

BRIGHAM YOUNG UNIVERSITY – IDAHO

REPORTS ON AUDITS OF THE FINANCIAL STATEMENTS
for the years ended December 31, 2017 and 2016
AND FEDERAL GRANT COMPLIANCE
for the year ended December 31, 2017
(As required by the Single Audit Act and OMB Uniform Guidance)

EIN: 82-0207699

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Report of Independent Auditors

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

Report on the Financial Statements

We have audited the accompanying financial statements of Brigham Young University – Idaho (“the School”), which comprise the statement of financial position as of December 31, 2017 and 2016, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

Management’s Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of 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 the School’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 School’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 – Idaho as of December 31, 2017 and 2016, 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, 2017 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 30, 2018 on our consideration of the School'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, 2017. The purpose of that report is solely 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 the effectiveness of 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 the School's internal control over financial reporting and compliance.

PricewaterhouseCoopers LLP

April 30, 2018

BRIGHAM YOUNG UNIVERSITY – IDAHO

STATEMENTS OF FINANCIAL POSITION

December 31, 2017 and 2016

(in thousands of dollars)

	2017	2016
Assets		
Cash	\$ 60,307	\$ 49,213
Accounts receivable, net of allowances of \$554 and \$551	7,785	10,207
Inventories, prepaid expenses and other assets	6,819	6,683
Investments	251,887	225,225
Beneficial interest in trusts and pledged contributions	8,751	15,517
Land, buildings and equipment, net	571,786	578,478
Total Assets	\$ 907,335	\$ 885,323
Liabilities and Net Assets		
Liabilities		
Accounts payable, accrued liabilities and deposits	\$ 24,647	\$ 26,718
Deferred revenue	1,805	2,429
Retirement and postretirement benefits obligation	100,154	96,723
Loans and notes payable to a Church affiliate	69,943	71,094
Total Liabilities	196,549	196,964
Net Assets		
Unrestricted		
Designated for specific purposes	114,175	90,066
Invested in land, buildings and equipment	501,836	507,376
Total unrestricted	616,011	597,442
Temporarily restricted		
Operations	6,198	4,851
Scholarships and grants	25,023	19,055
Beneficial interest in trusts and pledged contributions	5,480	9,659
Total temporarily restricted	36,701	33,565
Permanently restricted		
True endowment	54,803	51,494
Beneficial interest in trusts and pledged contributions	3,271	5,858
Total permanently restricted	58,074	57,352
Total Net Assets	710,786	688,359
Total Liabilities and Net Assets	\$ 907,335	\$ 885,323

See notes to financial statements

BRIGHAM YOUNG UNIVERSITY – IDAHO

STATEMENT OF ACTIVITIES
for the year ended December 31, 2017

(in thousands of dollars)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues and Other Support				
Tuition and fees	\$ 132,920			\$ 132,920
Less scholarships and grants	16,408			16,408
Net tuition and fees	116,512			116,512
Appropriations from a Church affiliate	126,126			126,126
Contributions and grants	6,451	\$ (2,719)	\$ 630	4,362
Investment income, net	26,202	9,547	92	35,841
Educational related activities	12,710			12,710
Auxiliary enterprises	23,442			23,442
Other	2,728			2,728
Net assets released from restrictions	3,692	(3,692)		-
Total Revenues and Other Support	317,863	3,136	722	321,721
Expenses				
Instruction and academic support	193,547			193,547
General and administrative	32,413			32,413
Student support	39,755			39,755
Auxiliary enterprises	23,722			23,722
Total Expenses	289,437			289,437
Increase in Net Assets before Retirement and Postretirement Plans Adjustment	28,426	3,136	722	32,284
Retirement and Postretirement Plans Adjustment	(9,857)			(9,857)
Increase in Net Assets	18,569	3,136	722	22,427
Net Assets Beginning of Year	597,442	33,565	57,352	688,359
Net Assets End of Year	\$ 616,011	\$ 36,701	\$ 58,074	\$ 710,786

See notes to financial statements

BRIGHAM YOUNG UNIVERSITY – IDAHO

STATEMENT OF ACTIVITIES
for the year ended December 31, 2016

(in thousands of dollars)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues and Other Support				
Tuition and fees	\$ 124,572			\$ 124,572
Less scholarships and grants	16,675			16,675
Net tuition and fees	107,897			107,897
Appropriations from a Church affiliate	167,259			167,259
Contributions and grants	5,988	\$ 2,657	\$ 1,807	10,452
Investment income, net	13,897	4,506	101	18,504
Educational related activities	12,106			12,106
Auxiliary enterprises	23,550			23,550
Other	1,342			1,342
Net assets released from restrictions	3,932	(3,932)		-
Total Revenues and Other Support	335,971	3,231	1,908	341,110
Expenses				
Instruction and academic support	189,165			189,165
General and administrative	30,997			30,997
Student support	36,842			36,842
Auxiliary enterprises	22,761			22,761
Total Expenses	279,765			279,765
Increase in Net Assets before Retirement and Postretirement Plans Adjustment	56,206	3,231	1,908	61,345
Retirement and Postretirement Plans Adjustment	11,662			11,662
Increase in Net Assets	67,868	3,231	1,908	73,007
Net Assets Beginning of Year	529,574	30,334	55,444	615,352
Net Assets End of Year	\$ 597,442	\$ 33,565	\$ 57,352	\$ 688,359

