104,080
Investment income, net	3,673	4,573	-	8,246
Contributions and other revenue	-	-	4,604	4,604
Appropriation of endowment assets for expenditure	(1,693)	(2,033)	-	(3,726)
Other changes:				
Transfers to/from board-designated quasi-endowment funds, net	(49,009)	(23,818)	-	(72,827)
Endowment net assets, end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 40,377</u>	<u>\$ 40,377</u>

Endowment Net Asset Composition by Type of Fund as of December 31, 2015

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	\$ -	\$ 21,278	\$ 35,773	\$ 57,051
Board-designated endowment funds	47,029	-	-	47,029
Total endowment funds	<u>\$ 47,029</u>	<u>\$ 21,278</u>	<u>\$ 35,773</u>	<u>\$ 104,080</u>

Changes in Endowment Net Assets for the year ended December 31, 2015

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	\$ 47,084	\$ 21,335	\$ 32,928	\$ 101,347
Investment loss, net	(177)	(170)	-	(347)
Contributions and other revenue	-	-	2,845	2,845
Appropriation of endowment assets for expenditure	(1,593)	(2,028)	-	(3,621)
Other changes:				
Transfers to/from board-designated endowment funds, net	1,715	2,141	-	3,856
Endowment net assets, end of year	<u>\$ 47,029</u>	<u>\$ 21,278</u>	<u>\$ 35,773</u>	<u>\$ 104,080</u>

Description of Amounts Classified as Permanently Restricted Net Assets and Temporarily Restricted Net Assets (Endowment Only)

	<u>2016</u>	<u>2015</u>
Permanently Restricted Net Assets		
The portion of perpetual endowment funds that is required to be retained permanently either by explicit donor stipulation or UPMIFA	<u>\$ 40,377</u>	<u>\$ 35,773</u>
Total endowment funds classified as permanently restricted net assets	<u><u>\$ 40,377</u></u>	<u><u>\$ 35,773</u></u>
Temporarily Restricted Net Assets		
Term endowment funds	\$ -	\$ -
The portion of perpetual endowments subject to a time restriction under UPMIFA:		
Without purpose restrictions	-	-
With purpose restrictions	<u>-</u>	<u>21,278</u>
Total endowment funds classified as temporarily restricted net assets	<u><u>\$ -</u></u>	<u><u>\$ 21,278</u></u>

Endowment Funds with Deficits

From time to time, the fair value of assets associated with individual donor endowment funds may fall below the value of the initial and subsequent donor gift amounts (deficit). When donor endowment deficits exist, they are classified as a reduction of unrestricted net assets. Deficits associated with funds functioning as endowments, when they exist, are likewise classified as a reduction of unrestricted net assets.

Return Objectives and Risk Parameters

The University has adopted endowment investment and spending policies that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of endowment assets. Under this policy, endowment assets are invested in a manner that is intended to yield a long-term rate of return of approximately 6.0 percent annually, while assuming a moderate level of investment risk. Actual returns in any given year may vary from this amount.

Strategies Employed for Achieving Investment Objectives

To achieve 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 gains) and current yield (interest and dividends). The University targets a diversified asset allocation that places greater emphasis on equity-based investments to achieve its long-term objectives within prudent risk constraints.

Relationship of Spending Policy to Investment Objectives

The University's Investment Committee (the Committee) determines the method to be used to appropriate endowment funds for expenditure. The appropriation amount is determined as of the end of the year, one year prior to when it becomes available for expenditure, and is equal to 4.0 percent of the preceding five years' average ending fair value. In establishing this method, the Committee considered the expected long-term rate of return on the investment of the University's endowment funds. Accordingly, over the long-term, the University expects the current spending policy to allow its endowment to grow at an average of 2.0 percent annually, consistent with its intention to maintain the purchasing power of the endowment assets as well as to provide additional real growth through new gifts. Depending upon market conditions and the needs and available resources of the University, appropriations for expenditure from individual endowments may be temporarily suspended to facilitate preservation of the endowment.

