

# **Rhode Island School of Design**

**Consolidated Financial Statements  
June 30, 2013 and 2012**

# Rhode Island School of Design

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June 30, 2013 and June 30, 2012

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## Independent Auditor's Report

To Board of Trustees of  
Rhode Island School of Design

We have audited the accompanying consolidated financial statements of Rhode Island School of Design (the "School"), which comprise the consolidated balance sheets as of June 30, 2013 and 2012, and the related consolidated statements of activities and cash flows for the years then ended.

### ***Management's Responsibility for the Consolidated Financial Statements***

Management is responsible for the preparation and fair presentation of the consolidated 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditor's Responsibility***

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

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

### ***Opinion***

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the School at June 30, 2013 and 2012, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

*PricewaterhouseCoopers LLP*

October 29, 2013

**Rhode Island School of Design**  
**Consolidated Statements of Financial Position**  
**June 30, 2013 and 2012**

	<u>2013</u>	<u>2012</u>
<b>Assets</b>		
Cash and cash equivalents (Note 2)	\$ 43,749,263	\$ 39,450,403
Short-term investments (Note 2)	250,000	250,000
Accounts receivable, net (Note 4)	2,012,680	3,848,207
Student loans receivable, net (Note 5)	4,212,720	4,819,455
Pledges receivable, net (Notes 2, 6)	4,940,835	4,302,989
Funds held in trust by others (Note 2)	15,461,958	14,461,335
Inventories (Note 7)	1,488,432	1,561,154
Prepaid expenses and deferred charges (Note 8)	2,219,612	2,604,066
Other investments (Notes 2, 9)	1,633,604	2,198,242
Long-term investments (Note 2)	298,532,484	283,497,893
Property, plant and equipment, net (Note 10)	<u>187,146,637</u>	<u>188,873,868</u>
Total assets	<u>\$561,648,225</u>	<u>\$545,867,612</u>
<b>Liabilities</b>		
Accounts payable and accrued liabilities (Note 11)	\$ 9,241,993	\$ 6,654,783
Deferred income (Note 12)	5,899,366	6,590,126
Obligations under long-term agreements (Note 13)	14,186,685	15,446,766
U.S. Government loan funds (Note 14)	4,247,753	4,153,194
Liability for interest rate swap (Notes 2, 15)	7,786,422	12,381,437
Bonds payable (Note 15)	<u>170,003,531</u>	<u>169,288,690</u>
Total liabilities	<u>211,365,750</u>	<u>214,514,996</u>
<b>Net Assets</b>		
Unrestricted net assets (Note 16, 17)	255,995,462	246,450,689
Temporarily restricted net assets (Note 17)	59,313,399	52,575,836
Permanently restricted net assets (Note 17)	<u>34,973,614</u>	<u>32,326,091</u>
Total net assets	<u>350,282,475</u>	<u>331,352,616</u>
Total liabilities and net assets	<u>\$561,648,225</u>	<u>\$545,867,612</u>

The accompanying notes are an integral part of the consolidated financial statements.

**Rhode Island School of Design  
Consolidated Statements of Activities  
Year Ended June 30, 2013**

**(with summarized financial information for the year ended June 30, 2012)**

	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>	<b>2013 Total</b>	<b>2012 Total</b>
<b>Operating revenues</b>					
Tuition and fees	\$102,655,476			\$102,655,476	\$ 99,724,991
Less:					
School sponsored financial aid	(15,653,550)			(15,653,550)	(14,507,194)
Donor sponsored financial aid	(1,732,095)			(1,732,095)	(1,928,246)
Net tuition	85,269,831	-	-	85,269,831	83,289,551
Gifts and pledges	1,369,473	3,661,355	2,647,523	7,678,351	7,501,101
Grants	344,660	419,007		763,667	1,013,630
Auxiliary enterprises	22,058,642			22,058,642	22,017,848
Museum services	1,093,120	7,715		1,100,835	1,152,976
Investment income	9,698,151	4,538,907		14,237,058	14,441,926
Other income	2,734,916	9,606		2,744,522	2,798,805
Net assets released from restrictions	4,824,220	(4,824,220)		-	-
Total revenue	127,393,013	3,812,370	2,647,523	133,852,906	132,215,837
<b>Operating expenses</b>					
Instruction	43,605,181			43,605,181	41,726,258
Research	237,411			237,411	549,266
Public service	108,887			108,887	119,495
Academic support	6,083,036			6,083,036	5,399,988
Student services	7,528,523			7,528,523	7,225,056
Institutional support	22,606,030			22,606,030	21,890,679
Operation and maintenance	22,139,305			22,139,305	23,446,938
Auxiliary services	12,086,719			12,086,719	11,593,678
Museum	8,649,966			8,649,966	7,631,948
Total expenses	123,045,058	-	-	123,045,058	119,583,306
Net income	4,347,955	3,812,370	2,647,523	10,807,848	12,632,531
<b>Nonoperating</b>					
Realized and unrealized gain (loss) on interest rate swap	2,240,180			2,240,180	(7,255,109)
Realized and unrealized gain (loss) on investments, net	7,234,826	3,211,959		10,446,785	(20,779,936)
Loss on early extinguishment of debt	(4,564,954)			(4,564,954)	(1,399,329)
Recovery of amounts transferred to restore underwater endowments	286,766	(286,766)		-	-
Increase (decrease) in net assets from nonoperating activities	5,196,818	2,925,193	-	8,122,011	(29,434,374)
Increase (decrease) in net assets	9,544,773	6,737,563	2,647,523	18,929,859	(16,801,843)
<b>Total net assets</b>					
Beginning of year	246,450,689	52,575,836	32,326,091	331,352,616	348,154,459
End of year	<u>\$255,995,462</u>	<u>\$ 59,313,399</u>	<u>\$ 34,973,614</u>	<u>\$350,282,475</u>	<u>\$331,352,616</u>

The accompanying notes are an integral part of the consolidated financial statements.

**Rhode Island School of Design  
Consolidated Statement of Activities  
Year Ended June 30, 2012**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>2012 Total</u>
<b>Operating revenues</b>				
Tuition and fees	\$ 99,724,991	\$ -	\$ -	\$ 99,724,991
Less:				
School sponsored financial aid	(14,507,194)			(14,507,194)
Donor sponsored financial aid	(1,928,246)			(1,928,246)
Net tuition	83,289,551	-	-	83,289,551
Gifts and pledges	2,589,497	3,083,818	1,827,786	7,501,101
Grants	177,026	836,604		1,013,630
Auxiliary enterprises	22,017,848			22,017,848
Museum services	1,152,976			1,152,976
Investment income	11,826,062	2,615,864		14,441,926
Other income	2,798,805			2,798,805
Net assets released from restrictions	6,903,754	(6,903,754)		-
Total revenue	<u>130,755,519</u>	<u>(367,468)</u>	<u>1,827,786</u>	<u>132,215,837</u>
<b>Operating expenses</b>				
Instruction	41,726,258			41,726,258
Research	549,266			549,266
Public service	119,495			119,495
Academic support	5,399,988			5,399,988
Student services	7,225,056			7,225,056
Institutional support	21,890,679			21,890,679
Operation and maintenance	23,446,938			23,446,938
Auxiliary services	11,593,678			11,593,678
Museum	7,631,948			7,631,948
Total expenses	<u>119,583,306</u>	<u>-</u>	<u>-</u>	<u>119,583,306</u>
Net income	11,172,213	(367,468)	1,827,786	12,632,531
<b>Nonoperating</b>				
Realized and unrealized loss on interest rate swap	(7,255,109)			(7,255,109)
Realized and unrealized loss on investments, net	(17,110,374)	(3,669,562)		(20,779,936)
Loss on early extinguishment of debt	(1,399,329)			(1,399,329)
Transfer to restore underwater endowments	(86,230)	86,230		-
Decrease in net assets from nonoperating activities	<u>(25,851,042)</u>	<u>(3,583,332)</u>	<u>-</u>	<u>(29,434,374)</u>
(Decrease) increase in net assets	(14,678,829)	(3,950,800)	1,827,786	(16,801,843)
<b>Total net assets</b>				
Beginning of year	<u>261,129,518</u>	<u>56,526,636</u>	<u>30,498,305</u>	<u>348,154,459</u>
End of year	<u>\$246,450,689</u>	<u>\$ 52,575,836</u>	<u>\$ 32,326,091</u>	<u>\$331,352,616</u>

The accompanying notes are an integral part of the consolidated financial statements.