See notes to financial statements

BRIGHAM YOUNG UNIVERSITY – IDAHO

STATEMENTS OF CASH FLOWS
for the years ended December 31, 2017 and 2016

(in thousands of dollars)

Cash Flows from Operating Activities	2017	2016
Increase in net assets	\$ 22,427	\$ 73,007
Adjustments to reconcile increase in net assets to net cash provided by operating activities		
Depreciation	27,596	26,374
(Gain) loss on disposal of land, buildings and equipment	(9)	621
(Gain) on investments	(28,982)	(12,524)
Contributions restricted for investment in permanently restricted assets	(630)	(1,807)
(Income) from investments restricted for reinvestment	(92)	(101)
Noncash contributions	(56)	(221)
Changes in operating assets and liabilities		
Accounts receivable	2,422	(2,075)
Inventories, prepaid expenses and other assets	(136)	(337)
Beneficial interest in trusts and pledged contributions	6,766	(1,197)
Accounts payable, accrued liabilities and deposits	(1,931)	2,282
Deferred revenue	(624)	(1,702)
Retirement and postretirement benefits obligation	3,431	(9,573)
Annuities payable	(23)	(339)
Net cash provided by operating activities	<u>30,159</u>	<u>72,408</u>
Cash Flows from Investing Activities		
Proceeds from sale of investments	48,818	8,303
Purchase of investments	(46,479)	(10,202)
Purchase of land, buildings and equipment	(21,757)	(46,294)
Proceeds from disposal of land, buildings and equipment	782	1,723
Net cash used in investing activities	<u>(18,636)</u>	<u>(46,470)</u>
Cash Flows from Financing Activities		
Investment of contributions restricted for investment in permanently restricted assets	630	1,807
Proceeds of loan from Church affiliate	-	195
Income from investments restricted for reinvestment in permanently restricted assets	92	101
Payments on loans and notes payable to a Church affiliate	(1,151)	(403)
Net cash (used) provided in financing activities	<u>(429)</u>	<u>1,700</u>
Net increase in cash	11,094	27,638
Cash, beginning of year	<u>49,213</u>	<u>21,575</u>
Cash, end of year	<u>\$ 60,307</u>	<u>\$ 49,213</u>
Supplemental Data		
Interest paid	\$ 1,675	\$ 803
Change in purchases of land, buildings and equipment in accounts payable	(117)	263

See notes to financial statements

BRIGHAM YOUNG UNIVERSITY – IDAHO

NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Brigham Young University - Idaho (the University), located in Rexburg, Idaho, 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.

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 have no donor-imposed restrictions. 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 and Pledged Contributions

The University is named as a beneficiary of certain irrevocable trusts. Donors have also made pledges to contribute to the University. Revenues and assets included in the financial statements are based on the net present value of expected proceeds from those trusts and pledged contributions.

BRIGHAM YOUNG UNIVERSITY – IDAHO

NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

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	30-60 years
Improvements	5-20 years
Furniture, fixtures and equipment	5-15 years
Library books	7-25 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.

Revenue Recognition

Appropriations from a Church affiliate (Note 6) are recorded as revenue when received or as costs are incurred for Church affiliate-funded-projects. 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.

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.

BRIGHAM YOUNG UNIVERSITY – IDAHO

NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

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.

BRIGHAM YOUNG UNIVERSITY – IDAHO

NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

Income Tax Status

The University is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. The University is exempt from state income tax under Title 63 of the Idaho 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.