(8) FINANCIAL INSTRUMENTS AT FAIR VALUE

Certain financial instruments of the University are reported at fair value and are either categorized into a three-level hierarchy based on the nature of the inputs to the valuation technique, or presented as Investments measured at net asset value per share as discussed in Note 1. The following tables present these financial instruments as of December 31, 2016 and 2015 (in thousands of dollars):

	Fair Value Measurements as of December 31, 2016			
	Level 1	Level 2	Level 3	Total
Time deposits and cash equivalents	\$ 345	\$ -	\$ -	\$ 345
Investments measured at net asset value per share	N/A	N/A	N/A	195,863
Total Investments	345	-	-	196,208
Beneficial interest in trusts	-	-	5,994	5,994
Total assets carried at fair value	<u>\$ 345</u>	<u>\$ -</u>	<u>\$ 5,994</u>	<u>\$ 202,202</u>

	Fair Value Measurements as of December 31, 2015			
	Level 1	Level 2	Level 3	Total
Time deposits and cash equivalents	\$ 338	\$ -	\$ -	\$ 338
Investments measured at net asset value per share	N/A	N/A	N/A	193,880
Total Investments	338	-	-	194,218
Beneficial interest in trusts	-	-	5,826	5,826
Total assets carried at fair value	<u>\$ 338</u>	<u>\$ -</u>	<u>\$ 5,826</u>	<u>\$ 200,044</u>

The following tables summarize the changes in Level 3 financial instruments measured at fair value for the years ended December 31, 2016 and 2015 (in thousands of dollars):

	Fair Value Measurements Using Significant Unobservable Inputs	
	2016	2015
Level 3 financial instruments, beginning of year	\$ 5,826	\$ 5,790
Total gains (losses)	(454)	(57)
Purchases	2	128
Settlements	620	(35)
Transfers into/(out of) Level 3	-	-
Level 3 financial instruments, end of year	<u>\$ 5,994</u>	<u>\$ 5,826</u>

The fair value of the beneficial interests in trusts is based upon an income approach. Significant inputs include the fair value of the trust assets, the discount rate, the annual amounts paid to the donor, and the estimated date of payout (Note 3).

Investments measured at net asset value per share consist of unitized interests in investment pools managed by a Church affiliate. The University has no unfunded commitments, and may redeem these investments on a monthly basis, at the month-end net asset value, with a minimum notice period of 5 business days. The following table presents the fair value of these investments, as of December 31, 2016 and 2015 (in thousands of dollars):

	Fair Value Measurements of Investments Measured at Net Asset Value Per Share	
	2016	2015
Equity portfolios, domestic	\$ 126,147	\$ 121,715
Equity portfolios, international	13,144	13,293
Fixed income portfolios, domestic	56,572	58,872
Total investments measured at net asset value per share	<u>\$ 195,863</u>	<u>\$ 193,880</u>

Domestic and international equity portfolios consist of funds that invest in the common stock of either large, mid, or small cap companies and are generally designed to either replicate the performance of an index or outperform an index through active security selection. Fixed income portfolios consist of funds that invest in either U.S. government or corporate debt securities, each with a targeted duration.

9) RETIREMENT AND POSTRETIREMENT PLANS

The University is a participating employer within the Master Retirement Plan administered by a Church affiliate (Note 6). The retirement plan is a noncontributory defined benefit plan that covers substantially all full-time employees of the University.

The University is also a participating employer within the Retiree Medical and Life Plan, administered by a Church affiliate. Through this plan, the University provides a postretirement benefit plan that provides a fixed monthly dollar benefit toward the purchase of medical and life insurance for retired employees. Participating retirees pay the difference between the fixed amounts and the total premium rates. The University recognizes the estimated cost of these postretirement benefits during the years employees provide service. At the time it adopted this method, the

University elected to recognize the cumulative effect of the postretirement benefit obligation over a period of twenty years.

Retirement and postretirement plan information presented below represents the University's proportionate share of the Master Retirement Plan and the Retiree Medical and Life Plan (the Plans), respectively.

The following table shows the funding status and the related amounts recognized in the Statements of Financial Position as of December 31, 2016 and 2015 (in thousands of dollars):

	Retirement Plan		Postretirement Plan	
	2016	2015	2016	2015
Fair value of plan assets	\$ 119,313	\$ 109,553	\$ 9,740	\$ 8,633
Benefit obligation	(142,238)	(133,353)	(13,990)	(15,694)
Amount under funded	<u>\$ (22,925)</u>	<u>\$ (23,800)</u>	<u>\$ (4,250)</u>	<u>\$ (7,061)</u>

The accumulated benefit obligation for the retirement plan was \$128,293,438 and \$122,024,305 as of December 31, 2016 and 2015, respectively.

