Rhode Island School of Design

Consolidated Financial Statements
June 30, 2012 and 2011

Rhode Island School of Design
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June 30, 2012 and 2011

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Report of Independent Auditors

To Board of Trustees of
Rhode Island School of Design

In our opinion, the accompanying consolidated statements of financial position and the related consolidated statements of activities and consolidated cash flows present fairly, in all material respects, the financial position of Rhode Island School of Design (the "School") at June 30, 2012 and 2011, and the results of its operations, changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. These consolidated financial statements are the responsibility of the School's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

PricewaterhouseCoopers LLP

November 1, 2012

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Rhode Island School of Design
Consolidated Statements of Financial Position
June 30, 2012 and 2011

	2012	2011
Assets		
Cash and cash equivalents (Note 2)	$ 39,450,403	$ 23,326,239
Short-term investments (Note 2)	250,000	4,850,000
Accounts receivable, net (Note 4)	3,848,207	3,705,098
Student loans receivable, net (Note 5)	4,819,455	5,582,435
Pledges receivable, net (Notes 2, 6)	4,302,989	3,733,695
Funds held in trust by others (Note 2)	14,461,335	14,982,282
Inventories (Note 7)	1,561,154	2,078,567
Prepaid expenses and deferred charges (Note 8)	2,604,066	2,001,633
Other investments (Notes 2, 9)	2,198,242	5,455,959
Long-term investments (Note 2)	283,497,893	304,478,341
Property, plant and equipment, net (Note 10)	188,873,868	191,530,276
Total assets	$ 545,867,612	$ 561,724,525
Liabilities		
Accounts payable and accrued liabilities (Note 11)	$ 6,654,783	$ 8,315,916
Deferred income (Note 12)	6,590,126	6,442,474
Obligations under long-term agreements (Note 13)	15,446,766	16,374,782
U.S. Government loan funds (Note 14)	4,153,194	3,989,741
Liability for interest rate swap (Notes 2, 15)	12,381,437	7,518,436
Bonds payable (Note 15)	169,288,690	170,928,717
Total liabilities	214,514,996	213,570,066
Net Assets		
Unrestricted net assets (Notes 16, 17)	246,450,689	261,129,518
Temporarily restricted net assets (Note 17)	52,575,836	56,526,636
Permanently restricted net assets (Note 17)	32,326,091	30,498,305
Total net assets	331,352,616	348,154,459
Total liabilities and net assets	$ 545,867,612	$ 561,724,525

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, 2012
(with summarized financial information for the year ended June 30, 2011)

	Unrestricted	Temporarily Restricted	Permanently Restricted	2012 Total	2011 Total
Operating revenues					
Tuition and fees	$ 99,724,991	$ -	$ -	$ 99,724,991	$ 96,908,853
Less:					
School sponsored financial aid	(14,507,194)			(14,507,194)	(14,152,188)
Donor sponsored financial aid	(1,928,246)			(1,928,246)	(1,545,201)
Net tuition	83,289,551	-	-	83,289,551	81,211,464
Gifts and pledges	2,589,497	3,083,818	1,827,786	7,501,101	4,323,638
Grants	177,026	836,604		1,013,630	1,419,020
Auxiliary enterprises	22,017,848			22,017,848	21,598,641
Museum services	1,152,976			1,152,976	1,126,267
Investment income	11,826,062	2,615,864		14,441,926	9,478,015
Other income	2,798,805			2,798,805	1,257,690
Net assets released from restrictions	6,903,754	(6,903,754)		-	-
Total revenue	130,755,519	(367,468)	1,827,786	132,215,837	120,414,735
Operating expenses					
Instruction	41,726,258			41,726,258	39,264,170
Research	549,266			549,266	680,199
Public service	119,495			119,495	112,187
Academic support	5,399,988			5,399,988	4,471,203
Student services	7,225,056			7,225,056	6,218,573
Institutional support	21,890,679			21,890,679	20,900,258
Operation and maintenance	23,446,938			23,446,938	23,076,371
Auxiliary services	11,593,678			11,593,678	11,265,654
Museum	7,631,948			7,631,948	6,782,127
Total expenses	119,583,306	-	-	119,583,306	112,770,742
Net income	11,172,213	(367,468)	1,827,786	12,632,531	7,643,993
Nonoperating					
Realized and unrealized loss on interest rate swap	(7,255,109)			(7,255,109)	(933,653)
Realized and unrealized (loss) gain on investments, net	(17,110,374)	(3,669,562)		(20,779,936)	29,552,703
Loss on early extinguishment of debt	(1,399,329)			(1,399,329)	-
Transfer to restore underwater endowments	(86,230)	86,230		-	-
(Decrease) increase in net assets from nonoperating activities	(25,851,042)	(3,583,332)	-	(29,434,374)	28,619,050
(Decrease) increase in net assets	(14,678,829)	(3,950,800)	1,827,786	(16,801,843)	36,263,043
Total net assets					
Beginning of year	261,129,518	56,526,636	30,498,305	348,154,459	311,891,416
End of year	$246,450,689	$ 52,575,836	$ 32,326,091	$331,352,616	$348,154,459