**Rhode Island School of Design**  
**Consolidated Statements of Cash Flows**  
**Years Ended June 30, 2013 and 2012**

	<u>2013</u>	<u>2012</u>
<b>Cash flows from operating activities</b>		
Change in net assets	\$ 18,929,859	\$ (16,801,843)
Adjustments to reconcile change in net assets to net cash provided by operating activities		
(Gain) loss on investments	(21,252,815)	7,179,783
Unrealized (gain) loss on interest rate swap	(4,595,015)	4,863,001
Change in funds held in trust by others	(1,000,623)	520,947
Depreciation and amortization	7,491,749	9,689,701
Contributions restricted for long-term purposes	(1,788,800)	(454,113)
Contributions of securities	(322,408)	(207,925)
Change in asset retirement obligation	203,676	(45,967)
Change in U.S. Government loan funds	94,559	163,453
Amortization of long-term agreements	495,493	554,150
Debt issuance premium	5,240,694	451,988
Loss on extinguishment of debt	4,564,954	1,399,329
Changes in operating assets and liabilities that provide (use) cash		
Accounts receivable	1,835,527	(143,109)
Pledges receivable	(637,846)	(569,294)
Inventories	72,722	517,413
Prepaid expenses and deferred charges	384,454	(602,433)
Accounts payable and accrued liabilities	1,452,498	(1,659,693)
Deferred income	(690,760)	147,652
Net cash provided by operating activities	<u>10,477,918</u>	<u>5,003,040</u>
<b>Cash flows from investing activities</b>		
Purchases of buildings and equipment	(6,325,345)	(7,007,714)
Student loans issued	(360,000)	(321,474)
Student loans repaid	966,735	1,084,454
Change in short-term investments	-	4,600,000
Purchases of investments	(217,324,756)	(1,007,383,146)
Sales of investments	224,429,708	1,024,695,421
Net cash provided by investing activities	<u>1,386,342</u>	<u>15,667,541</u>
<b>Cash flows from financing activities</b>		
Payments on long-term debt	(59,209,954)	(31,904,329)
Payments on obligations under long-term agreements	(1,959,246)	(1,436,201)
Proceeds from issuance of long-term debt	51,815,000	28,340,000
Contributions restricted for long-term purposes	1,788,800	454,113
Net cash used in financing activities	<u>(7,565,400)</u>	<u>(4,546,417)</u>
Net increase in cash and cash equivalents	4,298,860	16,124,164
<b>Cash and cash equivalents</b>		
Beginning of year	<u>39,450,403</u>	<u>23,326,239</u>
End of year	<u>\$ 43,749,263</u>	<u>\$ 39,450,403</u>
<b>Noncash activity</b>		
Costs accrued for capital expenditures	\$ 1,486,668	\$ 351,956
Cash paid for interest	6,262,467	6,469,979

The accompanying notes are an integral part of the consolidated financial statements.

# Rhode Island School of Design

## Notes to the Consolidated Financial Statements

### June 30, 2013 and 2012

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#### 1. Summary of Significant Accounting Policies

The consolidated financial statements of the Rhode Island School of Design (the "School") have been prepared in accordance with Generally Accepted Accounting Principles in the United States of America ("US GAAP") and with the reporting principles of not-for-profit accounting.

Net assets and current activity are classified into three categories: unrestricted, temporarily restricted and permanently restricted. The categories are based on the existence, absence or expiration of donor-imposed restrictions.

- Unrestricted net assets are not subject to donor-imposed stipulations, but may be designated for specific purpose by action of the Board of Trustees.
- Temporarily restricted net assets include gifts, pledges, trusts and remainder interests, and income and gains which can be expended but for which restrictions have not yet been met. Such restrictions include purpose restrictions where donors have specified the purpose for which the net assets are to be spent, or time restrictions imposed by donors or implied by the nature of the gift (capital projects, pledges to be paid in the future and certain life income funds).
- Permanently restricted net assets include the original amounts of gifts, including pledges, trusts, and remainder interests, which are required by donors to be permanently retained.

#### **Operations**

Revenues earned and expenses incurred in conducting the programs and services of the School, including gifts and investment income, are presented in the consolidated financial statements as operating activities. Net revenues and other resources from operating activities are not restricted by donors or other external sources and are, therefore, classified as unrestricted net assets. At the discretion of the School, all or a portion of net assets from operating income/loss may be designated for budgetary purposes, for capital acquisitions, for student loan funds, for principal payments on debt, or for future use by the Board of Trustees.

#### **Nonoperating**

Nonoperating revenue and expenses include change in the market value of interest rate swaps, loss on extinguishment of debt, and realized and unrealized gains/losses on investments to the extent not utilized in operations based on the School's spending policy, as described below.

#### **Gifts and Pledges**

Gifts and pledges are recognized as revenue when received. Gifts specified for the acquisition or construction of long-lived assets are released to unrestricted from temporarily restricted net assets when the assets are placed in service.

Unconditional promises to contribute to the School in the future (pledges) are recorded as receivables at the present value of their expected cash flows less an allowance for uncollectibles. The related revenue is assigned to temporarily restricted net assets until collected and any other restrictions are met, or permanently restricted net assets, if so restricted by the donor.



# Rhode Island School of Design

## Notes to the Consolidated Financial Statements

### June 30, 2013 and 2012

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#### **Investments**

The fair values of publicly traded investments are determined based upon quoted market prices. The School's alternative investment funds are carried at estimated fair value determined by management, based upon valuations provided by management of the privately held investment funds as of June 30, 2013 and 2012. Alternative investments include limited partnerships, limited liability corporations, real estate and offshore investment funds. Because investments in alternative investment funds are not marketable, the estimated value is subject to uncertainty and therefore, may differ significantly from the value that would have been used had a market for such investments existed and such differences could be material.

#### **Cash and Cash Equivalents**

The School considers highly liquid investments with maturities of three-months or less when purchased to be cash equivalents. Cash equivalents are stated at cost, which approximates fair value. Cash restricted for the Perkins loans totaled \$3,192,137 and \$2,437,505 at June 30, 2013 and 2012, respectively.

#### **Split Interest Agreements**

The School is party to various split interest agreements with regards to irrevocable trusts and other agreements. These agreements include: perpetual trusts, charitable remainder trusts, charitable gift annuities and pooled life income funds. The assets of gift annuities and pooled income funds are included at fair value in Other investments on the Consolidated Statements of Financial Position. The obligations associated with these arrangements are recorded at present value of the aggregate liability to beneficiaries based upon life expectancy. Assets held by an outside trustee are classified as Funds held in trust by others or as Pledges receivable. These assets represent the School's share of the fair value of the trust assets as of the date of the Consolidated Statements of Financial Position net of a liability for the present value of estimated future payments to the donors or other beneficiaries, where applicable. Distributions of income from the trusts to the School are recorded as revenue. Split interest agreements and annuity obligations are based on certain assumptions regarding life expectancy, discount rate and rate of return. Circumstances affecting these assumptions can change the estimate of the liabilities in future periods.