The following table provides information relating to the retirement and postretirement plans as of and for the years ended December 31, 2016 and 2015 (in thousands of dollars):

	Retirement Plan		Postretirement Plan	
	2016	2015	2016	2015
Selected changes in plan assets:				
Employer contributions	\$ 3,886	\$ 3,534	\$ 570	\$ 809
Plan participants' contributions	N/A	N/A	N/A	N/A
Benefits paid	5,547	4,649	572	522
Accumulated amounts reflected in the Statements of Financial Position:				
Net loss	\$ 27,816	\$ 28,727	\$ 1,488	\$ 4,496
Prior service cost	353	53	469	536
Amount in unrestricted net assets	28,169	28,780	1,957	5,032
Accrued (prepaid)				
retirement/postretirement cost	(5,245)	(4,980)	2,293	2,029
Retirement/postretirement liability	<u>\$ 22,924</u>	<u>\$ 23,800</u>	<u>\$ 4,250</u>	<u>\$ 7,061</u>
Periodic benefit cost and other amounts recognized in unrestricted net assets reflected in the Statements of Activities:				
Benefit cost	<u>\$ 3,621</u>	<u>\$ 4,199</u>	<u>\$ 834</u>	<u>\$ 895</u>
Net (gain) loss	(910)	(5,160)	(3,008)	(324)
Prior service cost (credit)	<u>300</u>	<u>(18)</u>	<u>(67)</u>	<u>(67)</u>
Other amounts recognized in unrestricted net assets	<u>(610)</u>	<u>(5,178)</u>	<u>(3,075)</u>	<u>(391)</u>
Total benefit cost and other amounts recognized in unrestricted net assets	<u>\$ 3,011</u>	<u>\$ (979)</u>	<u>\$ (2,241)</u>	<u>\$ 504</u>

The estimated prior service cost and net loss for the retirement plan that will be amortized from unrestricted net assets into net periodic benefit cost in 2017 are \$49,421 and \$1,082,309, respectively. The estimated prior service cost, and net loss for the postretirement plan that will be amortized from unrestricted net assets into net periodic benefit cost in 2017 are \$58,673 and \$0, respectively.

For the years ended December 31, 2016 and 2015, the following weighted-average assumptions were used in accounting for the Plans:

	Retirement Plan		Postretirement Plan	
	2016	2015	2016	2015
Benefit obligation:				
Discount rate	4.00%	4.20%	4.00%	4.20%
Rate of compensation increase	4.37%	4.25%	N/A	N/A
Net periodic benefit cost:				
Discount rate	4.20%	3.80%	4.20%	3.80%
Expected return on plan assets	6.00%	7.00%	6.00%	7.00%
Rate of compensation increase	4.37%	4.25%	N/A	N/A

Postretirement benefits are fixed dollar amounts which might be adjusted in the future. For December 31, 2016 valuations, a 7.1% (6.1% for Medicare supplement) annual rate of increase in the per capita cost of covered health care benefits was assumed for 2017; the rate was assumed to decrease gradually going forward to 5.8% (6.3% for Medicare supplement) for 2026. It was also assumed to continue to decrease until it reaches its ultimate level in 2075 at 3.9% (3.9% for Medicare supplement). For December 31, 2015 valuations, a 7.0% (8.2% for Medicare supplement) annual rate of increase in the per capita cost of covered health care benefits was assumed for 2016; the rate was assumed to decrease gradually going forward to 5.8% (6.3% for Medicare supplement) for 2025. It will continue to decrease until it reaches its ultimate level in 2075 at 3.8% (3.8% for Medicare supplement).

By way of investment policy, the Plans have established long-term strategic asset allocation targets and ranges, as shown below.

For 2016, the 6.0% expected long-term return assumption on plan assets, also shown below, was based primarily on forecasted returns for the next ten years by asset category, weighted by the 2016 asset allocation target.

