PRATT INSTITUTE

Financial Statements

June 30, 2016
(with comparative financial information as of June 30, 2015)

(With Independent Auditors' Report Thereon)

KPMG LLP
345 Park Avenue
New York, NY 10154-0102

Independent Auditors' Report

The Board of Trustees
Pratt Institute:

We have audited the accompanying financial statements of Pratt Institute (the Institute), which comprise the balance sheet as of June 30, 2016, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Pratt Institute as of June 30, 2016, and the changes in its net assets and its cash flows for the year then ended, in accordance with U.S. generally accepted accounting principles.

Report on Summarized Comparative Information

We have previously audited the Institute's 2015 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated December 4, 2015. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2015 is consistent, in all material respects, with the audited financial statements from which it has been derived.

KPMG LLP

November 23, 2016

PRATT INSTITUTE

Balance Sheet

June 30, 2016
(with comparative financial information as of June 30, 2015)

Assets		**2016**	**2015**
Cash and cash equivalents	$	104,674,864	107,303,778
Receivables:			
Student accounts (net of allowance for doubtful accounts of $1,806,330 and $2,186,975 in 2016 and 2015, respectively)		2,846,190	3,495,697
Grants and other (net of allowance for doubtful accounts of $350,000 in 2016 and 2015)		3,686,590	1,904,489
Contributions, net (note 5)		5,244,337	8,514,413
Student loans and accrued interest (net of allowance for doubtful loans of $3,814,234 and $3,701,021 in 2016 and 2015, respectively)		12,747,922	12,314,786
Investments (note 3)		170,563,962	156,874,157
Prepaid expenses and other assets		1,498,813	2,346,319
Funds held by bond trustee (note 7)		44,992,113	38,887,076
Plant assets, net (note 6)		263,155,927	260,769,663
Total assets	$	609,410,718	592,410,378
Liabilities and Net Assets			
Liabilities:			
Accounts payable and accrued expenses	$	21,945,371	19,702,947
Deferred revenue		7,907,748	9,324,124
Note payable (note 8)		11,000,696	11,283,445
Bonds payable (note 7)		140,516,490	125,186,973
Accrued postretirement benefit obligation (note 11)		87,416,430	84,256,731
U.S. government grants refundable		7,713,217	7,508,319
Conditional asset retirement obligations (note 9)		3,646,731	3,565,464
Total liabilities		280,146,683	260,828,003
Net assets (notes 4 and 10):			
Unrestricted		250,124,864	247,941,757
Temporarily restricted		31,749,298	37,295,054
Permanently restricted		47,389,873	46,345,564
Total net assets		329,264,035	331,582,375
Total liabilities and net assets	$	609,410,718	592,410,378

See accompanying notes to financial statements.

PRATT INSTITUTE

Statement of Activities

Year ended June 30, 2016
(with summarized comparative financial information for the year ended June 30, 2015)

	Unrestricted	Temporarily restricted	Permanently restricted	2016 Total	2015 Total
Operating activities:					
Revenue:					
Tuition and fees	$ 201,246,163	—	—	201,246,163	186,162,199
Scholarship allowance	(49,913,361)	—	—	(49,913,361)	(45,474,259)
Net tuition and fees	151,332,802	—	—	151,332,802	140,687,940
State of New York appropriations	291,625			291,625	316,754
Contributions	929,586	1,809,031	2,949,418	5,688,035	11,882,120
Private grants and contracts	659,321	330,950	—	990,271	1,606,468
Government grants and contracts:					
Federal	1,103,249	—	—	1,103,249	1,097,186
State of New York	299,564	6,463	—	306,027	814,770
Local	2,441,871	—	—	2,441,871	937,322
Investment income	1,269,708	646,816	(5,109)	1,911,415	1,637,226
Interest and late charges on loans receivable	523,107	1,252	—	524,359	329,567
Sales and services of auxiliary enterprises	17,993,722	—	—	17,993,722	17,047,329
Other revenue	5,182,338	103,425	—	5,285,763	4,732,676
Net assets released from restrictions	5,484,498	(5,484,498)	—	—	—
Total operating revenue	187,511,391	(2,586,561)	2,944,309	187,869,139	181,089,358
Expenses (note 14):					
Instruction	76,790,210	—	—	76,790,210	73,767,832
Public service	5,347,802	—	—	5,347,802	3,967,275
Academic support	24,596,850	—	—	24,596,850	23,704,711
Student services	18,294,072	—	—	18,294,072	17,274,746
Institutional support	32,412,990	—	—	32,412,990	31,166,072
Auxiliary enterprises	20,667,764	—	—	20,667,764	20,736,804
Total expenses	178,109,688	—	—	178,109,688	170,617,440
Insurance recoveries (note 17)	—	—	—	—	542,139
Excess (deficiency) of operating revenue over expenses	9,401,703	(2,586,561)	2,944,309	9,759,451	11,014,057
Nonoperating activities:					
Contributions	600,000	—	—	600,000	—
Adjustment to contributions receivable	—	—	(2,000,000)	(2,000,000)	—
Net (depreciation) appreciation in fair value of investments	(4,261,267)	(2,859,195)	—	(7,120,462)	654,759
Net depreciation in fair value of derivative instruments	—	—	—	—	(580,629)
Other changes	—	(100,000)	100,000	—	—
Loss on refunding of bonds (note 7)	(7,018,454)	—	—	(7,018,454)	(1,103,386)
Postretirement-related changes other than net periodic postretirement benefit cost (note 11)	3,461,125	—	—	3,461,125	4,872,235
(Decrease) increase in net assets	2,183,107	(5,545,756)	1,044,309	(2,318,340)	14,857,036
Net assets, beginning of year	247,941,757	37,295,054	46,345,564	331,582,375	316,725,339
Net assets, end of year	$ 250,124,864	31,749,298	47,389,873	329,264,035	331,582,375

See accompanying notes to financial statements.