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

Rhode Island School of Design
Statement of Activities
Year Ended June 30, 2011

	Unrestricted	Temporarily Restricted	Permanently Restricted	2011 Total
Operating revenues				
Tuition and fees	$ 96,908,853	$ -	$ -	$ 96,908,853
Less:				
School sponsored financial aid	(14,152,188)			(14,152,188)
Donor sponsored financial aid	(1,545,201)			(1,545,201)
Net tuition	81,211,464	-	-	81,211,464
Gifts and pledges	2,395,644	181,120	1,746,874	4,323,638
Grants	85,034	1,333,986		1,419,020
Auxiliary enterprises	21,598,641			21,598,641
Museum services	1,072,842	53,425		1,126,267
Investment income	9,173,947	304,068		9,478,015
Other income	1,257,690			1,257,690
Net assets released from restrictions	6,385,607	(6,385,607)		-
Total revenue	123,180,869	(4,513,008)	1,746,874	120,414,735
Operating expenses				
Instruction	39,264,170			39,264,170
Research	680,199			680,199
Public service	112,187			112,187
Academic support	4,471,203			4,471,203
Student services	6,218,573			6,218,573
Institutional support	20,900,258			20,900,258
Operation and maintenance	23,076,371			23,076,371
Auxiliary services	11,265,654			11,265,654
Museum	6,782,127			6,782,127
Total expenses	112,770,742	-	-	112,770,742
Net income	10,410,127	(4,513,008)	1,746,874	7,643,993
Nonoperating				
Realized and unrealized loss on interest rate swap	(933,653)			(933,653)
Realized and unrealized gain on investments, net	20,972,733	8,579,970		29,552,703
Recovery of amounts transferred to restore underwater endowments	497,246	(497,246)		-
Increase in net assets from nonoperating activities	20,536,326	8,082,724	-	28,619,050
Increase in net assets	30,946,453	3,569,716	1,746,874	36,263,043
Total net assets				
Beginning of year	230,183,065	52,956,920	28,751,431	311,891,416
End of year	$261,129,518	$ 56,526,636	$ 30,498,305	$348,154,459

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, 2012 and 2011

	2012	2011
Cash flows from operating activities		
Change in net assets	$ (16,801,843)	$ 36,263,043
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Loss (gain) on investments	7,179,783	(37,062,365)
Unrealized loss (gain) on interest rate swap	4,863,001	(1,512,819)
Change in funds held in trust by others	520,947	(1,881,698)
Depreciation and amortization	9,689,701	9,689,889
Contributions restricted for long-term purposes	(454,113)	(2,334,993)
Contributions of securities	(207,925)	(586,761)
Change in asset retirement obligation	(45,967)	195,454
Increase in U.S. Government loan funds	163,453	98,951
Amortization of long-term agreements	554,150	587,298
Debt issuance premium	451,988	-
Loss on extinguishment of debt	1,399,329	-
Changes in operating assets and liabilities that provide (use) cash		
Accounts receivable	(143,109)	(1,195,389)
Pledges receivable	(569,294)	1,452,223
Inventories	517,413	(224,779)
Prepaid expenses and deferred charges	(602,433)	92,502
Accounts payable and accrued liabilities	(1,659,693)	(1,118,138)
Deferred income	147,652	363,322
Net cash provided by operating activities	5,003,040	2,825,740
Cash flows from investing activities		
Purchases of buildings and equipment	(7,007,714)	(8,562,815)
Student loans issued	(321,474)	(391,718)
Student loans repaid	1,084,454	922,796
Change in short-term investments	4,600,000	200,000
Purchases of investments	(1,007,383,146)	(352,845,430)
Sales of investments	1,024,695,421	359,677,048
Net cash provided by (used in) investing activities	15,667,541	(1,000,119)
Cash flows from financing activities		
Payments on long-term debt	(31,904,329)	(2,940,000)
Payments on obligations under long-term agreements	(1,436,201)	(1,269,170)
Proceeds from issuance of long-term debt	28,340,000	-
Contributions restricted for long-term purposes	454,113	2,334,993
Net cash used in financing activities	(4,546,417)	(1,874,177)
Net increase (decrease) in cash and cash equivalents	16,124,164	(48,556)
Cash and cash equivalents		
Beginning of year	23,326,239	23,374,795
End of year	$ 39,450,403	$ 23,326,239
Noncash activity		
Costs accrued for capital expenditures	$ 351,956	$ 353,396
Cash paid for interest	6,469,979	7,472,090