	Asset Allocation		Expected Return	
	Target	Range	2016 Weighting	Category Return
Asset category:				
Domestic equity securities	20%	10-30%	20%	5.75%
International equity securities	10%	5-20%	10%	6.25%
Debt securities	25%	15-40%	25%	2.75%
Real estate	10%	5-15%	10%	7.50%
Other assets	15%	5-20%	15%	8.25%
Diversifying assets	20%	10-30%	20%	5.25%
Value from active management				0.4%
Weighted-average return				6.0%

For 2015, the 7.0% expected long-term return assumption on plan assets, also shown below, was based primarily on forecasted returns for the next ten years by asset category, weighted by the 2012 asset allocation target.

	Asset Allocation		Expected Return	
	Target	Range	2012 Weighting	Category Return
Asset category:				
Domestic equity securities	20%	10-30%	32%	7.5%
International equity securities	10%	5-20%	13%	8.5%
Debt securities	25%	15-40%	35%	3.5%
Real estate	10%	5-15%	10%	7.0%
Other assets	35%	15-50%	10%	10.5%
Value from active management				0.5%
Weighted-average return				7.0%

The Plans set long-term strategic asset allocation target ranges and then use tactical asset allocation and active management with the intent of providing additional return. The investment policies have been designed to provide for the potential of reasonable long-term performance, yet control the magnitude of risk by setting policy ranges for asset allocation, domestic equity capitalization weighting, domestic equity active management exposure, derivatives exposure, and fixed-income quality.

The financial instruments of the retirement and postretirement plans are reported at fair value and are either categorized into a three-level hierarchy based on the nature of the inputs to the valuation technique, or presented as "Investments measured at net asset value per share" as described in Note 1.

The tables below present the fair value of the total Master Retirement Plan assets as of December 31, 2016 and 2015 (in thousands of dollars), of which the University's share was 2.24% and 2.21% as of the respective dates.

Fair Value Measurements as of December 31, 2016				
	Level 1	Level 2	Level 3	Total
Cash and cash equivalents, net of accruals	\$ 140,357	\$ -	\$ -	\$ 140,357
Investments:				
U.S. government securities	-	192,662	-	192,662
Corporate debt securities, domestic	-	379,044	12,780	391,824
Corporate debt securities, international	-	9,715	-	9,715
Corporate debt securities, exchange traded note	-	-	-	-
Mutual funds	1,520,033	-	-	1,520,033
Common stocks, domestic	702,021	-	-	702,021
Common stocks, international	451,229	-	4,576	455,805
Preferred stocks	13,169	-	3,870	17,039
Government agency mortgage-backed securities	-	171,242	-	171,242
Private mortgage-backed securities	-	157,606	6,758	164,364
Derivatives	-	994	7	1,001
Investments measured at net asset value per share	N/A	N/A	N/A	1,548,823
Net Master Retirement Plan assets	<u>\$ 2,826,809</u>	<u>\$ 911,263</u>	<u>\$ 27,991</u>	<u>\$ 5,314,886</u>

Fair Value Measurements as of December 31, 2015				
	Level 1	Level 2	Level 3	Total
Cash and cash equivalents, net of accruals	\$ 93,221	\$ -	\$ -	\$ 93,221
Investments:				
U.S. government securities	-	210,220	-	210,220
Corporate debt securities, domestic	-	395,305	5,193	400,498
Corporate debt securities, international	-	7,561	-	7,561
Corporate debt securities, exchange traded note	28,464	-	-	28,464
Mutual funds	1,318,533	-	-	1,318,533
Common stocks, domestic	762,411	-	-	762,411
Common stocks, international	443,279	-	-	443,279
Preferred stocks	9,548	2,025	-	11,573
Government agency mortgage-backed securities	-	153,162	2,001	155,163
Private mortgage-backed securities	-	148,895	9,052	157,947
Derivatives	-	287	-	287
Investments measured at net asset value per share	N/A	N/A	N/A	1,367,888
Net Master Retirement Plan assets	<u>\$ 2,655,456</u>	<u>\$ 917,455</u>	<u>\$ 16,246</u>	<u>\$ 4,957,045</u>

The tables below present the fair value of the University's Retiree Medical and Life Plan assets as of December 31, 2016 and 2015 (in thousands of dollars), of which the University's postretirement plan's share was 1.96% and 1.89% as of the respective dates.