BRIGHAM YOUNG UNIVERSITY – IDAHO

NOTES TO 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, 2017 and 2016 are as follows (in thousands of dollars):

	<u>2017</u>	<u>2016</u>
Investments at fair value:		
Equity portfolios, domestic	\$ 97,751	\$ 91,813
Equity portfolios, international	49,143	41,824
Fixed income portfolios, domestic	104,658	90,703
Total investments at fair value	<u>251,552</u>	<u>224,340</u>
Other investments carried at cost or estimated value at the date of donation:		
Real estate	114	684
Other assets	221	201
Total other investments	<u>335</u>	<u>885</u>
Total investments	<u>\$ 251,887</u>	<u>\$ 225,225</u>

For the years ended December 31, 2017 and 2016, net investment income includes (in thousands of dollars):

	<u>2017</u>	<u>2016</u>
Dividends and interest	\$ 6,860	\$ 5,980
Net gain on investments carried at fair value	29,077	12,524
Net loss on investments carried at other than fair value	(96)	-
Total investment income, net	<u>\$ 35,841</u>	<u>\$ 18,504</u>

BRIGHAM YOUNG UNIVERSITY – IDAHO

NOTES TO FINANCIAL STATEMENTS

3. BENEFICIAL INTEREST IN TRUSTS AND PLEDGED CONTRIBUTIONS

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 to 3 percent) as of December 31, 2017 and 2016, are as follows (in thousands of dollars):

	<u>2017</u>	<u>2016</u>
Less than one year	\$ 1,160	\$ 1,715
One to five years	1,880	2,184
More than five years	<u>5,711</u>	<u>11,618</u>
Total beneficial interest in trusts and pledged contributions	<u>\$ 8,751</u>	<u>\$ 15,517</u>

Included in Contributions and grants - temporarily restricted and permanently restricted on the Statement of Activities are the changes in value of beneficial interests in trusts - temporarily restricted and permanently restricted of \$(3,656) and \$(2,368), respectively, for the year ended December 31, 2017. The change for the year ended December 31, 2016 was not significant.

4. LAND, BUILDINGS AND EQUIPMENT

As of December 31, 2017 and 2016, land, buildings and equipment included (in thousands of dollars):

	<u>2017</u>	<u>2016</u>
Land, buildings and improvements	\$ 694,178	\$ 677,182
Furniture, fixtures and equipment	106,750	102,242
Library books and other	1,744	3,444
Construction in progress	<u>11,839</u>	<u>16,115</u>
	814,511	798,983
Less accumulated depreciation	<u>242,725</u>	<u>220,505</u>
Total land, buildings and equipment, net	<u>\$ 571,786</u>	<u>\$ 578,478</u>

BRIGHAM YOUNG UNIVERSITY – IDAHO

NOTES TO FINANCIAL STATEMENTS

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 range from 2052 to 2057.

The amounts of future principal payments as of December 31, 2017 are (in thousands of dollars):

Year ending December 31,	
2018	\$ 1,178
2019	1,206
2020	1,235
2021	1,265
2022	1,295
2023 and thereafter	<u>63,764</u>
Total loans and notes payable to a Church affiliate	<u>\$ 69,943</u>

In January 2018, and prior to any due date, the outstanding principal and accrued interest on a note payable to a Church affiliate was repaid in the amount of \$26,134,000.

BRIGHAM YOUNG UNIVERSITY – IDAHO

NOTES TO FINANCIAL STATEMENTS

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, 2017 and 2016 (in thousands of dollars):

	<u>2017</u>	<u>2016</u>
Cash	\$ 48,755	\$ 24,576
Accounts receivable	2,641	3,604
Investments	251,887	224,340
Beneficial interest in trusts and pledged contributions	4,370	4,418
Accounts payable, accrued liabilities and deposits	4,562	4,552
Retirement and postretirement benefits obligation	100,154	96,723
Loans and notes payable	69,943	71,094
Appropriations:		
Operations	106,126	93,637
Capital expenditures	20,000	73,622
Contributions processed from donors	4,362	10,605
Investment income, net	35,938	18,504
Other revenue:		
Interest	384	132
Expenses:		
Benefit plans	56,403	34,623
Products and services	4,148	4,676
Interest	1,675	803

BRIGHAM YOUNG UNIVERSITY – IDAHO

NOTES TO FINANCIAL STATEMENTS

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 Idaho "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.

BRIGHAM YOUNG UNIVERSITY – IDAHO

NOTES TO FINANCIAL STATEMENTS

7. ENDOWMENTS, Continued

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

Endowment Net Asset Composition by Type of Fund as of December 31, 2017

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	\$ -	\$ 26,444	\$ 54,803	\$ 81,247
Board-designated endowment funds	36,341	124	-	36,465
Total endowment funds	<u>\$ 36,341</u>	<u>\$ 26,568</u>	<u>\$ 54,803</u>	<u>\$ 117,712</u>

Changes in Endowment Net Assets for the year ended December 31, 2017

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	\$ 32,702	\$ 18,827	\$ 51,494	\$ 103,023
Investment gain, net	5,029	10,702	187	15,918
Contributions and other revenue	-	-	3,122	3,122
Appropriation for expenditure	(1,390)	(2,961)	-	(4,351)
Endowment net assets, end of year	<u>\$ 36,341</u>	<u>\$ 26,568</u>	<u>\$ 54,803</u>	<u>\$ 117,712</u>