#### **Property, Plant and Equipment**

Property, plant and equipment is stated at acquisition cost or the fair value as of the date of the gift, net of accumulated depreciation (Note 10). Depreciation is computed on a straight-line basis over the following estimated useful lives:

Buildings and major improvements greater than \$50,000	15–45 years
Machinery and equipment	5 years
Furniture and fixtures	5 years

Expenditures for maintenance, repairs, interest and depreciation are expensed as incurred. Upon sale or retirement, the cost of the property and the related accumulated depreciation are removed from the respective accounts, and any resulting gains or losses are reflected in the Consolidated Statements of Activities.

# Rhode Island School of Design

## Notes to the Consolidated Financial Statements

### June 30, 2013 and 2012

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#### **Collections**

The School does not capitalize or assign a value to the museum collections. Collections that are acquired through purchases and contributions are not recognized as assets on the Consolidated Statements of Financial Position. Purchases of collection items are recorded as decreases in unrestricted net assets in the year in which the items are acquired or in temporarily restricted net assets if the asset used to purchase items is restricted by donors.

Contributed collection items are not reflected in the consolidated financial statements. Proceeds from deaccessions or insurance recoveries are reflected as increases in the appropriate net asset classes.

#### **Auxiliary Services**

Auxiliary services include the RISD Store, dining halls, residence halls and other on-campus undertakings that provide services to students, faculty and staff for fees directly related, but not necessarily equivalent, to the costs of the services.

#### **Deferred Income**

Deferred income represents tuition and fees received for programs and services to be conducted predominantly in the next fiscal year.

#### **Tax Status**

The School is qualified for exemption from Federal income tax under Section 501(c)(3) of the Internal Revenue Code.

#### **Use of Estimates**

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States 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 consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

#### **Fair Value Measurements**

The School complies with accounting guidance for *Fair Value Measurements*, which defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. Such guidance applies to reported balances that are required or permitted to be measured at fair value under existing accounting pronouncements.

The *Fair Value Measurements* standard emphasizes that fair value is a market-based measurement, not an entity-specific measurement. Therefore, a fair value measurement is determined based on the assumptions that market participants would use in pricing the asset or liability. As a basis for considering market participant assumptions in fair value measurements, the guidance establishes a hierarchy of valuation inputs based on the extent to which the inputs are observable in the marketplace, as follows:

- Level 1 Quoted prices in active markets for identical assets or liabilities.
- Level 2 Inputs other than Level 1 that are observable, either directly or indirectly, such as quoted prices for similar assets or liabilities in active markets; quoted prices for identical assets or liabilities in markets that are not active; or inputs other than quoted prices that are observable or can be corroborated by observable market data by correlation or other means.

# Rhode Island School of Design

## Notes to the Consolidated Financial Statements

### June 30, 2013 and 2012

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Level 3 Unobservable inputs for an asset or liability that are supported by little or no market activity.

A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

The School is permitted under US GAAP to estimate the fair value of an investment at the measurement date using the reported net asset value (NAV) without further adjustment unless the entity expects to sell the investment at a value other than NAV or if the NAV is not calculated in accordance with US GAAP. The School's investments in private equity, mutual funds, hedge funds and other securities are fair valued based on the most current NAV.

The School, through its outsource chief investment firm, performs additional procedures including due diligence reviews on its investments in investment companies and other procedures with respect to the capital account or NAV provided to ensure conformity with US GAAP. The School has assessed factors including, but not limited to, managers' compliance with the *Fair Value Measurements* standard, price transparency and valuation procedures in place, the ability to redeem at NAV at the measurement date, and existence of certain redemption restrictions at the measurement date.

The guidance also requires additional disclosures to enable users of the consolidated financial statements to understand the nature and risk of the School's investments. Furthermore, investments which can be redeemed at NAV by the School on the measurement date or in the near term (defined as 90 days) are classified as Level 2. Investments which cannot be redeemed on the measurement date or in the near term are classified as Level 3.

#### **Reclassifications**

During fiscal year 2012, the School implemented a revised Chart of Accounts in order to enhance reporting, to provide a more consistent accounting structure, and to reflect best practice NACUBO (National Association of College and University Business Officers) definitions.

#### **Recently Adopted Accounting Standards**

On July 1, 2011, the School adopted the accounting standard, *Credit Quality*. This standard requires the disclosure about the credit quality of financing receivables and the related allowance for credit losses. The disclosures are included in Note 14.

**Rhode Island School of Design**  
**Notes to the Consolidated Financial Statements**  
**June 30, 2013 and 2012**

**2. Fair Value of Financial Instruments**

In accordance with accounting guidance for *Fair Value Measurements*, the following tables summarize the financial instruments carried at fair value on a recurring basis as of June 30, 2013 and 2012, aggregated by the level in the fair value hierarchy within which those measurements fall:

	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	2013 Total Fair Value
<b>Assets</b>				
Cash and cash equivalents	\$ 31,000,383			\$ 31,000,383
Short-term investments	250,000			250,000
Investments				
Cash and cash equivalents	8,734,879			8,734,879
Hedge funds				
Multi-strategy hedge fund of funds			69,235,031	69,235,031
Equity long/short		60,116	787,916	848,032
Equity long hedge fund of funds			31,310,680	31,310,680
Fixed income			27,634,425	27,634,425
Natural resources			13,252,382	13,252,382
Fixed income securities	41,354,367			41,354,367
Benchmark equity	60,683,040			60,683,040
Private equity			41,019,512	41,019,512
Real estate			5,200,000	5,200,000
Total investments	110,772,286	60,116	188,439,946	299,272,348
Beneficial interests held by third parties			16,147,402	16,147,402
Total assets at fair value	\$ 142,022,669	\$ 60,116	\$ 204,587,348	\$ 346,670,133
<b>Liabilities</b>				
Interest rate sw ap	\$ -	\$ -	\$ (7,786,422)	\$ (7,786,422)
Total liabilities at fair value	\$ -	\$ -	\$ (7,786,422)	\$ (7,786,422)

**Reconciliation to Consolidated Statement of Financial Position**

Long-term investments, per Consolidated Statement of Financial Position	\$ 298,532,484
Other investments, per Consolidated Statement of Financial Position	1,633,604
Less: Pooled income and gift annuities held in trust by RISD	(893,740)
Total investments held in trust by third parties	<u>\$ 299,272,348</u>

Pledges receivable, per Consolidated Statement of Financial Position	\$ 4,940,835
Funds held in trust by others, per Consolidated Statement of Financial Position	15,461,958
Less: Charitable remainder unitrusts held in trust by RISD	(1,028,644)
Less: Pledges and gifts receivable, net	(3,226,747)
Total beneficial interests held in trust by third parties	<u>\$ 16,147,402</u>

**Rhode Island School of Design**  
**Notes to the Consolidated Financial Statements**  
**June 30, 2013 and 2012**

	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	2012 Total Fair Value
<b>Assets</b>				
Short-term investments	\$ 250,000	\$ -	\$ -	\$ 250,000
Investments				
Cash and cash equivalents	6,884,769			6,884,769
Equity long	51,575,087			51,575,087
Hedge funds				
Multi-strategy hedge fund of funds			59,466,481	59,466,481
Equity long/short		2,244,081	363,829	2,607,910
Equity long hedge fund of funds			25,838,692	25,838,692
Fixed income			20,589,113	20,589,113
Natural resources			12,857,823	12,857,823
Fixed income securities	58,216,435			58,216,435
Private equity			41,006,151	41,006,151
Real estate			5,619,000	5,619,000
Total investments	116,676,291	2,244,081	165,741,089	284,661,461
Beneficial interests held by third parties			15,135,834	15,135,834
Total assets at fair value	<u>\$ 116,926,291</u>	<u>\$ 2,244,081</u>	<u>\$ 180,876,923</u>	<u>\$ 300,047,295</u>
<b>Liabilities</b>				
Interest rate sw ap	\$ -	\$ -	\$ (12,381,437)	\$ (12,381,437)
Total liabilities at fair value	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (12,381,437)</u>	<u>\$ (12,381,437)</u>