PRATT INSTITUTE

Statement of Cash Flows

Year ended June 30, 2016
(with comparative financial information for the year ended June 30, 2015)

	2016	2015
Cash flows from operating activities:		
(Decrease) increase in net assets	$ (2,318,340)	14,857,036
Adjustments to reconcile (decrease) increase in net assets to net cash provided by operating activities:		
Depreciation of plant assets	13,252,600	13,480,754
Amortization and accretion expense	81,267	207,094
Amortization of deferred bond issuance costs	43,660	11,465
Amortization of bond premium/discount	(342,338)	(11,714)
Loss on refunding of debt	7,018,454	1,103,386
Insurance recoveries	—	(542,139)
Net depreciation (appreciation) in fair value of investments	7,120,462	(654,759)
Net depreciation in fair value of derivative instruments	—	580,629
Provision for uncollectible loans receivable	113,213	12,957
Adjustments to contributions receivable	2,000,000	—
Contributions restricted to endowment and capital	(3,024,418)	(8,110,241)
Changes in assets and liabilities:		
Student accounts receivable	649,507	(1,100,242)
Grants and other receivable	(1,782,101)	(166,204)
Contributions receivable, excluding portions donor-restricted for endowment and capital	294,824	14,823
Accrued interest receivable on student loans receivable	(253,772)	(237,860)
Prepaid expenses and other assets	847,506	(28,388)
Accounts payable and accrued expenses	1,018,674	(1,995,823)
Deferred revenue	(1,416,376)	1,976,210
Accrued postretirement benefit obligation	3,159,699	1,523,897
Net cash provided by operating activities	26,462,521	20,920,881
Cash flows from investing activities:		
Principal payments received on student loans	1,331,561	1,384,083
Disbursements of student loans, net of cancellations	(1,624,138)	(1,462,735)
Proceeds from sales of investments	54,610,565	57,434,937
Purchases of investments	(75,420,832)	(58,769,971)
Purchases of plant assets	(15,638,864)	(22,633,851)
Insurance recoveries	—	542,139
Change in accounts payable for capital expenditures	1,223,750	(2,898,040)
Net cash used in investing activities	(35,517,958)	(26,403,438)
Cash flows from financing activities:		
Increase in funds held by bond trustee, net	(6,105,037)	(29,718,883)
Principal payments on note and bonds payable	(52,269,022)	(53,651,555)
Increase in U.S. government grants refundable	204,898	236,510
Proceeds from issuance of note and bonds	61,489,843	93,392,370
Bond issuance costs	(893,829)	(587,209)
Redemption of derivative instruments (swap)	—	(3,288,400)
Contributions restricted to endowment and capital	3,024,418	8,110,241
Change in contributions receivable for endowment and capital	975,252	(5,635,510)
Net cash provided by financing activities	6,426,523	8,857,564
Net (decrease) increase in cash and cash equivalents	(2,628,914)	3,375,007
Cash and cash equivalents, beginning of year	107,303,778	103,928,771
Cash and cash equivalents, end of year	$ 104,674,864	107,303,778
Supplemental disclosure of cash flow information:		
Cash paid for interest	$ 4,946,368	4,356,421

See accompanying notes to financial statements.

(1) Organization and Tax Status

(a) Organization

Pratt Institute (the Institute), with its principal offices and programs located in Brooklyn, New York, is a coeducational institution chartered and empowered to confer academic degrees by the Board of Regents of the State of New York. The Institute offers degrees at both the undergraduate and graduate levels in art, design, and architecture, and also at the graduate level in information and library science.

(b) Tax Status

The Institute is exempt from federal income taxes under the provisions of Section 501(c)(3) of the Internal Revenue Code. Accordingly, the Institute is not subject to income taxes except to the extent it has taxable income from activities that are not related to its exempt purposes. The Institute utilizes a threshold of more likely than not for recognition and derecognition of tax positions taken or expected to be taken in a tax return. No provision for income taxes was required for fiscal years 2016 or 2015.

(2) Summary of Significant Accounting Policies

The significant accounting policies followed by the Institute are described below:

(a) Basis of Accounting

The accompanying financial statements have been prepared on the accrual basis of accounting.

(b) Basis of Presentation

The Institute's net assets and revenue, gains, and losses are classified based on the existence or absence of donor-imposed restrictions in accordance with standards established by the Financial Accounting Standards Board (FASB) for external financial reporting by not-for-profit organizations. Accordingly, net assets and changes therein are classified and reported as follows:

Unrestricted net assets – Net assets that are not subject to donor-imposed stipulations.

Temporarily restricted net assets – Net assets subject to donor-imposed stipulations that will be met either by actions of the Institute and/or the passage of time.

Permanently restricted net assets – Net assets subject to donor-imposed stipulations that they be maintained permanently by the Institute. Generally, the donors of these assets permit the Institute to use all or part of the income and gains derived therefrom for general or specific purposes.

Revenue is reported as an increase in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation or by law.

When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the accompanying statement of activities as net assets released from restrictions.