Fair Value Measurements as of December 31, 2016				
	Level 1	Level 2	Level 3	Total
Cash and cash equivalents, net of accruals	\$ 19,406	\$ -	\$ -	\$ 19,406
Investments:				
U.S. government securities	-	13,840	-	13,840
Corporate debt securities, domestic	-	28,178	34	28,212
Corporate debt securities, international	-	316	-	316
Corporate debt securities, exchange traded note	-	-	-	-
Mutual funds	253,546	-	-	253,546
Common stocks, domestic	41,307	-	-	41,307
Preferred stocks	1,276	-	-	1,276
Government agency mortgage-backed securities	-	292	-	292
Derivatives	91	-	1	92
Investments measured at net asset value per share	N/A	N/A	N/A	137,664
Net Retiree Medical and Life Plan assets	<u>\$ 315,626</u>	<u>\$ 42,626</u>	<u>\$ 35</u>	<u>\$ 495,951</u>

Fair Value Measurements as of December 31, 2015				
	Level 1	Level 2	Level 3	Total
Cash and cash equivalents, net of accruals	\$ 8,976	\$ -	\$ -	\$ 8,976
Investments:				
U.S. government securities	-	18,021	-	18,021
Corporate debt securities, domestic	-	29,878	38	29,916
Corporate debt securities, international	-	301	-	301
Corporate debt securities, exchange traded note	3,334	-	-	3,334
Mutual funds	238,307	-	-	238,307
Common stocks, domestic	36,471	-	-	36,471
Preferred stocks	1,055	139	-	1,194
Government agency mortgage-backed securities	-	407	-	407
Derivatives	105	-	-	105
Investments measured at net asset value per share	N/A	N/A	N/A	119,749
Total	<u>\$ 288,248</u>	<u>\$ 48,746</u>	<u>\$ 38</u>	<u>\$ 456,781</u>

The following tables provide a summary of changes in fair value of the Level 3 Master Retirement Plan assets for the years ended December 31, 2016 and 2015 (in thousands of dollars):

2016 Fair Value Measurements Using Significant Unobservable Inputs					
	Corporate Debt Securities	Common Stocks, International	Preferred Stocks	Govt. Agency Mortgage- backed Securities	Private Mortgage- backed Securities
Level 3 investments, beginning of year	\$ 5,193	\$ -	\$ -	\$ 2,001	\$ 9,052
Actual return on plan assets:					
Relating to assets still held as of end of year	354	64	300	(21)	40
Relating to assets sold during the year	(1)	38	-	(16)	135
Purchases	17,135	4,938	3,570	-	2,207
Sales/maturities	(9,901)	(2,334)	-	(488)	(1,022)
Transfers into (out of) Level 3	-	1,870	-	(1,476)	(3,654)
Level 3 investments, end of year	<u>\$ 12,780</u>	<u>\$ 4,576</u>	<u>\$ 3,870</u>	<u>\$ -</u>	<u>\$ 6,758</u>
	Derivatives	Total			
Level 3 investments, beginning of year	\$ -	\$ 16,246			
Actual return on plan assets:					
Relating to assets still held as of end of year	-	737			
Relating to assets sold during the year	-	156			
Purchases	7	27,857			
Sales/maturities	-	(13,745)			
Transfers into (out of) Level 3	-	(3,260)			
Level 3 investments, end of year	<u>\$ 7</u>	<u>\$ 27,991</u>			

Table continued below

2015 Fair Value Measurements Using Significant Unobservable Inputs					
	Corporate Debt Securities	Common Stocks, International	Preferred Stocks	Govt. Agency Mortgage- backed Securities	Private Mortgage- backed Securities
Level 3 investments, beginning of year	\$ 10,758	\$ -	\$ -	\$ 2,400	\$ 5,837
Actual return on plan assets:					
Relating to assets still held as of end of year	(298)	-	-	(20)	110
Relating to assets sold during the year	(393)	-	-	(24)	47
Purchases	4,735	-	-	367	4,162
Sales/maturities	(9,609)	-	-	(722)	(1,104)
Transfers into (out of) Level 3	-	-	-	-	-
Level 3 investments, end of year	<u>\$ 5,193</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,001</u>	<u>\$ 9,052</u>
	Derivatives	Total			
Level 3 investments, beginning of year	\$ 37	\$ 19,032			
Actual return on plan assets:					
Relating to assets still held as of end of year	(2)	(210)			
Relating to assets sold during the year	8	(362)			
Purchases	34	9,298			
Sales/maturities	(77)	(11,512)			
Transfers into (out of) Level 3	-	-			
Level 3 investments, end of year	<u>\$ -</u>	<u>\$ 16,246</u>			