**Reconciliation to Consolidated Statement of Financial Position**

Long-term investments, per Consolidated Statement of Financial Position	\$ 283,497,893
Other investments, per Consolidated Statement of Financial Position	2,198,242
Less: Pooled income and gift annuities held in trust by RISD	(1,034,674)
Total investments held in trust by third parties	<u>\$ 284,661,461</u>
Pledges receivable, per Consolidated Statement of Financial Position	\$ 4,302,989
Funds held in trust by others, per Consolidated Statement of Financial Position	14,461,335
Less: Charitable remainder unitrusts held in trust by RISD	(975,343)
Less: Pledges and gifts receivable, net	(2,653,147)
Total beneficial interests held in trust by third parties	<u>\$ 15,135,834</u>

The School's policy for allocation to Levels 1, 2, and 3 in the tables above are described in Note 1.

Investments included in Level 3 primarily consist of the School's ownership in alternative investments (principally limited partnership interests in hedge, private equity, and other similar funds). The value of alternative investments represents the ownership interest in the NAV of the respective partnership as reported by the general partner. The School has performed due diligence around its alternative investments to ensure that they are recorded at fair value, which is based on the NAV. At June 30, 2013, approximately 22.1% of investments held by the partnerships consist of marketable securities and investments with observable inputs and 77.9% are securities that are subject to the judgment of the general partner as reflected in the NAVs. At June 30, 2012, these percentages were 19.2% and 80.8%, respectively.

Interest rate swaps are valued using both observable and unobservable inputs, such as quotations received from the counterparty, dealers or brokers, whenever available and considered reliable.

# Rhode Island School of Design

## Notes to the Consolidated Financial Statements

### June 30, 2013 and 2012

The following table is a rollforward of the Consolidated Statements of Financial Position amounts for financial instruments classified by the School within Level 3 of the fair value hierarchy defined above:

	Fair Value June 30, 2012	Realized Gains (Losses)	Unrealized Gains (Losses)	Purchases	Sales	Fair Value June 30, 2013
Investments						
Hedge funds						
Multi-strategy hedge fund of funds	\$ 59,466,481	\$ 57,816	\$ 5,186,924	\$ 8,300,000	\$ (3,776,190)	\$ 69,235,031
Equity long/short	26,202,521	269,978	6,059,520	-	(433,423)	32,098,596
Fixed income	20,589,113	-	2,545,312	4,500,000	-	27,634,425
Natural resources	12,857,823	-	(1,105,441)	1,500,000	-	13,252,382
Private equity	41,006,151	1,590,261	4,354,002	-	(5,930,902)	41,019,512
Real estate	5,619,000	(112,342)	-	-	(306,658)	5,200,000
Total investments	<u>\$ 165,741,089</u>	<u>\$ 1,805,713</u>	<u>\$ 17,040,317</u>	<u>\$ 14,300,000</u>	<u>\$ (10,447,173)</u>	<u>\$ 188,439,946</u>
Beneficial interests held by third parties	\$ 15,135,834	\$ -	\$ 1,161,649	\$ 80,428	\$ (230,509)	\$ 16,147,402
Interest rate sw ap	(12,381,437)	-	4,595,015	-	-	(7,786,422)

	Fair Value June 30, 2011	Realized Gains (Losses)	Unrealized Gains (Losses)	Purchases	Sales	Fair Value June 30, 2012
Investments						
Hedge funds						
Multi-strategy hedge fund of funds	\$ 41,248,947	\$ (594,004)	\$ 1,015,254	\$ 40,230,000	\$ (22,433,716)	\$ 59,466,481
Equity long/short	1,104,179	62,354	(523,995)	26,300,000	(740,017)	26,202,521
Fixed income	-	-	(310,887)	20,900,000	-	20,589,113
Natural resources	-	-	(2,142,177)	15,000,000	-	12,857,823
Private equity	36,139,343	599,173	1,805,423	3,269,143	(806,931)	41,006,151
Real estate	5,675,170	-	(56,170)	-	-	5,619,000
Total investments	<u>\$ 84,167,639</u>	<u>\$ 67,523</u>	<u>\$ (212,552)</u>	<u>\$ 105,699,143</u>	<u>\$ (23,980,664)</u>	<u>\$ 165,741,089</u>
Beneficial interests held by third parties	\$ 15,763,668	\$ -	\$ (256,183)	\$ -	\$ (371,651)	\$ 15,135,834
Interest rate sw ap	(7,518,436)	-	(4,863,001)	-	-	(12,381,437)

All net realized and unrealized gains (losses) in the tables above are reflected in the accompanying Consolidated Statements of Activities and relate to those financial instruments held by the School at June 30, 2013 and 2012.

There were no transfers between levels for the years ended June 30, 2013 and 2012.

The following tables present liquidity information for the investments carried at fair value at June 30, 2013 and 2012, respectively.

Investment type	Investments Asset Value as of June 30, 2013			
	Fair Value	Unfunded Commitments	Redemption Frequency	Notice Period
Cash and cash equivalents	\$ 8,734,879	\$ -	Liquid	N/A
Hedge funds				
Multi-Strategy Hedge Fund of Funds	69,235,031	-	See Footnote "a"	
Equity Long/Short	848,032	-	Quarterly	60 Days
Equity Long Hedge Fund of Funds	31,310,680	-	Quarterly	105 Days
Fixed Income	27,634,425	-	Quarterly	105 Days
Natural Resources	13,252,382	-	Quarterly	105 Days
Fixed income securities	41,354,367	-	Daily	1 Day
Benchmark equity	60,683,040	-	At Manager's Discretion	
Private equity	41,019,512	10,656,148	N/A	N/A
Real estate	5,200,000	-	N/A	N/A
Total	<u>\$ 299,272,348</u>	<u>\$ 10,656,148</u>		

**Rhode Island School of Design**  
**Notes to the Consolidated Financial Statements**  
**June 30, 2013 and 2012**

	Investments Asset Value as of June 30, 2012			
	Fair Value	Unfunded Commitments	Redemption Frequency	Notice Period
<b>Investment type</b>				
Cash and cash equivalents	\$ 6,884,769	\$ -	Liquid	N/A
Equity long	51,575,087	-	Daily	3 Days
Hedge funds				
Multi-Strategy Hedge Fund of Funds	59,466,481	-	See Footnote "a"	
Equity Long/Short	2,607,910	-	Quarterly	60 Days
Equity Long Hedge Fund of Funds	25,838,692	-	Quarterly	105 Days
Fixed Income	20,589,113	-	Quarterly	105 Days
Natural Resources	12,857,823	-	Quarterly	105 Days
Fixed income securities	58,216,435	-	Daily	1 Day
Benchmark equity	-	-	At Manager's Discretion	
Private equity	41,006,151	13,625,136	N/A	N/A
Real estate	5,619,000	-	N/A	N/A
Total	<u>\$ 284,661,461</u>	<u>\$ 13,625,136</u>		

a - includes two investments with quarterly redemption frequency with a 105-day notice period, one in liquidation with the ability to redeem at the manager's discretion, and one with no liquidation rights.