(Continued)

(c) Contributions and Grants

Contributions, which include unconditional promises to give or pledges, grants, and contracts, are recognized as revenue in the period received at fair value. Conditional promises to give are not recognized until they become unconditional, that is, when the conditions on which they depend are substantially met. Unconditional pledges to be paid in the future are discounted using a risk-adjusted discount rate. Amortization of the discount is recorded as additional contribution revenue with the donor-imposed restrictions, if any, on the contribution. Any decreases in the quantity or nature of assets expected to be received subsequent to the initial recognition of the pledge are reported as a loss in the applicable net asset class.

(d) Cash and Cash Equivalents

Cash and cash equivalents consist principally of money market funds and temporarily uninvested cash except for those cash equivalents that are maintained for long-term investment purposes.

(e) Investments

Investments with readily determinable fair values are reported at fair value based upon quoted market prices or published net asset value for alternative investments in funds that have characteristics similar to mutual funds. Contributions of investment securities are recorded at their fair value at the date of gift. Alternative investments, which are not deemed to have a readily determinable fair value, are reported at estimated fair values (net asset value as a practical expedient) as provided by the investment managers. The Institute reviews and evaluates the values provided by the investment managers and agrees with the valuation methods and assumptions used in determining the fair value of the alternative investments. These estimated fair values may differ significantly from the values that would have been used had a ready market for the investments existed.

(f) Funds Held by Bond Trustee

Funds with bond trustees represent amounts held by designated bond trustees for future application by the Institute to approved capital projects.

(g) Plant Assets

Plant assets are stated based upon the following valuations:

Land – assessed valuation at 1962 plus subsequent additions at cost
Buildings – cost, except certain buildings, which are stated at insurable values for 1962
Building and leasehold improvements – cost
Equipment and furniture – cost, or at fair value, at the date of gift when acquired as gift
Library books – nominal value of $1.00 per volume

Depreciation of buildings, building improvements, equipment, and furniture is provided on a straight-line basis over their estimated useful lives, ranging from 5 to 50 years. Amortization of leasehold improvements is provided on a straight-line basis over their expected useful lives, not to exceed the remaining life of the respective lease.

(Continued)

(h) Release of Restrictions on Net Assets Held for Acquisition of Property and Equipment

Contributions of property and equipment without donor stipulations concerning the use of such long-lived assets are reported as revenue of the unrestricted net asset class. Contributions of cash or other assets received with donor stipulations that they be used to acquire property and equipment are reported as revenue of the temporarily restricted net asset class; the restrictions are considered to be released at the time the long-lived asset is placed into service.

(i) Deferred Revenue

Amounts received in advance for tuition and fees are recognized as deferred revenue in the accompanying financial statements.

(j) Split-Interest Agreements

The Institute’s split-interest agreements with donors consist primarily of charitable gift annuities, as well as a charitable gift remainder trust, for which the Institute is trustee. Assets associated with these split-interest agreements are included in investments. Contribution revenue is recognized at the date the trusts are established. The liabilities are adjusted annually for changes in the value of the assets, accretion of the discount, and other changes in the estimates of future benefits.

(k) Fair Value Hierarchy

Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. The fair value hierarchy requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The following three levels of inputs are used to measure fair value:

> Level 1: Quoted prices or published net asset values (unadjusted) in active markets for identical assets or liabilities that a reporting entity has the ability to access at the measurement date.
>
> Level 2: Observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.
>
> Level 3: Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation.

The level in the fair value hierarchy within which a fair value measurement in its entirety falls is based on the lowest-level input that is significant to the fair value measurement.

In accordance with Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) No. 2015-07, *Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or its Equivalent)*, the Institute excludes from the fair value hierarchy investments for which fair value is measured using the net asset value per share practical expedient.

(l) U.S. Government Grants Refundable

Funds provided by the U.S. government under the Federal Perkins Loan Program are loaned to qualified students and may be reloaned after collection. These funds are ultimately refundable to the U.S. government and are presented in the accompanying balance sheet as liabilities.

(m) Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Significant estimates made in the preparation of these financial statements include the fair value of investments, actuarial valuation of postretirement benefits obligation, allocation of expenses among functional categories, plant assets' useful lives, and estimated net realizable value of receivables. Actual results could differ from those estimates.

(n) Operating and Nonoperating Activities

The accompanying statement of activities distinguishes between operating and nonoperating activities. Nonoperating activities consist of net appreciation (depreciation) in fair value of investments and net (depreciation) appreciation in fair value derivative instruments, loss on refunding of bonds, other nonrecurring items, and postretirement-related changes other than net periodic postretirement cost.

(o) Prior Year Summarized Financial Information

The accompanying statement of activities includes certain prior year summarized comparative financial information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with U.S. generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Institute's financial statements as of and for the year ended June 30, 2015, from which the summarized information was derived.

(Continued)

(p) Recent Accounting Pronouncements

In June 2015, the FASB issued Accounting Standards Update (ASU) 2015-10, *Technical Corrections and Improvements*, which clarified the definition of an equity security to include an investment in a structure similar to a mutual fund. The fair value of an equity security is considered to be readily determinable if the fair value per share is determined and published, and is the basis for current transactions. The provisions of ASU 2015-10, which only impact disclosures, became effective upon issuance. Certain investments totaling $34,651,886 at June 30, 2015 that were previously reported at net asset value meet this definition and were excluded from the fair value hierarchy table. The 2015 disclosure has been corrected to reflect these investments in Level 1 of the fair value hierarchy table (note 3).