Table continued below

The following tables provide a summary of changes in fair value of the Level 3 Retiree Medical and Life Plan assets for the years ended December 31, 2016 and 2015 (in thousands of dollars):

	2016 Fair Value Measurements Using Significant Unobservable Inputs		
	Corporate Debt		
	Securities	Derivatives	Total
Level 3 investments, beginning of year	\$ 38	\$ -	\$ 38
Actual return on plan assets:			
Relating to assets still held as of end of year	(4)	-	(4)
Relating to assets sold during the year	3	-	3
Purchases	-	1	1
Sales/maturities	(3)	-	(3)
Transfers into (out of) Level 3	-	-	-
Level 3 investments, end of year	<u>\$ 34</u>	<u>\$ 1</u>	<u>\$ 35</u>

	2015 Fair Value Measurements Using Significant Unobservable Inputs		
	Corporate Debt		
	Securities	Derivatives	Total
Level 3 investments, beginning of year	\$ 390	\$ 3	\$ 393
Actual return on plan assets:			
Relating to assets still held as of end of year	(9)	-	(9)
Relating to assets sold during the year	1	1	2
Purchases	-	3	3
Sales/maturities	(344)	(7)	(351)
Transfers into (out of) Level 3	-	-	-
Level 3 investments, end of year	<u>\$ 38</u>	<u>\$ -</u>	<u>\$ 38</u>

The University expects to contribute \$6,430,000 to its retirement plan and \$871,535 to its postretirement plan during the year ending December 31, 2017.

As of December 31, 2016, the following benefit payments, which reflect expected future service, as appropriate, are expected to be paid (in thousands of dollars):

Years Ending December 31,	Retirement Plan	Postretirement Plan
2017	5,609	446
2018	5,955	515
2019	6,300	531
2020	6,719	587
2021	7,131	641
2022-2026	40,828	3,663

The University also participates in supplementary defined contribution retirement plans. The plans are qualified retirement savings money purchase 401(k) plans or Tax Sheltered Annuity 403(b) plans. The plans cover substantially all full-time employees. These plans are provided through Teachers Insurance and Annuity Association and a Church affiliate (Note 6). Employees can contribute a portion of their salaries, not to exceed Internal Revenue Service limits, in qualified programs offered through these companies. For included classes of employees, the University contributes a matching amount up to 6 percent of employee salary to the Church

affiliate, which during the years ended December 31, 2016 and 2015, totaled \$1,465,555 and \$1,293,894, respectively.

(10) COMMITMENTS AND CONTINGENCIES

The University has commitments for construction projects totaling \$47,885,327 at December 31, 2016. Of this amount, \$47,727,147 has been approved to be reimbursed by a Church affiliate (Note 6) and is expected to be received as costs are expended.

The University has been named as a defendant in certain lawsuits. Other potential claims are pending. While the University cannot predict the results of these actions, management believes, based in part on the advice of in-house legal counsel, that any contingent liability resulting from such litigation and claims will not have a material effect on the University operations or financial position. Financial responsibility for liability losses is assumed by a Church affiliate.

(11) SUBSEQUENT EVENTS

The University has evaluated subsequent events for the period after December 31, 2016 through April 28, 2017, the date the financial statements were available to be issued. No events have been identified that would have a material effect on the financial statements.

BRIGHAM YOUNG UNIVERSITY – HAWAII
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 for the year ended December 31, 2016

<u>Federal Grantor/Pass-Through Grantor/Program or Cluster Title</u>	<u>Federal CFDA Number</u>	<u>Federal Expenditures</u>
Student Financial Aid Cluster:		
U.S. Department of Education Federal Pell Grant Program	84.063	\$ 3,009,345
Teacher Education Assistance for College and Higher Education Grants	84.379	13,187
Direct Loans (includes Stafford Loans and PLUS Loans)	84.268	<u>2,044,651</u>
Total Student Financial Aid Cluster		<u>5,067,183</u>
Total Federal Financial Assistance		<u>\$ 5,067,183</u>