**3. Investments**

Investment income for the years ended June 30, 2013 and 2012 was as follows:

	2013			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Interest and dividend income	\$ 647,719	\$ 2,607,520	\$ -	\$ 3,255,239
Realized gains	6,815,206	2,115,080		8,930,286
Increase in net unrealized appreciation	9,470,052	3,028,266		12,498,318
Total investment return	<u>\$ 16,932,977</u>	<u>\$ 7,750,866</u>	<u>\$ -</u>	<u>\$ 24,683,843</u>

**Reconciliation from Consolidated Statement of Activities**

Investment income per Consolidated Statement of Activities	\$ 14,237,058
Realized and unrealized gain on investments, net, per Consolidated Statement of Activities	10,446,785
Total investment return	<u>\$ 24,683,843</u>

**Rhode Island School of Design**  
**Notes to the Consolidated Financial Statements**  
**June 30, 2013 and 2012**

	2012			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Interest and dividend income	\$ 724,544	\$ 117,229	\$ -	\$ 841,773
Realized gains	11,060,352	1,323,632		12,383,984
Increase in net unrealized depreciation	<u>(17,069,208)</u>	<u>(2,494,559)</u>		<u>(19,563,767)</u>
Total investment return	<u>\$ (5,284,312)</u>	<u>\$ (1,053,698)</u>	<u>\$ -</u>	<u>\$ (6,338,010)</u>

**Reconciliation from Consolidated Statement of Activities**

Investment income per Consolidated Statement of Activities	\$ 14,441,926
Realized and unrealized gain on investments, net, per Consolidated Statement of Activities	<u>(20,779,936)</u>
Total investment return	<u>\$ (6,338,010)</u>

Investment management fees and other expenses (netted from interest and dividend income) totaled \$1,216,633 and \$1,001,835 for the years ended June 30, 2013 and 2012, respectively.

Certain net assets are pooled for investment income purposes. Units in the pool are assigned on the basis of fair value at the time net assets to be invested are received, and income is distributed monthly thereafter on a per-unit basis. The market value of long-term investments, as stated in the Consolidated Statements of Financial Position, represents the value of pooled endowment plus other nonpooled investments at June 30, 2013 and 2012.

**4. Accounts Receivable**

Accounts receivable consisted of the following at June 30, 2013 and 2012:

	2013	2012
Student tuition and fees	\$ 1,016,794	\$ 1,188,882
Computer loan programs	382,851	1,010,892
Government grants	690,339	858,133
Other	<u>381,146</u>	<u>1,151,398</u>
	2,471,130	4,209,305
Less: Allowance for uncollectible accounts	<u>(458,450)</u>	<u>(361,098)</u>
Accounts receivable, net	<u>\$ 2,012,680</u>	<u>\$ 3,848,207</u>

**5. Student Loans Receivable**

The School participates in the Federal Perkins Loan Program. Under existing laws, Perkins loan funds of the United States Government are ultimately refundable to the extent funds are available from the program and are, therefore, shown as a liability on the Consolidated Statements of Financial Position. Due to the significant restrictions of this program, it is not practical to determine the fair value of such amounts.



**Rhode Island School of Design**  
**Notes to the Consolidated Financial Statements**  
**June 30, 2013 and 2012**

Student loans receivable consisted of the following at June 30, 2013 and 2012:

	<u>2013</u>	<u>2012</u>
Student loan funds	\$ 4,698,618	\$ 5,305,353
Less: Allowance for uncollectible accounts	<u>(485,898)</u>	<u>(485,898)</u>
Student loans receivable, net	<u>\$ 4,212,720</u>	<u>\$ 4,819,455</u>

**6. Pledges Receivable**

Pledges receivable at June 30, 2013 and 2012 are expected to be realized in the following periods:

	<u>2013</u>	<u>2012</u>
In one year or less	\$ 867,531	\$ 1,217,019
Between one year and five years, net of discount	2,572,410	1,701,929
Five years and over, net of discount	<u>1,854,808</u>	<u>1,707,509</u>
	5,294,749	4,626,457
Less: Allowance for uncollectible pledges	<u>(353,914)</u>	<u>(323,468)</u>
Pledges receivable, net	<u>\$ 4,940,835</u>	<u>\$ 4,302,989</u>

A discount of \$99,716 and \$60,131 for the years ended June 30, 2013 and 2012, respectively, were calculated using discount factors based on the appropriate U.S. Treasury Bill rates for pledges received prior to the adoption of accounting guidance for *Fair Value Measurements* and using the School's taxable unsecured borrowing rate for pledges received beginning in fiscal 2009.

**7. Inventories**

Inventories are stated at the lower of cost or market. The School uses the first-in, first-out method of accounting for inventory. Inventory consists primarily of items held for resale by the School's stores. Inventories consisted of the following at June 30, 2013 and 2012:

	<u>2013</u>	<u>2012</u>
RISD Store	\$ 930,238	\$ 1,057,446
RISD Store 3D	325,001	308,343
RISD Works	186,189	154,606
Dining	55,374	58,764
Postage and other	<u>36,630</u>	<u>26,995</u>
	1,533,432	1,606,154
Less: Obsolescence reserve	<u>(45,000)</u>	<u>(45,000)</u>
Inventories, net	<u>\$ 1,488,432</u>	<u>\$ 1,561,154</u>

**Rhode Island School of Design**  
**Notes to the Consolidated Financial Statements**  
**June 30, 2013 and 2012**

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**8. Prepaid Expenses and Deferred Charges**

Prepaid expenses and deferred charges consisted of the following at June 30, 2013 and 2012:

	<u>2013</u>	<u>2012</u>
Prepaid expenses	\$ 1,007,918	\$ 946,418
Bond issuance costs	<u>1,211,694</u>	<u>1,657,648</u>
Prepaid expenses and deferred charges	<u>\$ 2,219,612</u>	<u>\$ 2,604,066</u>

**9. Related Parties**

During the year ended June 30, 2011, the School purchased real estate in Ohio in the amount of \$475,170 in order to assist the move of one of its new executives to the Rhode Island area. The real estate was sold on February 15, 2013, for \$306,658, and the School recorded a loss.

Additionally, during the year ended June 30, 2012, a member of the School's Board was an executive at an investment management company at which the School held one alternative investment. This individual was no longer a member of the Board effective May 2012.

Management and the Board of Trustees report and monitor related party transactions in accordance with the School's conflict of interest policy.

**10. Property, Plant and Equipment**

	<u>2013</u>	<u>2012</u>
Land and buildings		
Educational plant	\$ 158,816,190	\$ 157,752,396
Dormitories and refectory	89,043,422	87,445,975
Capital lease	7,809,235	7,809,235
Administrative and other	20,294,998	19,578,736
Residences	1,147,870	1,108,088
Construction in progress	3,562,661	1,564,493
Land	<u>7,911,598</u>	<u>7,911,598</u>
	288,585,974	283,170,521
Furniture, fixtures and equipment	<u>49,622,494</u>	<u>47,577,890</u>
	338,208,468	330,748,411
Less: Accumulated depreciation	<u>(151,061,831)</u>	<u>(141,874,543)</u>
Property, plant and equipment, net	<u>\$ 187,146,637</u>	<u>\$ 188,873,868</u>

Depreciation expense for the years ended June 30, 2013 and 2012, was \$9,187,288 and \$9,468,910, respectively.