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

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.

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, 2012 and 2011. 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 $2,437,505 and $1,525,536 at June 30, 2012, and 2011, 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 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 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). On July 1, 2011, the threshold for capitalizing assets was increased from $3,000 to $5,000. 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 Statements of Activities.

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 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.

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 the fiscal year 2012, the School implemented a revised Chart of Accounts in order to enhance reporting and provide a more consistent accounting structure. As a result, certain June 30, 2011 balances and amounts previously reported in the Statements of Financial Position, the Statements of Activities and Statements of Cash Flows, as well as their related footnotes, have been reclassified to conform to the June 30, 2012 presentation, which was adjusted 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.

2. Fair Value of Financial Instruments

In accordance with accounting guidance for *Fair Value Measurements*, the following table summarizes the financial instruments carried at fair value on a recurring basis as of June 30, 2012 and 2011, aggregated by the level in the fair value hierarchy within which those measurements fall:

		Level 1	Level 2	Level 3	2012 Total Fair Value
Assets					
Short-term investments	a	$ 250,000	$ -	$ -	$ 250,000
Investments					
Cash and cash equivalents	b	6,884,769			6,884,769
Receivable from fund managers					-
Fixed income securities	c	58,216,435			58,216,435
Equity long	g	51,575,087			51,575,087
Hedge funds					
Multi-strategy hedge fund of funds	h			59,466,481	59,466,481
Equity long/short	i		2,244,081	363,829	2,607,910
Equity long hedge fund of funds	j			25,838,692	25,838,692
Fixed income	k			20,589,113	20,589,113
Natural resources	l			12,857,823	12,857,823
Private equity	m			41,006,151	41,006,151
Real estate	n			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		$ 116,926,291	$ 2,244,081	$ 180,876,923	$ 300,047,295
Liabilities					
Interest rate swap		$ -	$ -	$ (12,381,437)	$ (12,381,437)
Total liabilities at fair value		$ -	$ -	$ (12,381,437)	$ (12,381,437)

Reconciliation to Statement of Financial Position

Long-term investments, per Statement of Financial Position	$ 283,497,893
Other investments, per 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	$ 284,661,461

Pledges receivable, per Statement of Financial Position	$ 4,302,989
Funds held in trust by others, per 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	$ 15,135,834

a. Operating cash invested with original maturities greater than three months at the date of purchase are classified as short-term investments. At June 30, 2012, the $250,000 balance represents a 12-month CD letter of collateral per the School's workers compensation policy. At June 30, 2011, the balance represents the $250,000 CD letter of collateral plus a $4,600,000 six-month CD.

b. 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.

c. Fixed income securities include investments in government or municipal bonds, which pay a fixed rate.

d. Common and preferred stocks typically have a daily redemption frequency and a 3-day notification period. Domestic large cap growth equities typically have a capitalization of $5.0 billion or more and generate significantly positive cash flows or earnings, which increase at significantly faster rates than the overall economy. As of June 30, 2011, this category was made up of one type of investment that had a daily redemption frequency and a 3-day notice period. There are no investments of this nature as of June 30, 2012.

e. Mutual funds consist of a long-only strategy which invests in international securities. As of June 30, 2011, this category was made up of one type of investment that had a daily redemption frequency and a 3-day notice period. There are no investments of this nature as of June 30, 2012.