BRIGHAM YOUNG UNIVERSITY – IDAHO

NOTES TO FINANCIAL STATEMENTS

7. ENDOWMENTS, Continued

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

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ -	\$ 18,716	\$ 51,494	\$ 70,210
Board-designated endowment funds	<u>32,702</u>	<u>111</u>	<u>-</u>	<u>32,813</u>
Total endowment funds	<u>\$ 32,702</u>	<u>\$ 18,827</u>	<u>\$ 51,494</u>	<u>\$ 103,023</u>

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

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ 31,274	\$ 16,027	\$ 49,960	\$ 97,261
Investment income, net	2,756	5,566	100	8,422
Contributions and other revenue	1	-	1,434	1,435
Appropriation for expenditure	<u>(1,329)</u>	<u>(2,766)</u>	<u>-</u>	<u>(4,095)</u>
Endowment net assets, end of year	<u>\$ 32,702</u>	<u>\$ 18,827</u>	<u>\$ 51,494</u>	<u>\$ 103,023</u>

BRIGHAM YOUNG UNIVERSITY – IDAHO

NOTES TO FINANCIAL STATEMENTS

7. ENDOWMENTS, Continued

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

	<u>2017</u>	<u>2016</u>
Permanently Restricted Net Assets		
The portion of perpetual endowment funds that is required to be retained permanently either by explicit donor stipulations or UPMIFA	\$ 54,803	\$ 51,494
Total endowment funds classified as permanently restricted net assets	<u>\$ 54,803</u>	<u>\$ 51,494</u>
Temporarily Restricted Net Assets		
Term endowment funds	\$ 26,444	\$ 18,716
The portion of perpetual endowment funds subject to a time restriction under UPMIFA:		
Without purpose restrictions	-	-
With purpose restrictions	<u>124</u>	<u>111</u>
Total endowment funds classified as temporarily restricted net assets	<u>\$ 26,568</u>	<u>\$ 18,827</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.

BRIGHAM YOUNG UNIVERSITY – IDAHO

NOTES TO FINANCIAL STATEMENTS

7. ENDOWMENTS, Continued

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 4.25 percent of the preceding year's 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 1.75 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.

BRIGHAM YOUNG UNIVERSITY – IDAHO

NOTES TO FINANCIAL STATEMENTS

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, 2017 and 2016 (in thousands of dollars):

Fair Value Measurements as of December 31, 2017				
	Level 1	Level 2	Level 3	Total
Assets				
Investments measured at net asset value per share	N/A	N/A	N/A	\$ 251,552
Total investments	-	-	-	251,552
Beneficial interest in trusts	-	-	7,141	7,141
Total assets carried at fair value	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 7,141</u>	<u>\$ 258,693</u>

Fair Value Measurements as of December 31, 2016				
	Level 1	Level 2	Level 3	Total
Assets				
Investments measured at net asset value per share	N/A	N/A	N/A	\$ 224,340
Total investments	-	-	-	224,340
Beneficial interest in trusts	-	-	13,197	13,197
Total assets carried at fair value	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 13,197</u>	<u>\$ 237,537</u>

The following tables summarize the changes in Level 3 financial instruments measured at fair value for the years ended December 31, 2017 and 2016 (in thousands of dollars):

Fair Value Measurements Using Significant Unobservable Inputs			
	2017	2016	
Level 3 financial instruments, beginning of year	\$ 13,197	\$ 12,906	
Total gains	119	118	
Purchases	(924)	(785)	
Settlements	(5,251)	958	
Transfers in (out) of Level 3	-	-	
Level 3 financial instruments, end of year	<u>\$ 7,141</u>	<u>\$ 13,197</u>	

BRIGHAM YOUNG UNIVERSITY – IDAHO

NOTES TO FINANCIAL STATEMENTS

8. FINANCIAL INSTRUMENTS AT FAIR VALUE, Continued

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 which are valued at fair value based on the net asset value per share (practical expedient). Investments valued using the practical expedient are not required to be categorized within the fair value hierarchy. 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, 2017 and 2016 (in thousands of dollars):

	Fair Value Measurements of Investments Measured at Net Asset Value Per Share	
	2017	2016
Equity portfolios, domestic	\$ 97,751	\$ 91,813
Equity portfolios, international	49,143	41,824
Fixed income portfolios, domestic	104,658	90,703
Total investments measured at net asset value per share	<u>\$ 251,552</u>	<u>\$ 224,340</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.