(3) Investments

Investments, at fair value, consist of the following at June 30, 2016 and 2015:

		2016	2015
Cash equivalents	$	3,964,861	892,423
Mutual funds		52,908,509	35,029,513
Corporate stocks:			
Domestic equities		14,026,270	26,561,520
International equities		3,712,430	3,917,574
Multistrategy equities		11,798,878	12,128,213
Multistrategy bonds		7,559,195	7,236,810
Foreign equities and securities		2,904,090	3,117,214
Fixed income funds, high yield bonds, bank loans, and securitized bonds		3,753,219	3,630,218
Comingled funds, equities		7,587,441	8,539,431
Alternative investments reported at net asset value practical expedient		62,349,069	55,821,241
	$	170,563,962	156,874,157

The Institute invests in various investment securities. Because they are exposed to interest rate, market, and credit risk, it is possible that changes in the values of these securities will occur in the near term. Such changes could materially affect amounts reported in the balance sheet.

Alternative investments invest in limited partnerships, limited liability corporations, and other funds.

Certain types of financial instruments, including, among others, futures and forward contracts, options, and securities sold, not yet purchased are also included in alternative investments, and are intended to hedge against changes in the market value of investments. These financial instruments, which involve varying degrees of off-balance-sheet risk, may result in loss due to changes in the market (market risk).

The Institute's investments at June 30, 2016 and 2015 are summarized in the following tables by their fair value hierarchy:

	2016			
	Level 1	**Level 2**	**Level 3**	**Total**
Cash equivalents	$ 3,964,861	—	—	3,964,861
Mutual funds	52,908,509	—	—	52,908,509
Corporate stocks	17,738,700	—	—	17,738,700
Multistrategy equities	11,798,878	—	—	11,798,878
Multistrategy bonds	7,559,195	—	—	7,559,195
Foreign equities and securities	2,904,090	—	—	2,904,090
Fixed income funds, high yield bonds, bank loans, and securitized bonds	3,753,219	—	—	3,753,219
Comingled funds, equities	7,587,441	—	—	7,587,441
	$ 108,214,893	—	—	108,214,893
Investments reported at net asset value practical expedient:				
Limited partnerships				42,116,198
Other funds				20,232,871
Total investments reported at net asset value practical expedient				62,349,069
Total investments				$ 170,563,962

	2015			
	Level 1	Level 2	Level 3	Total
Cash equivalents	$ 892,423	—	—	892,423
Mutual funds	35,029,513	—	—	35,029,513
Corporate stocks	30,479,094	—	—	30,479,094
Multistrategy equities	12,128,213	—	—	12,128,213
Multistrategy bonds	7,236,810	—	—	7,236,810
Foreign equities and securities	3,117,214	—	—	3,117,214
Fixed income funds, high yield bonds, bank loans, and securitized bonds	3,630,218	—	—	3,630,218
Comingled funds, equities	8,539,431	—	—	8,539,431
	$ 101,052,916	—	—	101,052,916
Investments reported at net asset value practical expedient:				
Limited partnerships				35,127,754
Other funds				20,693,487
Total investments reported at net asset value practical expedient				55,821,241
Total investments				$ 156,874,157

There were no transfers between Level 1 and Level 2 securities for the years ended June 30, 2016 and 2015.

The conditions upon which the Institute may redeem its alternative investments reported at net asset value practical expedient at June 30, 2016 are summarized as follows:

Alternative investment strategy	Redemption/liquidity	Total
Conservative fixed income*	Monthly with 5 days' written notice	$ 10,179,955
Global equities and commodities*	Monthly with 10 days' written notice	8,933,886
Energy and natural resources*	Quarterly with 60 days' written notice	3,708,621
Event driven investment, financial distress companies, merger, spin-offs*	Quarterly with 65 days' written notice	10,410,392
Long/short-term equity hedge funds*	Quarterly with 45 days' written notice	8,883,344
Private equity (securities, stocks, and call option contracts)**	Annual liquidity on 45 days' prior notice	7,049,415
Pooled investment funds, hedge**	Annual, either June or December with 90 days' written notice	5,703,456
Securities: stocks, call option contract, bank debts, govt and corp, convertible bonds, and warrants**	Annual liquidity on 45 days' written notice	7,480,000
		$ 62,349,069

* Limited Partnership includes investments in long and short-term equity hedge funds, midstream energy sector, conservative fixed income, global equities distressed companies and mergers.

** Other Funds represents annual liquidity investments in mergers, swaps, futures, warrants, bank debts, multistrategy hedge funds, and private investments.

(4) Endowment Funds

The Institute's endowment consists of approximately 200 individual funds, including both donor-restricted endowment funds (permanent endowment) and amounts designated by the Board of Trustees (the Board) to function as endowments.

In accordance with the accounting guidance associated with the New York Prudent Management of Institutional Funds Act (NYPMIFA), the Institute classifies as permanently restricted net assets (a) the original value of gifts to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations of investment returns 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 Institute in a manner consistent with the standard of prudence prescribed by NYPMIFA.

Pursuant to the investment policy approved by the Board, the Institute has interpreted NYPMIFA as allowing the Institute to appropriate for expenditure or accumulate so much of a donor-restricted endowment fund as the Institute deems prudent for the uses, benefits, purposes, and duration for which the endowment fund is established, subject to the intent of the donor as expressed in the gift instrument.