BRIGHAM YOUNG UNIVERSITY - HAWAII

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

1. BASIS OF PRESENTATION:

The accompanying Schedule of Expenditures of Federal Awards for the year ended December 31, 2016 includes the federal financial assistance transactions of Brigham Young University – Hawaii (the "University") recorded on the accrual basis of accounting. Funds derived from federal grants may be used only to meet current expenditures for the purposes specifically identified by the sponsoring agencies. The information in the schedule is presented in accordance with the requirements of OMB Uniform Guidance. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements. Indirect costs are not charged to the Student Financial Aid program

2. LOAN PROGRAMS:

The University issued loans under the Federal Direct Student Loans Program, which includes Direct Subsidized Loans, Direct Unsubsidized Loans, and Direct Parent's Loans for Undergraduate Students, which are included in the Schedule of Expenditures of Federal Awards.

The University is responsible only for the performance of certain administrative duties with respect to the Federal Direct Loan programs and accordingly, these loans are not included in the University's basic consolidated financial statements. It is not practical to determine the balance of loans outstanding under these programs at December 31, 2016.



Report of Independent Auditors on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

To the Board of Trustees of Brigham Young University – Hawaii:

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Brigham Young University – Hawaii, which comprise the statement of financial position as of December 31, 2016, and the related statements of activities and of cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated April 28, 2017.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Brigham Young University – Hawaii's internal control over financial reporting ("internal control") to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Brigham Young University – Hawaii's internal control. Accordingly, we do not express an opinion on the effectiveness of Brigham Young University – Hawaii's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Brigham Young University – Hawaii's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.



Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

PricewaterhouseCoopers LLP

April 28, 2017



**Report of Independent Auditors on Compliance with Requirements
That Could Have a Direct and Material Effect on Each Major Program and on Internal
Control Over Compliance in Accordance with the Uniform Guidance**

To the Board of Trustees of Brigham Young University – Hawaii:

Report on Compliance for Each Major Federal Program

We have audited Brigham Young University – Hawaii's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on Brigham Young University – Hawaii's major federal program for the year ended December 31, 2016. Brigham Young University – Hawaii's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations and the terms and conditions of its federal awards applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for Brigham Young University – Hawaii's major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Brigham Young University – Hawaii's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for the major federal program. However, our audit does not provide a legal determination of Brigham Young University – Hawaii's compliance.

Opinion on Each Major Federal Program

In our opinion, Brigham Young University – Hawaii complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended December 31, 2016.



Report on Internal Control Over Compliance

Management of Brigham Young University – Hawaii is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Brigham Young University – Hawaii's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Brigham Young University – Hawaii's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

PricewaterhouseCoopers LLP

May 15, 2017

BRIGHAM YOUNG UNIVERSITY – HAWAII

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

for the year ended December 31, 2016

Section I – Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unmodified Opinion

Internal control over financial reporting:

• Material weaknesses identified?	<u> </u> yes	<u> X </u> no
• Significant deficiencies identified that are not considered to be material weaknesses?	<u> </u> yes	<u> X </u> none reported
Noncompliance material to financial statements noted?	<u> </u> yes	<u> X </u> no

Federal Awards

Internal control over major programs:

• Material weaknesses identified?	<u> </u> yes	<u> X </u> no
• Significant deficiencies identified that are not considered to be material weaknesses?	<u> </u> yes	<u> X </u> none reported

Type of auditor's report issued on compliance for major programs: Unmodified Opinion

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516 (a)?	<u> </u> yes	<u> X </u> no
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Identification of major programs: CFDA Number: Various	Name of Federal Program or Cluster Student Financial Aid Cluster
Dollar threshold used to distinguish between type A and type B programs:	\$750,000
Auditee qualified as low-risk auditee?	<u> X </u> yes <u> </u> no

Section II – Financial Statement Findings

No findings related to the financial statements were noted which are required to be reported in accordance with *Government Auditing Standards* for the year ended December 31, 2016.

BRIGHAM YOUNG UNIVERSITY – HAWAII

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
for the year ended December 31, 2016

Section III – Federal Award Findings and Questioned Costs

No findings or questioned costs related to Federal Awards were noted which are required to be reported for the year ended December 31, 2016.

BRIGHAM YOUNG UNIVERSITY - HAWAII
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
for the year ended December 31, 2016

There were no prior year findings or questioned costs related to Federal Awards for the year ended December 31, 2015.