BRIGHAM YOUNG UNIVERSITY – IDAHO

NOTES TO FINANCIAL STATEMENTS

9. RETIREMENT AND POSTRETIREMENT PLANS

The University is a participating employer within a 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, 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, 2017 and 2016 (in thousands of dollars):

	Retirement Plan		Postretirement Plan	
	2017	2016	2017	2016
Fair value of plan assets	\$ 350,764	\$ 302,370	\$ 38,796	\$ 32,972
Benefit obligation	(424,952)	(377,830)	(64,762)	(54,235)
Amount under funded	<u>\$ (74,188)</u>	<u>\$ (75,460)</u>	<u>\$ (25,966)</u>	<u>\$ (21,263)</u>

The accumulated benefit obligation for the retirement plan was \$366,541,000 and \$323,894,000 as of December 31, 2017 and 2016, respectively.

BRIGHAM YOUNG UNIVERSITY – IDAHO

NOTES TO FINANCIAL STATEMENTS

9. RETIREMENT AND POSTRETIREMENT PLANS, Continued

The following table provides information relating to the retirement and postretirement plans as of and for the years ended December 31, 2017 and 2016 (in thousands of dollars):

	Retirement Plan		Postretirement Plan	
	2017	2016	2017	2016
Selected changes in plan assets:				
Employer contributions	\$ 23,500	\$ 14,486	\$ 3,736	\$ 2,707
Plan participants' contributions	N/A	N/A	N/A	N/A
Benefits paid	12,874	12,339	1,895	2,058
Accumulated amounts reflected in the Statements of Financial Position:				
Net loss	\$ 98,904	\$ 94,219	\$ 16,241	\$ 10,727
Prior service cost	1,096	1,236	1,464	1,666
Amount in unrestricted net assets	100,000	95,455	17,705	12,393
(Prepaid) accrued retirement/postretirement cost	(25,812)	(19,995)	8,261	8,870
Retirement/postretirement liability	<u>\$ 74,188</u>	<u>\$ 75,460</u>	<u>\$ 25,966</u>	<u>\$ 21,263</u>
Periodic benefit cost and other amounts recognized in unrestricted net assets reflected in the Statements of Activities:				
Benefit cost	<u>\$ 17,683</u>	<u>\$ 15,190</u>	<u>\$ 3,127</u>	<u>\$ 4,092</u>
Net loss (gain)	4,685	(2,812)	5,514	(9,613)
Prior service (credit) cost	<u>(139)</u>	<u>964</u>	<u>(202)</u>	<u>(202)</u>
Other amounts recognized in unrestricted net assets	<u>4,546</u>	<u>(1,848)</u>	<u>5,312</u>	<u>(9,815)</u>
Total benefit cost and other amounts recognized in unrestricted net assets	<u>\$ 22,229</u>	<u>\$ 13,342</u>	<u>\$ 8,439</u>	<u>\$ (5,723)</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 2018 are \$139,000 and \$5,436,000, 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 2018 are \$202,000 and \$738,000, respectively.

BRIGHAM YOUNG UNIVERSITY – IDAHO

NOTES TO FINANCIAL STATEMENTS

9. RETIREMENT AND POSTRETIREMENT PLANS, Continued

For the years ended December 31, 2017 and 2016, the following weighted-average assumptions were used in accounting for the retirement and postretirement plans:

	Retirement Plan		Postretirement Plan	
	2017	2016	2017	2016
Benefit obligation:				
Discount rate	3.50%	4.00%	3.50%	4.00%
Rate of compensation increase	4.01%	4.39%	N/A	N/A
Net periodic benefit cost:				
Discount rate	4.00%	4.20%	4.00%	4.20%
Expected return on plan assets	5.00%	6.00%	5.00%	6.00%
Rate of compensation increase	4.01%	4.39%	N/A	N/A

Postretirement benefits are fixed dollar amounts which might be adjusted in the future. For December 31, 2017 valuations, a 7.3% (6.0% for Medicare supplement) annual rate of increase in the per capita cost of covered health care benefits was assumed for 2018; the rate was assumed to decrease gradually going forward to 5.7% (6.2% for Medicare supplement) for 2027. It was also assumed to continue to decrease until it reaches its ultimate level in 2075 at 3.8% (3.8% for Medicare supplement). 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).

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

For 2017 the 5.0% 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 2017 asset allocation target.

BRIGHAM YOUNG UNIVERSITY – IDAHO

NOTES TO FINANCIAL STATEMENTS

9. RETIREMENT AND POSTRETIREMENT PLANS, Continued

	Asset Allocation		Expected Return	
	Target	Range	2017 Weighting	Category Return
Asset category:				
Domestic equity securities	20%	10-30%	20%	5.25%
International equity securities	10%	5-20%	10%	5.75%
Debt securities	25%	15-40%	25%	1.83%
Real estate	10%	5-15%	10%	6.67%
Private Equities	15%	5-20%	15%	7.42%
Non-Investment Grade Debt	10%	0-15%	20%	4.67%
Hybrid Equities	10%	0-20%		
Value from active management				0.23%
Weighted-average return				5.00%

For 2016 the 6.0% expected long-term return assumption on retirement and postretirement 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%	15-20%	15%	8.25%
Diversifying assets	20%	10-30%	20%	5.25%
Value from active management				0.40%
Weighted-average return				6.00%

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.