The following tables present the net asset classes of the Institute's endowment funds (excluding institutional loan funds, pledges, and other of approximately $2,174,000 and $4,955,000), as of June 30, 2016 and 2015, respectively:

	June 30, 2016			
	Unrestricted	**Temporarily restricted**	**Permanently restricted**	**Total**
Donor-restricted endowment	$ (112,017)	16,796,784	45,215,786	61,900,553
Board-designated fund	86,484,675	2,600,000	—	89,084,675
Total endowment	$ 86,372,658	19,396,784	45,215,786	150,985,228

	June 30, 2015			
	Unrestricted	**Temporarily restricted**	**Permanently restricted**	**Total**
Donor-restricted endowment	$ (7,912)	21,980,744	41,390,622	63,363,454
Board-designated fund	86,215,189	2,600,000	—	88,815,189
Total endowment	$ 86,207,277	24,580,744	41,390,622	152,178,643

The following tables present changes in endowment funds for the fiscal years ended June 30, 2016 and 2015:

	June 30, 2016			
	Unrestricted	Temporarily restricted	Permanently restricted	Total
Endowment net assets, June 30, 2015	$ 86,207,277	24,580,744	41,390,622	152,178,643
Interest and dividends	794,322	611,217	—	1,405,539
Net depreciation in fair value of investments	(4,122,135)	(2,877,515)	—	(6,999,650)
Contributions	5,000	—	3,725,164	3,730,164
Transfers to endowment funds	3,877,795	—	100,000	3,977,795
Distribution for spending	(389,601)	(2,917,662)	—	(3,307,263)
Endowment net assets, June 30, 2016	$ 86,372,658	19,396,784	45,215,786	150,985,228

	June 30, 2015			
	Unrestricted	Temporarily restricted	Permanently restricted	Total
Endowment net assets, June 30, 2014	$ 85,555,423	25,274,006	39,909,442	150,738,871
Interest and dividends	741,380	598,261	16,723	1,356,364
Net appreciation in fair value of investments	417,519	281,744	—	699,263
Contributions	—	—	1,276,989	1,276,989
Transfers to endowment funds	—	—	187,468	187,468
Distribution for spending	(507,045)	(1,573,267)	—	(2,080,312)
Endowment net assets, June 30, 2015	$ 86,207,277	24,580,744	41,390,622	152,178,643

(a) Funds with Deficiencies

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the historic dollar level. The donor-restricted endowment deficiencies as of June 30, 2016 and 2015 were $112,017 and $7,912, respectively, and were included in unrestricted net assets.

(b) Return Objectives and Risk Parameters

The long-term objective of the fund is to preserve the real purchasing power of its assets, while maximizing program-related funding, covering expenses, and allowing for inflation.

The investment objective of the fund is to achieve a compound annualized rate of return over a market cycle, including current interest and dividends and capital appreciation, in excess of 5% after inflation, in a manner consistent with prudent risk taking.

(c) Spending Policy

The Institute has a policy of appropriating 3% of the average total market value of the overall investment portfolio for spending. From that amount, income equal to 5% of the three-year average market value of scholarship and other restricted investment funds are expended for awards unless otherwise explicitly stipulated by the donor or by the Board with the balance (quasi-endowment earnings) allocated to support general operations. Distributions from the endowment funds, for scholarships and operations totaling $3,307,263 and $2,080,312 were made in fiscal year 2016 and 2015, respectively.

(5) Contributions Receivable

Contributions are scheduled to be collected as follows at June 30, 2016 and 2015:

		2016	2015
Less than one year	$	1,233,242	4,325,373
One to five years		2,622,658	2,609,260
Five to ten years		2,075,000	2,027,500
		5,930,900	8,962,133
Discount to present value of future cash flows (at 1.65%)		(276,463)	(223,565)
Allowance for doubtful accounts		(410,100)	(224,155)
	$	5,244,337	8,514,413

As of June 30, 2016 and 2015, 76% and 50%, respectively, of gross contributions receivable was due from one donor.

(6) Plant Assets

Plant assets consist of the following at June 30, 2016 and 2015:

		2016	2015
Buildings	$	136,806,028	136,806,028
Building improvements		200,049,074	195,927,885
Equipment		21,330,850	19,573,964
Library books		257,013	254,593
		358,442,965	352,562,470
Less accumulated depreciation and amortization		(129,261,916)	(116,009,316)
Land		21,098,556	21,098,556
Construction in progress		12,876,322	3,117,953
	$	263,155,927	260,769,663

(Continued)

(7) Bonds Payable

Series 2016 Bonds

Under a loan agreement dated June 8, 2016, the Dormitory Authority of the State of New York (DASNY) issued $53,360,000 Insured Revenue Bonds Series 2016 on behalf of the Institute. Proceeds from the bonds were used to (i) fully redeem the Institute's outstanding Series 2009C Bonds ($44,655,000 outstanding as of June 30, 2015), (ii) construct and equip of a two-story expansion of an original eight-story, 260-bed residential facility currently under construction (the original eight-story facility was financed with the proceeds of the Series 2015A Bonds), and (iii) renovate and equip nine townhouses to house approximately 54 students. As of June 30, 2016, the funds held by bond trustees in the Project Account has a remaining balance of $13,223,116 and is invested in a Level 1 cash equivalent vehicle.