**Rhode Island School of Design**  
**Notes to the Consolidated Financial Statements**  
**June 30, 2013 and 2012**

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**11. Accounts Payable and Accrued Liabilities**

Accounts payable and accrued liabilities consisted of the following at June 30, 2013 and 2012:

	<u>2013</u>	<u>2012</u>
Trade accounts payable	\$ 1,622,855	\$ 1,608,538
Accrued interest	1,012,756	1,048,643
Annuities payable	903,197	964,774
Accrued payroll	695,370	684,205
Accrued vacation	590,904	537,211
Payroll-related liabilities	322,500	190,327
Management fees	235,596	221,398
Deposits	1,196,315	105,158
Campus Compact grants	-	170,723
Other	2,662,500	1,123,806
	<u>\$ 9,241,993</u>	<u>\$ 6,654,783</u>
Accounts payable and accrued liabilities		

**12. Deferred Income**

Deferred income represents tuition that was billed in advance of the start of the academic semester. Deferred income for the years ended June 30, 2013 and 2012, was \$5,899,366 and \$6,590,126, respectively.

**13. Obligations Under Long-Term Agreements**

In June 2007, the School entered into a capital lease for the Charles Landing building. The original lease term was 119 months with an initial obligation of \$7,809,235. Interest is computed using the incremental borrowing rate of 4.27%. The amount outstanding on the capital lease was \$4,306,140 and \$5,626,511 at June 30, 2013 and 2012, respectively.

Minimum annual lease payments due for the building over the next four years are as follows:

2014	\$ 1,168,832
2015	1,221,415
2016	1,276,417
2017	<u>1,325,528</u>
Total minimum lease payments	4,992,192
Interest expense	<u>(686,052)</u>
Total obligation	<u>\$ 4,306,140</u>

During fiscal year 2004, the School entered into a long-term agreement with a third party in order to purchase the Center for Integrative Technology building. The amount outstanding on the capital lease was \$5,973,676 and \$6,117,062 at June 30, 2013 and 2012, respectively. Based on a variety of assumptions, the current estimation is that the lease term will end on or about 2031.

**Rhode Island School of Design**  
**Notes to the Consolidated Financial Statements**  
**June 30, 2013 and 2012**

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Minimum annual lease payments due for the building over the next five years and thereafter are as follows:

2014	\$ 399,379
2015	399,379
2016	399,379
2017	399,379
2018	399,379
2019-2031	<u>6,207,552</u>
Total minimum lease payments	8,204,447
Interest expense	<u>(2,230,771)</u>
Total obligation	<u>\$ 5,973,676</u>

The School presents an asset retirement obligation on its Consolidated Statements of Financial Position that represents the probability and projected cost to remedy certain environmental hazards in relation to its buildings and boiler systems. The asset retirement obligation was \$3,906,869 and \$3,703,193 at June 30, 2013 and 2012, respectively.

**14. U.S. Government Loan Funds**

Federal fund balance is shown as a liability in the event that the Perkins Loan program ceases. This number represents the federal capital contribution and federal percentage of revenues and expenses for the current year's Perkins Loan program. For the years ended June 30, 2013 and 2012, the liability was \$4,247,753 and \$4,153,194, respectively.

**Allowance for Credit Losses**

Management regularly assesses the adequacy of the allowance for credit losses by performing ongoing evaluations of the student loan portfolio, including such factors as the differing economic risks associated with the loans, the financial condition of specific borrowers, the economic environment in which the borrowers operate, the level of delinquent loans, and, where applicable, the existence of any guarantees or indemnifications. The School's Perkins receivable represents the amounts due from current and former students under the Federal Perkins Loan Program. Loans disbursed under the Federal Perkins Loan program are able to be assigned to the U.S. Government in certain nonrepayment situations. In these situations the Federal portion of the loan balance is guaranteed.

Factors also considered by management when performing its assessment, in addition to general economic conditions and the other factors described above, included, but were not limited to, a detailed review of the aging of the student loan receivable detail and a review of the default rate by loan category in comparison to prior years. The level of the allowance is adjusted based on the results of management's analysis.

Loans less than two years delinquent are deemed to have a minimal delay in payment and are generally not written off but are reserved in accordance with the terms discussed above. Loans more than two years delinquent are subject to standard collection practices including litigation. Only loans that are deemed uncollectible are written off, and this only occurs after several years of unsuccessful collection, including placement at more than one external collection agency.

**Rhode Island School of Design**  
**Notes to the Consolidated Financial Statements**  
**June 30, 2013 and 2012**

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Considering the other factors already discussed herein, management considers the allowance for credit losses at June 30, 2013 and 2012, to be prudent and reasonable. Management believes that the allowance for credit losses at June 30, 2013, is adequate to absorb credit losses inherent in the portfolio as of that date. Changes in the allowance for credit losses for the year ended June 30, 2013 are shown in the following table.

Rollforward of Allowance for Credit Losses	
Balance at the beginning of the year	\$ 380,965
Provision for credit losses	-
Net charge-offs	-
Balance at the end of the year	<u>\$ 380,965</u>

**15. Bonds Payable and Other Debt**

	<u>2013</u>	<u>2012</u>
Rhode Island Health and Education Building Corporation Series 2004D, Range 3.0%-5.625% original issue \$58,435,000	\$ -	\$ 54,122,756
Rhode Island Health and Education Building Corporation Series 2008A, Range 1.25%-2.60% original issue \$61,930,000	53,180,000	54,530,000
Rhode Island Health and Education Building Corporation Series 2008B, Range 1.25%-2.60% original issue \$31,850,000	31,850,000	31,850,000
Rhode Island Health and Education Building Corporation Series 2012, Range 2.5%-4.0% original issue \$28,340,000	28,101,721	28,785,934
Rhode Island Health and Education Building Corporation Series 2012B, Range 2.5%-5.0% original issue \$51,815,000	<u>56,871,810</u>	<u>-</u>
Bonds payable	<u>\$ 170,003,531</u>	<u>\$ 169,288,690</u>

As of June 30, 2013 and 2012, the unaccreted premium on 2004D Bonds amounted to \$0 and \$1,487,756, respectively, which was being accreted over the life of the bonds using the effective interest basis.

As of June 30, 2013 and 2012, the unaccreted premium on 2012 Bonds amounted to \$421,721 and \$445,934, and for the 2012B Bonds the unaccreted premium amounted to \$5,056,810 and \$0, respectively, all of which are being accreted over the lives of the bonds using the effective interest basis.

# Rhode Island School of Design

## Notes to the Consolidated Financial Statements

### June 30, 2013 and 2012

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#### **Rhode Island Health and Education Building Corporation (RIHEBC)**

RIHEBC Bonds (Series 2001) were due in principal amounts and sinking fund requirements ranging from \$60,000 in 2011 to \$645,000 in 2020 for serial bonds and a payment of \$4,445,000 for term bonds due in 2026 and a final payment of \$18,280,000 for term bonds due in 2031. During the year ended June 30, 2012, the School redeemed the Series 2001 bonds and issued \$28,340,000 in Series 2012 bonds. The proceeds from this issuance were used to repay principal balances of the Series 2001 bond issuance. This repayment resulted in a realized loss of \$1,399,329, which is included as a nonoperating loss on the Consolidated Statements of Activities.

RIHEBC Bonds (Series 2004D) were due in principal amounts and sinking fund requirements ranging from \$900,000 in 2007 to \$9,155,000 in 2035 for serial bonds and a payment of \$10,510,000 for term bonds due in 2028 and a final payment of \$7,555,000 for term bonds due in 2031. XL Capital Assurance insured redemption of the Series 2004D bonds. Series 2004D Bonds maturing on and after August 15, 2014 were subject to redemption prior to maturity at a redemption price of 100% of the principal amounts plus accrued interest through the date of redemption. During the year ended June 30, 2013, the School redeemed the Series 2004D bonds and issued \$51,815,000 in Series 2012B bonds. The proceeds from this issuance were used to repay principal balances of the Series 2004D bond issuance. This repayment resulted in a realized loss of \$4,564,954, which is included as a nonoperating loss on the Consolidated Statements of Activities.