f. International securities are equity securities whose primary tracking markets are outside of the United States. As of June 30, 2011, this category was made up of two types of investments: one had a monthly redemption frequency with a 2-day notice period and the other had a quarterly redemption frequency with a 60-day notice period. There are no investments of this nature as of June 30, 2012.

g. Equity long securities are invested primarily in a portfolio of U.S. and International equity securities with the objective of approximating the capitalization weighted total rates of return of the markets in certain countries for publicly traded equity securities. As of June 30, 2012, this category was made up of one type of investment that had a daily redemption frequency and a 3-day notice period. There are no investments of this nature as of June 30, 2011.

h. Multi-strategy fund of funds invest with multiple managers who choose investment strategies and provide the investor with the advantage of diversification among managers and styles. This category is made up of four types of investments: two have a quarterly redemption frequency with a 105-day notice period, one is in liquidation so any ability to redeem is at the manager's discretion, and one essentially has no liquidation rights at this time.

i. Equity long/short investing consists of a core holding of long equities hedged at all times with short sales of stocks and/or stock index options. As of June 30, 2012 and 2011, this category was made up of two types of investments: one is fully redeemed but with a side pocket remaining so any redemption is at the manager's discretion (in Level 3) and the other has a quarterly redemption frequency with a 25% limit and a 60-day notice period (in Level 2).

j. Equity long hedge investing consists of capital allocated among a number of investment managers who focus on generating positive total returns over a market cycle, while also attempting to preserve capital during adverse market conditions. This category is made up of one investment that has a quarterly redemption frequency with a 105-day notice.

k. Fixed income fund of funds consists of capital allocated to a number of investment managers who focus on preserving capital through buying at low valuations and also through securing protections for investors by being high in the capital structure and/or by being collateralized to physical and/or financial assets of a corporate balance sheet. This category is made up of one type of investment that has a quarterly redemption frequency with a 105-day notice period.

l. Natural resources consists of capital allocated to investment managers across a broad array of natural resources sectors including, but not limited to, energy, metals, minerals, timber, and agriculture. This category is made up of one type of investment that has a quarterly redemption frequency with a 105-day notice period.

m. Private equity is money invested in companies that are not publicly traded on a stock exchange. They are illiquid long-term investments whose goal is to provide a meaningful return premium over public equity markets. Any ability to redeem these securities is at the manager's discretion.

n. This category includes directly held real estate which is reported at appraised value which approximates fair value.

		Level 1	Level 2	Level 3	2011 Total Fair Value
Assets					
Short-term investments	a	$ 4,850,000	$ -	$ -	$ 4,850,000
Investments					
Cash and cash equivalents	b	68,649,062			68,649,062
Receivable from fund managers		71,912,374			71,912,374
Fixed income securities	c				-
Common and preferred stocks	d				
Domestic large cap growth equities		9,165			9,165
Domestic large cap value equities		26,937,198			26,937,198
Domestic small/mid cap growth equities		17,617,149			17,617,149
Mutual funds	e	15,170,637			15,170,637
International securities	f		16,306,246		16,306,246
Hedge funds					
Multi-strategy hedge fund of funds	h		3,047,683	41,248,947	44,296,630
Equity long/short	i		4,934,321	1,104,179	6,038,500
Private equity	m			36,139,343	36,139,343
Real estate	n			5,675,170	5,675,170
Total investments		200,295,585	24,288,250	84,167,639	308,751,474
Beneficial interests held by third parties				15,763,668	15,763,668
Total assets at fair value		$ 205,145,585	$ 24,288,250	$ 99,931,307	$ 329,365,142
Liabilities					
Interest rate swap		$ -	$ -	$ (7,518,436)	$ (7,518,436)
Total liabilities at fair value		$ -	$ -	$ (7,518,436)	$ (7,518,436)

Reconciliation to Statement of Financial Position

Long-term investments, per Statement of Financial Position	$ 304,478,341
Other investments, per Statement of Financial Position	5,455,959
Less: Pooled income and gift annuities held in trust by RISD	(1,182,826)
Total investments held in trust by third parties	$ 308,751,474

Pledges receivable, per Statement of Financial Position	$ 3,733,695
Funds held in trust by others, per Statement of Financial Position	14,982,282
Less: Charitable remainder unitrusts held in trust by RISD	(899,541)
Less: Pledges and gifts receivable, net	(2,052,768)
Total beneficial interests held in trust by third parties	$ 15,763,668

The School's policy for allocation to Levels 1, 2, and 3 in the tables above are described in Note 1 with the exception of Receivable from fund managers above, which includes redemptions on June 30, 2011 for which cash was received after June 30, 2011.