The Series 2016 Bonds are issued as fully registered bonds without coupons in denominations of $5,000 and any integral multiple thereof. The Bonds bear interest of 4% to 5% from date of delivery, payable semiannually on each January 1 and July 1, commencing January 1, 2017. Under the loan agreement, the Institute's payment of principal and interest are to be made directly to the Trustee on the 10th day of each month and such payments are to be applied by the Trustee to the payment of principal, sinking fund installments, if any, and redemption price of and interest on the bonds.

The 2016 bonds are separately secured from each Series of Bonds issued by the pledge and assignment of the revenue, the proceeds from sale of the Series 2016 Bonds (until disbursed as provided in the bond resolution) and all funds and accounts authorized under the bond resolution and established under the applicable bond resolution (with the exception of the Arbitrage Rebate Fund).

This transaction resulted in a loss of $7,018,454 which reflects the escrowing of an amount in excess of the bond principal to be retired, as well as the write-off of associated bond issuance costs and discount, and is reflected as a nonoperating loss in the 2016 statement of activities.

Series 2015A Bonds

Under a loan agreement dated January 7, 2015, DASNY issued $73,670,000 in Pratt Institute (Institute) Revenue Bonds, Series 2015A. Proceeds from the bonds were used to (i) fully redeem the Institute's outstanding Series 2009A & 2009B Bonds, (ii) purchase an existing five-story residential facility to house approximately 48 students, (iii) renovate the existing Student Union, and (iv) construct and equip a ten-story, 250-bed residential facility. As of June 30, 2016 and 2015, the funds held by bond trustees in the Project Account had remaining balances of $28,831,371 and $30,625,075, respectively, and are invested in a Level 1 cash equivalent vehicle. The Series 2015A Bonds are issuable as fully registered bonds without coupons in denominations of $5,000 and any integral multiple thereof. The Bonds bear interest of 3.625% to 5% from date of delivery, payable semiannually on each January 1 and July 1, commencing July 1, 2015. Under the loan agreement, the Institute's payment of principal and interest are to be made directly to the Trustee on the 10th day of each month and such payments are to be applied by the Trustee to the payment of principal, sinking fund installments, if any, and redemption price of and interest on the bonds. The 2015A bonds will be separately secured from each Series of Bonds issued by the pledge and assignment of the revenue, the proceeds from sale of the Series 2015A Bonds (until disbursed as provided in the bond resolution) and all funds and accounts authorized under the bond resolution and established under the applicable bond resolution (with the exception of the Arbitrage Rebate Fund). After issuance of the Series 2015A Bonds and the redemption of the Series 2009A and 2009B Bonds, the outstanding principal amount of loans secured by the Gross Receipts is approximately $122 million. After the redemption of the Series 2009A and 2009B bonds, the Prior Loans made from the proceeds of such bonds were fully paid and the security interest in the Gross Receipts securing such loans were discharged and no longer subject to the liens of such security interests. In connection with the issuance of the Series 2015A Bonds, the Institute wrote off bond issuance cost of $1,103,386, which is reflected as a loss on refunding of bonds in the accompanying statement of activities for the year ended June 30, 2015.

The debt service fund for the Series 2015A were $2,937,626 and $2,910,371 at June 30, 2016 and 2015, respectively, and are invested in marketable securities (U.S. Treasury notes) and, as such, are considered Level 1 in the fair value hierarchy.

The balances in the debt service reserve funds and the debt service funds for the refunded 2009C were $3,232,323 and $2,119,307, respectively, at June 30, 2015 and were included with the proceeds from the 2016 Bonds to refund the 2009C bonds.

The outstanding principal balance relating to the Series 2016 and Series 2015A bonds is $53,360,000 and $72,450,000, respectively, as of June 30, 2016.

The minimum annual payments for principal and interest (ranging from 3.625% to 5%) are as follows:

		Principal	Interest	Total debt service
Fiscal year ending June 30:				
2017	$	1,210,000	4,764,570	5,974,570
2018		2,350,000	5,729,919	8,079,919
2019		2,590,000	5,631,119	8,221,119
2020		2,700,000	5,518,644	8,218,644
2021		2,830,000	5,387,219	8,217,219
Thereafter		114,130,000	70,519,760	184,649,760
		125,810,000	97,551,231	223,361,231
Unamortized bond issuance cost		(1,974,925)	—	(1,974,925)
Net unamortized bond premium and discount		16,681,415	—	16,681,415
	$	140,516,490	97,551,231	238,067,721

Costs incurred in connection with the issuance of the bonds were deferred and are being amortized using the straight-line method over the term of the bonds. At June 30, 2016 and 2015, unamortized deferred bond issuance costs were $1,974,925 and $2,277,564, and are included in bonds payable in the accompanying balance sheet.

Interest expense on the Series 2016, Series 2015A, and Series 2009 Bonds was $4,219,537 and $4,148,334 for the years ended June 30, 2016 and 2015, respectively. Total capitalized interest for the year ended June 30, 2016 was $1,319,907.

The bond agreements contain certain financial covenants. The Institute is in compliance with these financial covenants at June 30, 2016 and June 30, 2015.

(8) Note Payable

On February 23, 2015, the Institute entered into an agreement with RBS Citizens Bank to refinance the outstanding balance of $7,708,333 on a note payable originally used for financing the construction of commercial space in Myrtle Hall. Additional proceeds from the refinancing were primarily used to fund the termination payment of $3,288,400 related to an outstanding swap liability originally issued in connection with the Series 2009A and 2009B bonds. The $11,400,000 note payable (the Note) is subject to a floating interest rate based on 30-day LIBOR plus 1.500% (0.40% at June 30, 2016) and the principal is payable at a fixed rate of $23,311 per month in the first year starting March 1, 2015 and increases annually per the Principal Amortization Schedule included in the Terms of the Note. The Note shall continue in full force and effect until all obligations and liabilities relating to the Note are paid in full and Citizens Bank is no longer obligated to extend financial accommodations to the Institute. On June 30, 2016 and 2015, the balance of the principal outstanding was $11,000,696 and $11,283,445, respectively. Total interest paid during the years ended June 30, 2016 and 2015 was $212,251 and $208,088, respectively.