Series 2008A and Series 2008B Bonds can be optionally redeemed on any interest payment date (the first business day of each month) at par plus accrued interest. RIHEBC Bonds (Series 2008A and Series 2008B) are due in principal amounts and mandatory redemption requirements ranging from \$1,800,000 in 2008 to \$13,945,000 in 2036. In the event that the School receives notice of any optional redemption on its Series 2008A and 2008B variable-rate bonds, the purchase price of the bonds will be paid from the remarketing of such bonds. However, if the remarketing proceeds are insufficient, the School will be obligated to purchase the bonds redeemed.

On April 29, 2011, the School secured a \$56,455,000 letter of credit to cover an amount up to the outstanding balance of the 2008A bonds at the time of redemption. On June 1, 2011, the School secured a \$31,850,000 letter of credit to cover an amount up to the outstanding balance of the 2008B bonds at the time of redemption. For both letters of credit, any payout is to be repaid immediately or accrue interest. If payout is not made in 90 days, the payout will convert to a term loan, due in five semi-annual installments beginning six months after the conversion date. The original letters of credit expire on June 1, 2016. On December 4, 2012, a new agreement was entered into for the 2008A bonds for a \$53,180,000 letter of credit which covers an amount up to the outstanding balance of the 2008A bonds at the time of redemption. This new letter of credit for the 2008A bonds expires December 4, 2015. The School is required to comply with debt covenants to support its Letters of Credit. The debt service ratio must be at least 1.25 to 1 and the liquidity ratio must be at least 0.85 to 1. The School is in compliance with its debt covenant requirements.

Series 2012 and 2012B Bonds are subject to optional, extraordinary optional and mandatory redemption.

The School has pledged as collateral all revenue received in each fiscal year up to an amount equal to the debt service on the bonds due during the fiscal year.

**Rhode Island School of Design**  
**Notes to the Consolidated Financial Statements**  
**June 30, 2013 and 2012**

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Mandatory annual principal payments due for the next five years and thereafter are as follows:

	<u>RIHEBC</u>
2014	\$ 3,545,000
2015	3,665,000
2016	3,805,000
2017	3,950,000
2018	4,125,000
2019–2038	<u>145,435,000</u>
Annual principal payments	164,525,000
Unamortized premium	<u>5,478,531</u>
Bonds payable as of June 30, 2013	<u>\$ 170,003,531</u>

Estimated fair value of debt was approximately \$163,522,259 and \$171,225,069 at June 30, 2013 and 2012, respectively. Cash paid for interest on long-term debt for the years ended June 30, 2013 and 2012, was \$3,412,138 and \$3,523,129, respectively. Total interest expense for the years ended June 30, 2013 and 2012, was \$4,685,382 and \$4,539,398, respectively.

Bond issuance costs are capitalized and amortized over the life of the bond. Unamortized bond issuance costs were \$1,211,694 and \$1,657,648 for the years ended June 30, 2013 and 2012, respectively.

The School has entered into various interest rate swap agreements to manage the interest cost and variable rate risk associated with its outstanding debt. The interest rate swap agreements were not entered into for trading or speculative purposes. The risks associated with interest rate swaps are primarily market risk. Under the terms of these agreements, the School pays a fixed rate, determined at inception, to a third party who in turn pays a variable rate on these respective notional principal amounts to the bondholders.

The School records interest rate swaps at the estimated value at which the swaps could be settled as of June 30, 2013 and 2012. Unrealized appreciation of \$4,595,015 was recognized for the swaps for the year ending June 30, 2013, and unrealized depreciation of \$4,863,001 was recognized for the year ending June 30, 2012. The interest rate swap balances are classified as liabilities on the Consolidated Statements of Financial Position. Net payments or receipts under the swap agreements, along with the change in fair value of the swaps, are included in nonoperating revenues on the Consolidated Statements of Activities and in the cash flows from operating activities on the Consolidated Statements of Cash Flows.

The estimated fair value of the swap instruments represents the estimated cost to the School to cancel the agreements at the reporting date, which is based on option pricing models that consider risks and market factors. During the years ended June 30, 2013 and 2012, the School incurred losses of \$2,354,835 and \$2,392,108, respectively.

**Rhode Island School of Design**  
**Notes to the Consolidated Financial Statements**  
**June 30, 2013 and 2012**

The following schedule presents the notional principal amounts of the School's interest rate swaps at June 30, 2013.

<b>Maturity</b>	<b>Original Notional</b>	<b>Fair Value at June 30, 2013</b>
February 1, 2020	\$ 18,000,000	\$ (1,361,588)
August 15, 2025	27,000,000	(3,171,350)
August 15, 2034	28,500,000	(3,253,484)
Liability for interest rate swap		<u>\$ (7,786,422)</u>

The School renewed its 2008 line of credit agreement in June 2012. This agreement expired on June 14, 2013 and was not renewed. Under the terms of the agreement, the School could have borrowed up to \$5,000,000. Interest on borrowings under the line of credit was based on the London Inter-Bank Offered (LIBOR) rate plus 0.85%. There was no balance outstanding at the years ended June 30, 2013 and 2012.

**16. Net Assets**

Net Assets details are provided below:

	<b>2013</b>	<b>2012</b>
Unrestricted net assets		
Designated funds	\$ 10,309,259	\$ 7,475,656
Designated for endowment	234,453,193	226,768,139
Operating funds	11,233,010	12,206,894
Total unrestricted net assets	<u>255,995,462</u>	<u>246,450,689</u>
Temporarily restricted net assets	59,313,399	52,575,836
Permanently restricted net assets	34,973,614	32,326,091
Total net assets	<u>\$ 350,282,475</u>	<u>\$ 331,352,616</u>

The School began to consolidate RISD Holdings for the first time in fiscal year 2012. The 2011 financial statements excluded assets of \$303,821, liabilities of \$61,596, and net assets of \$242,225, all net of eliminations. The net impact of adjustments of \$242,225 (net of eliminations) was recorded in the Consolidated Statements of Activities in fiscal year 2012. Management believes the exclusion of RISD Holdings' Statement of Financial Position and Statement of Activities was immaterial to previously issued financial statements.

**17. Endowment Funds**

The School's endowment consists of approximately 220 individual donor-restricted endowment funds and 55 board-designated endowment funds for a variety of purposes plus the following where the assets have been designated for endowment: pledges receivable, split interest agreements, and other net assets. The endowment includes both donor-restricted endowment funds and funds designated by the Board of Trustees to function as endowments. The net assets associated with endowment funds, including funds designated by the Board of Trustees to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.