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, 2012, approximately 19.2% of investments held by the partnerships consist of marketable securities and investments with observable inputs and 80.8% are securities that are subject to the judgment of the general partner as reflected in the NAVs. At June 30, 2011, these percentages were 22.2% and 77.8%, 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.

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

	Fair Value July 1, 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	$ 84,167,639	$ 67,523	$ (212,552)	$ 105,699,143	$ (23,980,664)	$ 165,741,089
Beneficial interests held by third parties	$ 15,763,668	$ -	$ (256,183)	$ -	$ (371,651)	$ 15,135,834
Interest rate swap	(7,518,436)	-	(4,863,001)	-	-	(12,381,437)

	Fair Value July 1, 2010	Realized Gains (Losses)	Unrealized Gains (Losses)	Purchases	Sales	Fair Value June 30, 2011
Investments						
Hedge funds						
Multi-Strategy Hedge Fund of Funds	$ 44,756,536	$ 2,027,149	$ 3,261,563	$ -	$ (8,796,301)	$ 41,248,947
Equity Long/Short	11,913,051	(7,425,370)	6,923,686	-	(10,307,188)	1,104,179
Private equity	31,030,705	8,307,199	(4,252,975)	3,932,389	(2,877,975)	36,139,343
Real estate	5,918,043	-	(718,043)	475,170	-	5,675,170
Total investments	$ 93,618,335	$ 2,908,978	$ 5,214,231	$ 4,407,559	$ (21,981,464)	$ 84,167,639
Beneficial interests held by third parties	$ 13,821,487	$ -	$ 2,445,157	$ 10,000	$ (512,976)	$ 15,763,668
Interest rate swap	(9,031,255)	-	1,512,819	-	-	(7,518,436)

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

There were no transfers between levels for the year ended June 30, 2012.

Please note that the School changed investment advisors during the year ended June 30, 2011. As a result, the School realigned investment managers and asset allocation.

3. Investments

Investment income for the years ended June 30, 2012 and 2011 was as follows:

	2012			
	Unrestricted	**Temporarily Restricted**	**Permanently Restricted**	**Total**
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	(17,069,208)	(2,494,559)		(19,563,767)
Total investment return	$ (5,284,312)	$ (1,053,698)	$ -	$ (6,338,010)

Reconciliation from Statement of Activities

Investment income per Statement of Activities	$ 14,441,926
Realized and unrealized loss on investments, net, per Statement of Activities	(20,779,936)
Total investment return	$ (6,338,010)

	2011			
	Unrestricted	**Temporarily Restricted**	**Permanently Restricted**	**Total**
Interest and dividend income	$ 1,306,931	$ 304,068	$ -	$ 1,610,999
Realized gains	12,818,664	1,934,861		14,753,525
Increase in net unrealized appreciation	16,021,085	6,645,109		22,666,194
Total investment return	$ 30,146,680	$ 8,884,038	$ -	$ 39,030,718

Reconciliation from Statement of Activities

Investment income per Statement of Activities	$ 9,478,015
Realized and unrealized gain on investments, net, per Statement of Activities	29,552,703
Total investment return	$ 39,030,718

Investment management fees and other expenses (netted from interest and dividend income) totaled $1,001,835 and $1,161,776 in 2012 and 2011, respectively.

Certain net assets are pooled for investment income purposes. The unit market value at June 30, 2012 and 2011 was $286.88 and $290.06, respectively. The market value of long-term investments, as stated in the Statements of Financial Position, represents the value of pooled endowment plus other nonpooled investments at June 30, 2012 and 2011.

4. Accounts Receivable

Accounts receivable consisted of the following at June 30:

	2012	2011
Student tuition and fees	$ 1,188,882	$ 943,869
Computer loan programs	1,010,892	1,043,803
Government grants	858,133	1,430,236
Other	1,151,398	614,253
	4,209,305	4,032,161
Less: Allowance for uncollectible accounts	(361,098)	(327,063)
Accounts receivable, net	$ 3,848,207	$ 3,705,098

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 Statements of Financial Position. Due to the significant restrictions of this program, it is not practical to determine the fair value of such amounts.