		Principal
Fiscal year ending June 30:		
2017	$	287,778
2018		293,586
2019		299,514
2020		305,562
2021		311,742
Thereafter		9,502,514
	$	11,000,696

(9) Conditional Asset Retirement Obligations

The Institute has identified asbestos abatement as a conditional asset retirement obligation for certain of its properties. Accretion expense associated with obligations was $81,267 and $207,094 in 2016 and 2015, respectively.

(10) Net Assets

Unrestricted net assets at June 30, 2016 and 2015 consist of the following:

		2016	2015
Designated for sponsored programs	$	2,545,481	2,771,079
Designated for investment – quasi-endowment		58,056,927	54,179,133
Cumulative investment gains from quasi-endowment investments		20,948,419	24,665,833
Designated for student loans		4,101,148	4,187,669
Designated for scholarships – quasi-endowment		7,367,312	7,362,311
Designated for capital improvements		18,856,404	14,561,738
Net investment in plant assets		138,249,173	140,213,984
	$	250,124,864	247,941,747

Temporarily restricted net assets at June 30, 2016 and 2015 consist of the following:

		2016	2015
Sponsored programs	$	5,672,500	6,034,296
Accumulated appreciation on donor-restricted endowment		16,796,784	21,980,744
Other time and purpose restricted gifts		9,280,014	9,280,014
	$	31,749,298	37,295,054

Permanently restricted net assets at June 30, 2016 and 2015 are restricted to investments in perpetuity, the income from which is expendable to support:

		2016	2015
General operations	$	9,297,565	7,007,963
Scholarships		36,509,351	37,754,644
Student loans		1,582,957	1,582,957
	$	47,389,873	46,345,564

(11) Postretirement Plan

The Institute sponsors a postretirement healthcare plan that covers all full-time employees. The cost of postretirement benefits other than pensions is recognized on an accrual basis as employees perform services to earn benefits.

The postretirement healthcare plan is contributory for some retirees, with retiree contributions adjusted annually. The Institute's funding policy for the plan is pay as you go. Information with respect to the plan is as follows:

		2016	2015
Change in projected benefit obligation:			
Benefit obligation at beginning of year	$	84,256,731	82,732,834
Service cost		4,724,426	3,779,278
Interest cost		2,959,306	2,982,775
Actuarial gain		(3,161,704)	(4,029,309)
Benefits paid		(1,362,329)	(1,208,847)
Benefit obligation at end of year		87,416,430	84,256,731
Change in plan assets:			
Fair value of plan assets at beginning of year		—	—
Employer contributions		1,362,329	1,208,847
Benefits paid		(1,362,329)	(1,208,847)
Fair value of plan assets at end of year		—	—
Accrued postretirement benefit obligation	$	(87,416,430)	(84,256,731)

The net periodic postretirement benefit cost for 2016 and 2015 includes the following components:

		2016	2015
Service cost	$	4,724,426	3,779,278
Interest cost		2,959,306	2,982,775
Amortization of transition obligation		30,176	181,048
Recognized actuarial loss		269,245	661,877
Net periodic benefit cost	$	7,983,153	7,604,978

Weighted average assumptions used to determine benefit obligations and net periodic postretirement benefit costs for 2016 and 2015 were as follows:

	2016	2015
Benefit obligation weighted average assumptions at June 30, 2016 and 2015:		
Discount rate	3.60%	4.00%
Expected return on plan assets	N/A	N/A
Periodic benefit cost weighted average assumptions for the years ended June 30, 2016 and 2015:		
Discount rate	4.00%	4.25%
Expected return on plan assets	N/A	N/A

For measurement purposes, a 4% annual rate of increase in the per capita cost of covered healthcare and prescription drug benefits was assumed as of June 30, 2016. Effective June 30, 2016, this rate was increased to 7.76% grading down to an ultimate rate of 4.50% in 2039. Assumed healthcare cost trend rates have a significant effect on the amounts reported for the healthcare plans. It is estimated, based on actuarial calculations, that a one-percentage-point change in the healthcare trend rate would have the following effects:

	One percentage increase	One percentage decrease
Effect on total service and interest cost	$ 2,025,574	(1,531,578)
Effect on postretirement benefit obligation	19,652,895	(15,209,746)

At June 30, 2016 and 2015, $17,094,798 and $20,555,923, respectively, was not yet recognized as a component of net periodic postretirement benefit cost. The components are as follows:

	2016	2015
Net actuarial losses	$ 17,094,798	20,525,747
Net transition obligation	—	30,176
	$ 17,094,798	20,555,923

In addition to service and interest costs, the component of projected net periodic postretirement benefit cost for fiscal year 2017 is amortization of the net actuarial losses of $641,071.

The Institute has not identified any provisions of healthcare reform that would be expected to have a significant impact on the measured obligation.