# Rhode Island School of Design

## Notes to the Consolidated Financial Statements

### June 30, 2013 and 2012

The School's Board of Trustees has interpreted the UPMIFA as requiring the preservation 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 School 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 School in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the School considers the following factors in making a determination to appropriate or accumulate endowment funds:

- (1) The duration and preservation of the fund
- (2) The purposes of the School and the donor-restricted endowment fund
- (3) General economic conditions
- (4) The possible effect of inflation and deflation
- (5) The expected total return from income and appreciation of investments
- (6) Other resources of the School
- (7) The investment policies of the School

Endowment net asset composition by type of fund as of June 30, 2013 and 2012, were as follows:

	2013			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
<b>Board-designated</b>				
For scholarships	\$ 11,208,494	\$ -	\$ -	\$ 11,208,494
For academic and institutional purposes	221,234,650			221,234,650
For museum support	2,210,238			2,210,238
For underwater endowments	(200,189)			(200,189)
Total board designated	<u>234,453,193</u>	<u>-</u>	<u>-</u>	<u>234,453,193</u>
<b>Donor-restricted</b>				
For scholarships		12,419,119	18,510,054	30,929,173
For academic and institutional purposes		4,238,607	6,374,748	10,613,355
For museum support		15,360,004	10,088,812	25,448,816
Total donor restricted	<u>-</u>	<u>32,017,730</u>	<u>34,973,614</u>	<u>66,991,344</u>
Total endowment funds	<u>\$ 234,453,193</u>	<u>\$ 32,017,730</u>	<u>\$ 34,973,614</u>	<u>\$ 301,444,537</u>

**Rhode Island School of Design**  
**Notes to the Consolidated Financial Statements**  
**June 30, 2013 and 2012**

	2012			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
<b>Board-designated</b>				
For scholarships	\$ 10,631,378	\$ -	\$ -	\$ 10,631,378
For academic and institutional purposes	214,492,528			214,492,528
For museum support	2,130,728			2,130,728
For underwater endowments	(486,495)			(486,495)
Total board designated	<u>226,768,139</u>	<u>-</u>	<u>-</u>	<u>226,768,139</u>
<b>Donor-restricted</b>				
For scholarships		10,975,477	17,423,153	28,398,630
For academic and institutional purposes		4,451,140	4,926,401	9,377,541
For museum support		14,124,642	9,976,537	24,101,179
Total donor restricted	<u>-</u>	<u>29,551,259</u>	<u>32,326,091</u>	<u>61,877,350</u>
Total endowment funds	<u>\$ 226,768,139</u>	<u>\$ 29,551,259</u>	<u>\$ 32,326,091</u>	<u>\$ 288,645,489</u>

During the fiscal year 2012, the School settled interfunds, which resulted in an allocation of \$29,366,732 cash from the nonendowed funds held in the capital account to the endowment funds. Changes in endowment net assets for the years ended June 30, 2013 and 2012, were as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>Endowment net assets at June 30, 2012</b>	\$ 226,768,139	\$ 29,551,259	\$ 32,326,091	\$ 288,645,489
Investment return				
Investment income	315,518	138,485		454,003
Net appreciation (realized and unrealized)	18,923,258	4,766,049		23,689,307
Total investment return	19,238,776	4,904,534	-	24,143,310
Gifts	43,035		2,647,523	2,690,558
Endowment return allocated for spending	(11,883,523)	(2,151,297)		(14,034,820)
Recovery of amounts transferred to restore underwater endowments	286,766	(286,766)		-
<b>Endowment net assets at June 30, 2013</b>	234,453,193	32,017,730	34,973,614	301,444,537
Nonendowment net assets	21,542,269	27,295,669	-	48,837,938
Total net assets at June 30, 2013	<u>\$ 255,995,462</u>	<u>\$ 59,313,399</u>	<u>\$ 34,973,614</u>	<u>\$ 350,282,475</u>

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>Endowment net assets at June 30, 2011</b>	\$ 213,098,224	\$ 32,477,714	\$ 30,498,305	\$ 276,074,243
Investment return				
Investment income	984,548	117,229		1,101,777
Net depreciation (realized and unrealized)	(5,946,239)	(631,279)		(6,577,518)
Total investment return	(4,961,691)	(514,050)	-	(5,475,741)
Gifts	452,622		1,827,786	2,280,408
Endowment return allocated for spending	(11,101,518)	(2,498,635)		(13,600,153)
Allocation of non-endowment funds to endowment	29,366,732			29,366,732
Transfer to restore underwater endowments	(86,230)	86,230		-
<b>Endowment net assets at June 30, 2012</b>	226,768,139	29,551,259	32,326,091	288,645,489
Nonendowment net assets	19,682,550	23,024,577	-	42,707,127
Total net assets at June 30, 2012	<u>\$ 246,450,689</u>	<u>\$ 52,575,836</u>	<u>\$ 32,326,091</u>	<u>\$ 331,352,616</u>

**Rhode Island School of Design**  
**Notes to the Consolidated Financial Statements**  
**June 30, 2013 and 2012**

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The following provides additional information about the School's policies regarding the management of its endowment assets.

**Endowment Funds with Deficits**

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the value of the initial and subsequent donor gift amounts ("underwater"). When donor endowment deficits exist, they are classified as a reduction of unrestricted net assets. The total amount of endowment funds underwater was \$200,189 and \$486,495 as of June 30, 2013 and 2012, respectively. As the restricted endowment funds begin to recover, the School records income for the amounts originally transferred to restore the underwater endowments. nonoperating income of \$286,766 and a nonoperating loss of \$86,230 were recorded in unrestricted net assets as of June 30, 2013 and 2012, respectively. These results are directly driven by market fluctuations.

**Return Objectives and Risk Parameters**

The School 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, the return objective for the endowment assets, measured over a full market cycle of approximately five years, is to maximize the return against various market indexes across the investment portfolio as determined by the Investment Committee while minimizing risk. The goal of each investment manager over the investment horizon is to exceed the appropriate market index. The overall portfolio is intended to embody no greater risk than the risk of a blend of the indexes assigned to the managers.

**Strategies Employed for Achieving Investment Objectives**

To achieve its long-term rate of return objectives, the School 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).

**Endowment Spending Allocation and Relationship of Spending Policy to Investment Objectives**

The Board of Trustees of the School determines the method to be used to appropriate endowment funds for expenditure. In 2013, the spending policy is to spend the amount equal to 5% of a rolling four-year average. In 2012, the spending policy was to spend the amount equal to 5% of the June 30, 2010, market value.

**18. Museum**

Museum revenues for the years ended June 30, 2013 and 2012, are described below:

	<u>2013</u>	<u>2012</u>
Service revenue per Statements of Activities	\$ 1,100,835	\$ 1,152,976
Total return income and gain	1,069,088	1,194,455
Gifts and grants	<u>1,034,639</u>	<u>656,855</u>
Total museum revenues	<u>\$ 3,204,562</u>	<u>\$ 3,004,286</u>

# **Rhode Island School of Design**

## **Notes to the Consolidated Financial Statements**

### **June 30, 2013 and 2012**

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#### **Collections**

The majority of the School's collections resides in the Museum and consists of artifacts of historical significance, art objects and books that are held for educational, research and curatorial purposes. Each of the items are cataloged, preserved and cared for and activities verifying their existence and assessing their condition are performed periodically. The collections are subject to a policy that requires proceeds from their sales to be used to acquire other items for collections. The School expended \$649,768 and \$812,185 for acquisitions during the years ended June 30, 2013 and 2012, respectively.

#### **19. Retirement and Pension Plans**

The School participates in the Teachers Insurance and Annuity Association (TIAA), College Retirement Equities Fund (CREF) and Fidelity 403(b) retirement plan for eligible faculty, administrative and staff employees. The School made contributions to both the TIAA-CREF and Fidelity retirement plans which totaled approximately \$3,541,631 and \$3,434,905 for the years ended June 30, 2013 and 2012, respectively.

#### **20. Commitments and Contingencies**

In conducting its activities from time to time the School is the subject of various claims and also has claims against others from time to time. In management's opinion, the ultimate resolution of such claims would not have a material adverse or favorable effect on the financial position of the School.

#### **21. Subsequent Events**

The School has evaluated subsequent events through October 29, 2013, the date the audited financial statements were issued, and has concluded that there were no such events that require adjustment to the audited financial statements or disclosure in the notes to the audited financial statements.