Student loans receivable consisted of the following at June 30:

	2012	2011
Student loan funds	$ 5,305,353	$ 6,081,182
Less: Allowance for uncollectible accounts	(485,898)	(498,747)
Student loans receivable, net	$ 4,819,455	$ 5,582,435

6. Pledges Receivable

Pledges receivable at June 30 are expected to be realized in the following periods:

	2012	2011
In one year or less	$ 1,217,019	$ 1,490,440
Between one year and five years, net of discount	1,701,929	3,386,773
Five years and over, net of discount	1,707,509	1,884,586
	4,626,457	6,761,799
Less: Allowance for uncollectible pledges	(323,468)	(3,028,104)
Pledges receivable, net	$ 4,302,989	$ 3,733,695

Discounts of $60,131 and $305,268 for the years ended June 30, 2012 and 2011, 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:

	2012	2011
RISD Store	$ 1,057,446	$ 962,398
RISD Store 3D	308,343	296,887
RISD Works	154,606	121,424
Dining	58,764	70,459
Postage and other	26,995	36,667
In transit	-	590,732
	1,606,154	2,078,567
Less: Obsolescence reserve	(45,000)	-
Inventories, net	$ 1,561,154	$ 2,078,567

8. Prepaid Expenses and Deferred Charges

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

	2012	2011
Prepaid expenses	$ 946,418	$ 236,864
Bond issuance costs	1,657,648	1,764,769
Prepaid expenses and deferred charges	$ 2,604,066	$ 2,001,633

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 School intends to sell the real estate at a future date.

Additionally, during the years ended June 30, 2012 and 2011, a member of the School's Board was an executive at an investment management company at which the School held one alternative investment.

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

	2012	2011
Land and buildings		
Educational plant	$157,752,396	$154,465,794
Dormitories and refectory	87,445,975	86,541,236
Capital lease	7,809,235	7,809,235
Administrative and other	19,578,736	19,315,170
Residences	1,108,088	1,108,088
Construction in progress	1,564,493	1,109,724
Land	7,911,598	7,911,598
	283,170,521	278,260,845
Furniture, fixtures and equipment	47,577,890	45,675,064
	330,748,411	323,935,909
Less: Accumulated depreciation	(141,874,543)	(132,405,633)
Property, plant and equipment, net	$188,873,868	$191,530,276

Depreciation expense for the years ended June 30, 2012, and June 30, 2011, respectively, was $9,468,910 and $9,664,791.

11. Accounts Payable and Accrued Liabilities

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

	2012	2011
Trade accounts payable	$ 1,608,538	$ 1,961,777
Accrued interest	1,048,643	1,178,346
Annuities payable	964,774	1,019,283
Accrued payroll	684,205	759,906
Accrued vacation	537,211	559,772
Payroll-related liabilities	190,327	308,710
Accrue for inventory in transit	-	590,733
Management fees	221,398	359,192
Deposits	105,158	116,188
Campus Compact grants	170,723	177,549
Other	1,123,806	1,284,460
Accounts payable and accrued liabilities	$ 6,654,783	$ 8,315,916

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, 2012 and June 30, 2011, was $6,590,126 and $6,442,474, 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 $5,626,511 and $6,370,688 at June 30, 2012 and 2011, respectively.

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

2013	$ 1,122,852
2014	1,168,832
2015	1,221,415
2016	1,276,417
2017-2018	1,903,425
Total minimum lease payments	6,692,941
Interest expense	(1,066,430)
Total obligation	$ 5,626,511

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 $6,117,062 and $6,254,935 at June 30, 2012 and 2011, respectively. Based on a variety of assumptions, the current estimation is that the lease term will end on or about 2031.

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

2013	$ 363,072
2014	399,379
2015	399,379
2016	399,379
2017-2018	7,006,310
Total minimum lease payments	8,567,519
Interest expense	(2,450,457)
Total obligation	$ 6,117,062

The School presents an asset retirement obligation on its 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 $3,703,193 and $3,749,159, at June 30, 2012 and 2011, 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, 2012 and 2011, the liability was $4,153,194 and $3,989,741, 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.