(Continued)

Projected benefit payments through 2025 are as follows:

		Amount
Year ending June 30:		
2017	$	1,564,448
2018		1,716,849
2019		1,917,998
2020		2,114,850
2021		2,355,081
Thereafter through 2026		16,039,039
	$	25,708,265

(12) Pension Plans

The Institute sponsors a defined-contribution plan, which covers substantially all full-time, nonmaintenance employees. The plan is fully funded by the purchase of annuity contracts. Total pension expense under this plan for the years ended June 30, 2016 and 2015 was $2,556,044 and $2,430,420, respectively.

The Institute also participates in three multiemployer union pension plans covering three of the five employee bargaining units, representing building trades and maintenance and security employees. The Institute makes contributions based on employee wages. The Institute's contributions to these multiemployer plans for the years ended June 30, 2016 and 2015 totaled $549,843 and $549,415, respectively.

The risks of participating in a multiemployer plan are different from single-employer plans in the following aspects:

- Assets contributed to the multiemployer plan by one employer may be used to provide benefits to employees of participating employers.
- If a participating employer stops contributing to the multiemployer plan, the unfunded obligations of the plan may be borne by the remaining participating entities.
- If a participating employer petitions to stop participating in the multiemployer plan, the employer may be required to pay the plan a withdrawal liability based on the funded status of the plan.

The following provides summarized information for each of the multiemployer plans in which the Institute participates as of the two most recent years available:

Plan legal name	Actuarial valuation date	EIN/ Pension plan number	Actuarial present value of accumulated plan benefits	Plan assets	Zone status
National Conference of Firemen and Oilers National Pension Fund	January 1, 2015	52-6085445 – 003	$ 52,912,668	37,624,229	Yellow
Building Service 32BJ Pension Fund	July 1, 2015	13-1879376 – 001	3,669,252,570	2,221,110,377	Red
Local 153 Pension Fund	January 1, 2015	13-2864289 – 001	367,625,397	201,392,860	Red

Plan legal name	Actuarial valuation date	EIN/ Pension plan number	Actuarial present value of accumulated plan benefits	Plan assets	Zone status
National Conference of Firemen and Oilers National Pension Fund	January 1, 2014	52-6085445 – 003	$ 52,130,245	37,127,630	Yellow
Building Service 32BJ Pension Fund	July 1, 2014	13-1879376 – 001	3,534,311,491	2,071,396,229	Red
Local 153 Pension Fund	January 1, 2014	13-2864289 – 001	356,034,259	203,334,405	Red

The zone status is based on information that the Institute received from the plan sponsors and, as required by the Pension Protection Act (PPA), is certified by each plan's actuary. Among other factors, plans in the red zone are generally less than 65% funded, plans in the yellow zone are less than 80% funded, and plans in the green zone are at least 80% funded.

A financial improvement plan or a rehabilitation plan, as required by the PPA, has been implemented by the plan sponsor in each instance. The expiration date of the collective bargaining agreement requiring contributions to the plan for the Building Service 32BJ Pension Fund will be on April 20, 2018. Negotiations requiring contributions to the plans for the National Conference of Firemen and Oilers National Pension Fund; and Local 153 Pension Fund are ongoing.

(13) Insurance Benefits for Employees

The Institute sponsors an insurance plan for employee medical benefits, exclusive of those benefits provided by health maintenance organizations. Under the provisions of this plan, an insurance carrier provides claims processing and administrative functions, as well as stop-loss coverage for annual claims (on a calendar-year basis). The expenses for this program for the years ended June 30, 2016 and 2015 totaled $1,916,813 and $1,832,104, respectively, of which approximately $100,000 was payable at June 30, 2016 and 2015.

(14) Expenses

Expenses are reported in the statement of activities in categories recommended by the National Association of College and University Business Officers. Operation and maintenance of plant, including depreciation and amortization expense and interest expense, are allocated among the functional expense categories based on management's best estimate of each function's proportionate share of the total expense. The Institute's primary program services are instruction, public service, academic support, student services, and auxiliary enterprises. Institutional support includes fund-raising expenses of $3,533,519 and $3,911,995 for the years ended June 30, 2016 and 2015, respectively.

(15) Operating Leases

The Institute is committed under certain operating lease agreements, including equipment leases, which expire at various dates through June 30, 2025. Such leases require approximate minimum annual rental payments as follows:

		Amount
Fiscal year ending June 30:		
2017	$	1,604,470
2018		1,828,821
2019		1,873,727
2020		1,259,100
Thereafter		1,944,345
	$	8,510,463

Certain leases contain escalation clauses that require payments of additional rent to the extent of increases in the related operating costs. Rent expense, including escalations, for the years ended June 30, 2016 and 2015 was approximately $1,514,871 and $1,582,222, respectively.

(16) Commitments and Contingencies

Amounts received and expended by the Institute under various federal and state programs are subject to audit by governmental agencies. In the opinion of management, audit adjustments, if any, will not have a material effect on the Institute's financial statements.

(17) Insurance Recoveries

During 2013, a fire occurred in the Main Building of the Institute. As a result of the fire, the Main Building sustained fire, smoke, and water damage. A final payment of $542,139 was received in FY15 from the insurance carrier. Total proceeds from the insurance carrier amounted to $12,271,911, of which $542,139 was received in 2015, $10,594,485 was received in 2014, and $1,135,287 was received in 2013.

(18) Subsequent Events

In connection with the presentation of the financial statements, the Institute evaluated subsequent events after the balance sheet date of June 20, 2016 through November 23, 2016, which was the date the financial statements were available to be issued, and concluded that no additional disclosures were necessary.