BRIGHAM YOUNG UNIVERSITY – IDAHO

NOTES TO FINANCIAL STATEMENTS

9. RETIREMENT AND POSTRETIREMENT PLANS, Continued

The tables below present the fair value of the Master Retirement Plan assets as of December 31, 2017 and 2016 (in thousands of dollars), of which the University's share was 5.83% and 5.69% as of the respective dates.

	Fair Value Measurements as of December 31, 2017			
	Level 1	Level 2	Level 3	Total
Cash and cash equivalents, net of accruals	\$ 69,562	\$ -	\$ -	\$ 69,562
Investments:				
U.S. government securities	-	200,759	-	200,759
Corporate debt securities, domestic	-	393,055	7,312	400,367
Corporate debt securities, international	-	12,596	-	12,596
Corporate debt securities, exchange traded note	-	-	-	-
Mutual funds	1,674,466	-	-	1,674,466
Common stocks, domestic	762,067	-	-	762,067
Common stocks, international	577,406	-	4,511	581,917
Preferred stocks	12,976	-	2,821	15,797
Government agency mortgage-backed securities	-	206,026	94	206,120
Private mortgage-backed securities	-	144,949	7,983	152,932
Derivatives	-	20	-	20
Investments measured at net asset value per share	N/A	N/A	N/A	1,936,552
Net Master Retirement Plan assets	<u>\$3,096,477</u>	<u>\$ 957,405</u>	<u>\$ 22,721</u>	<u>\$6,013,155</u>

	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>

BRIGHAM YOUNG UNIVERSITY – IDAHO

NOTES TO FINANCIAL STATEMENTS

9. RETIREMENT AND POSTRETIREMENT PLANS, Continued

The tables below present the fair value of the Retiree Medical and Life Plan assets as of December 31, 2017 and 2016 (in thousands of dollars), of which the University's share was 6.77% and 6.65% as of the respective dates.

Fair Value Measurements as of December 31, 2017				
	Level 1	Level 2	Level 3	Total
Cash and cash equivalents, net of accruals	\$ 9,555	\$ -	\$ -	\$ 9,555
Investments:				
U.S. government securities	-	12,299	-	12,299
Corporate debt securities, domestic	-	32,824	-	32,824
Corporate debt securities, international	-	1,287	-	1,287
Corporate debt securities, exchange traded note	-	-	-	-
Mutual funds	304,240	-	-	304,240
Common stocks, domestic	44,386	-	-	44,386
Common stocks, international	210	-	-	210
Preferred stocks	889	-	-	889
Government agency mortgage-backed securities	-	247	-	247
Derivatives	-	2	-	2
Investments measured at net asset value per share	N/A	N/A	N/A	166,760
Net Retiree Medical and Life Plan assets	<u>\$ 359,280</u>	<u>\$ 46,659</u>	<u>\$ -</u>	<u>\$ 572,699</u>

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>

BRIGHAM YOUNG UNIVERSITY – IDAHO

NOTES TO FINANCIAL STATEMENTS

9. RETIREMENT AND POSTRETIREMENT PLANS, Continued

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, 2017 and 2016 (in thousands of dollars):

	2017 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	\$ 12,780	\$ 4,576	\$ 3,870	\$ -	\$ 6,758	Table continued below
Actual return on plan assets:						
Relating to assets still held as of end of year	21	891	(1,049)	8	(47)	
Relating to assets sold during the year	103	55	-	(46)	119	
Purchases	7,507	-	-	-	3,243	
Sales/maturities	(13,099)	(404)	-	-	(373)	
Transfers into (out of) Level 3	-	(607)	-	132	(1,717)	
Level 3 investments, end of year	\$ 7,312	\$ 4,511	\$ 2,821	\$ 94	\$ 7,983	

	Derivatives	Total
Level 3 investments, beginning of year	\$ 7	\$ 27,991
Actual return on plan assets:		
Relating to assets still held as of end of year	-	(176)
Relating to assets sold during the year	-	231
Purchases	-	10,750
Sales/maturities	-	(13,876)
Transfers into (out of) Level 3	(7)	(2,199)
Level 3 investments, end of year	<u>\$ -</u>	<u>\$ 22,721</u>

	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	Table continued below
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	\$ 12,780	\$ 4,576	\$ 3,870	\$ -	\$ 6,758	

	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>

BRIGHAM YOUNG UNIVERSITY – IDAHO

NOTES TO FINANCIAL STATEMENTS

9. RETIREMENT AND POSTRETIREMENT PLANS, Continued

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, 2017 and 2016 (in thousands of dollars):