Considering the other factors already discussed herein, management considers the allowance for credit losses at June 30, 2012 and 2011, to be prudent and reasonable. Management believes that the allowance for credit losses at June 30, 2012, 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, 2012, are shown in the following table.

Balance at the beginning of the year	$ 395,708
Provision for credit losses	(14,743)
Net charge-offs	-
Balance at the end of the year	$ 380,965

15. Bonds Payable and Other Debt

	2012	2011
Rhode Island Health and Education Building Corporation Series 2001, Range 3.5%-5.0%, original issue $27,890,000	$ -	$ 27,443,536
Rhode Island Health and Education Building Corporation Series 2004D, Range 3.0%-5.625% original issue $58,435,000	54,122,756	55,180,181
Rhode Island Health and Education Building Corporation Series 2008A, Range 1.25%-2.60% original issue $61,930,000	54,530,000	56,455,000
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	28,785,934	-
Bonds payable	$169,288,690	$170,928,717

As of June 30, 2012 and 2011, the unamortized discount on 2001 Bonds amounted to $0 and $71,464, respectively, which is being amortized over the life of the bonds using the effective interest basis.

As of June 30, 2012 and 2011, the unaccreted premium on 2004D Bonds amounted to $1,487,756 and $1,480,181, respectively, which is being accreted over the life of the bonds using the effective interest basis.

As of June 30, 2012, the unaccreted premium on 2012 Bonds amounted to $445,934, which is being accreted over the life of the bonds using the effective interest basis.

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 Statement of Activities.

RIHEBC Bonds (Series 2004D) are 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. 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.

XL Capital Assurance insures redemption of the Series 2004D bonds. Series 2004D Bonds maturing on and after August 15, 2014 are subject to redemption prior to maturity at a redemption price of 100% of the principal amounts plus accrued interest through the date of redemption.

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. 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. The School is required to comply with debt covenants to support its Letter 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 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.

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

	RIHEBC
2013	$ 3,255,000
2014	3,385,000
2015	3,525,000
2016	3,675,000
2017–2038	153,515,000
Annual principal payments	167,355,000
Unamortized premium	1,933,690
Bonds payable as of June 30, 2012	$ 169,288,690

Estimated fair value of debt was approximately $171,225,069 and $172,108,289 at June 30, 2012 and 2011, respectively. Cash paid for interest on long-term debt for the years ended June 30, 2012 and 2011, was $3,523,129 and $4,425,835, respectively. Total interest expense for the years ended June 30, 2012 and 2011, was $4,539,398 and $5,244,435, respectively.

Bond issuance costs are capitalized and amortized over the life of the bond. Unamortized bond issuance costs were $1,657,648 and $1,764,769 for the years ended June 30, 2012 and 2011, 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, 2012 and 2011. Unrealized depreciation of $4,863,001 was recognized for the swaps for the year ending June 30, 2012, and unrealized appreciation of $1,512,819 was recognized for the year ending June 30, 2011. The interest rate swap balances are classified as liabilities on the 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 Statements of Activities and in the cash flows from operating activities on the 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 2012 and 2011, the School incurred losses of $2,392,108 and $2,446,471, respectively.

The following schedule presents the notional principal amounts of the School's interest rate swaps at June 30, 2012.

Maturity	Original Notional	Fair Value at June 30, 2012
February 1, 2020	$ 18,000,000	$ (2,118,198)
August 15, 2025	27,000,000	(4,659,195)
August 15, 2034	28,500,000	(5,604,044)
Liability for interest rate swap		$ (12,381,437)

In May 2011, the School renewed its 2008 line of credit agreement which was again renewed in June 2012. The new expiration date is June 14, 2013. Under the terms of the agreement, the School may borrow 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, 2012 and 2011.

16. Net Assets

Net Assets details are provided below:

	2012	2011
Unrestricted net assets		
Designated funds	$ 7,475,656	$ 6,395,163
Designated for endowment	226,768,139	213,098,224
Operating funds	12,206,894	41,636,131
Total unrestricted net assets	246,450,689	261,129,518
Temporarily restricted net assets	52,575,836	56,526,636
Permanently restricted net assets	32,326,091	30,498,305
Total net assets	$ 331,352,616	$ 348,154,459

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 $61,597, and net assets of $242,225, all net of eliminations. The impact on the Statement of Activities, net of eliminations, was $34,699 for the year ended June 30, 2011. The net impact of adjustments of $242,225 (net of eliminations) has been recorded in the Consolidated Statements of Activities in the current year. 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.