	2017 Fair Value Measurements Using Significant Unobservable Inputs		
	Corporate Debt		
	Securities	Derivatives	Total
Level 3 investments, beginning of year	\$ 34	\$ 1	\$ 35
Actual return on plan assets:			
Relating to assets still held as of end of year	-	-	-
Relating to assets sold during the year	-	-	-
Purchases	-	-	-
Sales/maturities	-	-	-
Transfers into (out of) Level 3	(34)	(1)	(35)
Level 3 investments, end of year	\$ -	\$ -	\$ -

	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	\$ 34	\$ 1	\$ 35

The University expects to contribute \$18,300,000 to its retirement plan and \$2,247,000 to its postretirement plan during the year ending December 31, 2018.

As of December 31, 2017 the following benefit payments, which reflect expected future service, as appropriate, are expected to be paid (in thousands of dollars):

	Retirement Plan	Postretirement Plan
Year ending December 31,		
2018	\$ 13,559	\$ 1,930
2019	14,281	2,040
2020	15,088	2,228
2021	15,962	2,337
2022	16,940	2,493
2023-2027	99,935	15,211

BRIGHAM YOUNG UNIVERSITY – IDAHO

NOTES TO FINANCIAL STATEMENTS

9. RETIREMENT AND POSTRETIREMENT PLANS, Continued

The University also participates in supplementary defined contribution retirement plans. The plans are qualified retirement savings money purchase 401(a), 401(k), or Tax Sheltered Annuity 403(b) plans. The plans cover substantially all full-time employees. These plans are provided through TIAA and a Church affiliate. 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 percentage of employee salary to the Church affiliate, which during the years ended December 31, 2017 and 2016, totaled \$5,144,000 and \$4,869,000, respectively.

10. COMMITMENTS AND CONTINGENCIES

The University has commitments for construction projects totaling \$2,764,000 as of December 31, 2017. Essentially all of this amount has been approved to be reimbursed by a Church affiliate (Note 6) and is expected to be received as costs are incurred.

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, 2017 through April 30, 2018, the date the financial statements were available to be issued.

BRIGHAM YOUNG UNIVERSITY - IDAHO

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
for the year ended December 31, 2017

<u>Federal Grantor/Pass-Through Grantor/Program or Cluster Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Entity Identifying Number</u>	<u>Federal Expenditures</u>
Student Financial Assistance Cluster:			
U.S. Department of Education Federal Pell Grant Program	84.063		\$ 65,987,883
Direct Loans (includes Stafford Loans and PLUS Loans)	84.268		55,271,016
Total Student Financial Assistance Cluster			121,258,899
Pass-Through Funds:			
Department of Health and Human Services: National Center for Research Resources from University of Idaho	93.859	5P20GM103408-17	91,800
Total Pass-Through Funds			91,800
Total Federal Financial Assistance			\$ 121,350,699

See Notes to the Scheduled Expenditures of Federal Awards

BRIGHAM YOUNG UNIVERSITY – IDAHO

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

1. BASIS OF PRESENTATION:

The accompanying Schedule of Expenditures of Federal Awards (the "schedule") for the year ended December 31, 2017 includes the federal financial assistance transactions of Brigham Young University - Idaho (the "School") 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. The School applies its predetermined approved facilities and administrative rate when charging indirect costs to federal awards rather than the 10% de minimis cost rate as described in Section 200.414 of the Uniform Guidance.

2. LOAN PROGRAMS:

The School 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 School 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 School's basic consolidated financial statements. It is not practical to determine the balance of loans outstanding under these programs at December 31, 2017.



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 – Idaho:

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 – Idaho (“the School”), which comprise the statement of financial position as of December 31, 2017, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated April 30, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the School’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 the School’s internal control. Accordingly, we do not express an opinion on the effectiveness of the School’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 the School’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 30, 2018



**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 – Idaho:

Report on Compliance for Each Major Federal Program

We have audited Brigham Young University - Idaho's ("the School") compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on the School's major federal program for the year ended December 31, 2017. The School'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 the School'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 the School'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 the School's compliance.

Opinion on Each Major Federal Program

In our opinion, Brigham Young University - Idaho complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on the major federal program for the year ended December 31, 2017.



Other Matters

The results of our auditing procedures disclosed an instance of noncompliance, which is required to be reported in accordance with the Uniform Guidance and which is described in the accompanying schedule of findings and questioned costs as item 2017-001. Our opinion on the major federal program is not modified with respect to this matter.