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 of 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, 2012 and 2011 were as follows:

	2012			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Board-designated				
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	226,768,139	-	-	226,768,139
Donor-restricted				
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	-	29,551,259	32,326,091	61,877,350
Total endowment funds	$226,768,139	$ 29,551,259	$ 32,326,091	$288,645,489

	2011			
	Unrestricted	**Temporarily Restricted**	**Permanently Restricted**	**Total**
Board-designated				
For scholarships	$ 10,857,209	$ -	$ -	$ 10,857,209
For academic and institutional purposes	200,523,204			200,523,204
For museum support	2,118,076			2,118,076
For underwater endowments	(400,265)			(400,265)
Total board designated	213,098,224	-	-	213,098,224
Donor-restricted				
For scholarships		11,879,961	16,048,659	27,928,620
For academic and institutional purposes		5,267,631	4,503,698	9,771,329
For museum support		15,330,122	9,945,948	25,276,070
Total donor restricted	-	32,477,714	30,498,305	62,976,019
Total endowment funds	$213,098,224	$ 32,477,714	$ 30,498,305	$276,074,243

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, 2012 and 2011 were as follows:

	Unrestricted	**Temporarily Restricted**	**Permanently Restricted**	**Total**
Endowment net assets at June 30, 2011	$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
Recovery of amounts transferred to restore underwater endowments	(86,230)	86,230		-
Endowment net assets at June 30, 2012	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	$246,450,689	$ 52,575,836	$ 32,326,091	$331,352,616

	Unrestricted	**Temporarily Restricted**	**Permanently Restricted**	**Total**
Endowment net assets at June 30, 2010	$189,712,978	$ 28,548,111	$ 28,751,431	$247,012,520
Investment return				
Investment income	1,306,930	304,068		1,610,998
Net appreciation (realized and unrealized)	28,528,553	6,365,615		34,894,168
Total investment return	29,835,483	6,669,683	-	36,505,166
Gifts	2,692,559		1,746,874	4,439,433
Endowment return allocated for spending	(9,640,042)	(2,242,834)		(11,882,876)
Recovery of amounts transferred to restore underwater endowments	497,246	(497,246)		-
Endowment net assets at June 30, 2011	213,098,224	32,477,714	30,498,305	276,074,243
Nonendowment net assets	48,031,294	24,048,922	-	72,080,216
Total net assets at June 30, 2011	$261,129,518	$ 56,526,636	$ 30,498,305	$348,154,459

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 $486,495 and $400,265 as of June 30, 2012 and 2011, respectively. As the restricted endowment funds begin to recover, the School records income for the amounts originally transferred to restore the underwater endowments. A Nonoperating Loss of $86,230 and Nonoperating Income of $497,246 was recorded in unrestricted net assets as of June 30, 2012 and 2011, 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 2012, the spending policy was to spend the amount equal to 5% of the June 30, 2010, market value. In 2011, the spending policy was to spend the amount equal to the debt service plus an additional $975,000 to be used for strategic needs in enrollment and institutional engagement. For 2013, the Board of Trustees has agreed to a spend rate of 5% of a rolling four-year average.

18. Museum

Museum revenues for the years ended June 30, 2012 and 2011, are described below:

	2012	2011
Service revenue per Statement of Activities	$ 1,152,976	$ 1,126,267
Total return income and gain	1,194,455	923,749
Gifts and grants	656,855	1,156,691
Total museum revenues	$ 3,004,286	$ 3,206,707

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 $812,185 and $656,163 for acquisitions during 2012 and 2011, 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 $3,434,905 and $3,395,362 for the years ended June 30, 2012 and 2011, respectively.

20. Commitments and Contingencies

Certain of the School's investments in privately held funds include unfunded commitments from private equity. Unfunded commitments totaled $13,625,136 and $1,913,143 as of June 30, 2012 and 2011, respectively. The School expects these funds to be called currently and for a period not to exceed the time limit outlined in each respective investment agreement with its investment manager.

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

On August 29, 2012, the School successfully completed its sale of Series 2012B bonds for the refunding of the 2004D bonds.