The School's response to the noncompliance finding identified in our audit is described in the accompanying Annual Uniform Guidance Audit - Management Views and Corrective Action Plan Yr Ended 12/31/17. The School's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control over Compliance

Management of the School 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 the School'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 the School'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

April 30, 2018

BRIGHAM YOUNG UNIVERSITY – IDAHO

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

for the year ended December 31, 2017

Section I – Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unmodified

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

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516 (a)?	<u> X </u> yes	<u> </u> no
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Identification of major programs: CFDA Number: <u>84.063, 84.268</u>	Name of Federal Program or Cluster <u>Student Financial Aid Cluster</u>
Dollar threshold used to distinguish between type A and type B programs:	<u>\$3,000,000</u>
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, 2017.

BRIGHAM YOUNG UNIVERSITY – IDAHO

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

for the year ended December 31, 2017

Section III – Federal Award Findings and Questioned Costs

2017-001 – Noncompliance with Timing of Return of Title IV Funds

Student Financial Aid Cluster

Federal Pell Grant Program (84.063)

Criteria:

In accordance with 34 CFR section 668.173(b), returns of Title IV funds are required to be returned to the Education Department (ED) or the appropriate FFEL lender as soon as possible, but no later than 45 days after the date the institution determines the student withdrew (or within 30 days for students that never began attendance in accordance with 34 CFR section 668.21(b)). In addition, in accordance with 34 CFR section 668.22 (a), any amount of a post-withdrawal disbursement of Title IV funds that is not credited to the student's account is required to be returned to the student. The institution must make the return or disbursement as soon as possible, but no later than 45 days after the date of the institution's determination that the student withdrew, as defined in paragraph (l)(3) of this section. Returns by check are late if the check is issued more than 45 days after the institution determined the student withdrew or the date on the cancelled check shows the check was endorsed more than 60 days after the date the institution determined that the student withdrew.

Condition:

In examining a sample size of 32 students who withdrew from the University and received Title IV funding, we noted 2 instances of non-compliance in which funds were not returned to the ED within the specified time period. These instances resulted in noncompliant return periods of 83 and 110 days.

Questioned Costs:

None

Cause:

The errors were a result of employee turnover within the financial aid office and insufficient training programs in place at the University to ensure all employees adequately understand the Uniform Guidance requirements for student financial aid.

Effect:

The late returns resulted in noncompliance with the *Code of Federal Regulations*.

Identification as a repeat finding:

This finding is considered to be a repeat of finding 2016-001.

Recommendation:

We recommend that the University reexamine its training program surrounding the Uniform Guidance requirements for student financial aid to ensure all current and new employees have an adequate understanding in order to perform their jobs in a manner that will limit these types of errors.

Management's Views and Corrective Action Plan:

Refer to page 40 for management's views and corrective action plan for the finding described above.

BRIGHAM YOUNG UNIVERSITY – IDAHO

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

for the year ended December 31, 2017

Our prior year audit disclosed an audit finding that was reportable under the requirements of OMB Uniform Guidance for the year ended December 31, 2016 as follows:

Item	Description
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Summary of prior year findings:

2016-001	Noncompliance with the return of Title IV funds to the Education Department (ED) or the appropriate FFEL lender as soon as possible, but no later than 45 days after the institution determines the student withdrew. There were eleven instances of noncompliance in which the institution did not return funds within the required 45 days.
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Status

Refer to finding 2017-001 in the current year.

2016-002	Noncompliance with aid distributed during the year exceeding a student's financial need. There was one instance of noncompliance in which a student was awarded aid that exceeded their financial need. Based on the student's EFC the student was ineligible to receive any type of subsidized aid to replace the student's EFC.
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Status

Management has implemented their prior year corrective action plan related to compliance with aid distributed related to a student's financial need. During 2017, there were no findings related to this item.

2016-003	Noncompliance with the requirement to notify a student of the amount of funds that the student or his or her parent can expect to receive under each Title IV, HEA program, and how and when those funds will be disbursed. There were fourteen instances of noncompliance in which the institution did not notify the student before funds were disbursed.
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Status

Management has implemented their prior year corrective action plan related to the requirement to notify a student prior to disbursing funds. During 2017, there were no findings related to this item.

Annual Uniform Guidance Audit – Management Views and Correcting Action Plan Yr Ended 12/31/2017

Finding 2017-001 *Noncompliance with Timing of Return of Title IV Funds Student Financial Aid Cluster* was noted during the audit of Federal programs in accordance with Uniform Guidance. Management agrees with the finding and proposes the following Corrective Action Plan:

Corrective Action Plan

Both errors occurred prior to April 1st, 2017. The errors occurred due to employee turnover and a gap in training regarding a specific withdrawal type. We have since hired additional employees who are trained and ensure correct R2T4 processing. Our current software has built in functionality to help assure this compliance.

Timing – Additional full time staff have been hired.

Sincerely,



Kenneth Jackson

Director of Financial Aid

BYU-Idaho

(208) 469-1610

jacksonken@byui.edu