

Rhode Island School of Design

**Consolidated Financial Statements
June 30, 2015 and 2014**

Rhode Island School of Design

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June 30, 2015 and 2014

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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, 2015 and 2014, 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 as of June 30, 2015 and 2014, 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 26, 2015

Rhode Island School of Design
Consolidated Statements of Financial Position
June 30, 2015 and 2014

	<u>2015</u>	<u>2014</u>
Assets		
Cash and cash equivalents (Note 2)	\$ 35,491,948	\$ 43,522,146
Short-term investments (Note 2)	-	250,000
Accounts receivable, net (Note 4)	2,658,847	2,271,110
Student loans receivable, net (Note 5)	3,982,408	3,391,653
Pledges receivable, net (Notes 2, 6)	4,745,645	4,412,645
Funds held in trust by others (Note 2)	18,081,803	17,242,606
Inventories (Note 7)	1,492,116	1,585,962
Prepaid expenses and deferred charges (Note 8)	1,985,124	1,533,712
Other investments (Notes 2, 9)	1,104,824	1,650,515
Long-term investments (Note 2)	324,954,572	321,597,157
Property, plant and equipment, net (Note 10)	198,900,513	195,035,672
Total assets	<u>\$593,397,800</u>	<u>\$592,493,178</u>
Liabilities		
Accounts payable and accrued liabilities (Note 11)	\$ 9,690,517	\$ 11,264,066
Deferred income (Note 12)	6,465,412	7,432,904
Obligations under long-term agreements (Note 13)	12,294,313	13,285,370
U.S. Government loan funds (Note 14)	4,467,199	4,377,205
Liability for interest rate swap (Notes 2, 15)	7,097,571	7,331,326
Bonds payable (Note 15)	162,303,782	166,213,656
Total liabilities	<u>202,318,794</u>	<u>209,904,527</u>
Net Assets		
Unrestricted net assets (Note 16, 17)	277,538,344	275,288,130
Temporarily restricted net assets (Note 17)	69,340,182	69,529,090
Permanently restricted net assets (Note 17)	44,200,480	37,771,431
Total net assets	<u>391,079,006</u>	<u>382,588,651</u>
Total liabilities and net assets	<u>\$593,397,800</u>	<u>\$592,493,178</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, 2015
(With Summarized Financial Information for the Year Ended June 30, 2014)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>2015 Total</u>	<u>2014 Total</u>
Operating revenues					
Tuition and fees	\$ 113,506,707			\$ 113,506,707	\$ 108,555,419
Less:					
School sponsored financial aid	(17,960,261)			(17,960,261)	(17,631,197)
Donor sponsored financial aid	(2,014,012)			(2,014,012)	(2,050,584)
Net tuition	93,532,434	-	-	93,532,434	88,873,638
Gifts and pledges	2,326,951	1,810,545		4,137,496	5,249,260
Grants	530,736	1,797,706		2,328,442	1,503,535
Auxiliary enterprises	24,057,424			24,057,424	23,346,442
Museum services	1,028,960	89		1,029,049	1,077,337
Investment income	12,102,337	3,700,140		15,802,477	16,093,820
Other income	2,706,610	1,783		2,708,393	2,845,460
Net assets released from restrictions	7,542,076	(7,542,076)		-	-
Total revenue	<u>143,827,528</u>	<u>(231,813)</u>	<u>-</u>	<u>143,595,715</u>	<u>138,989,492</u>
Operating expenses					
Instruction	48,348,727			48,348,727	47,018,818
Research	367,392			367,392	337,516
Public service	309			309	5,388
Academic support	6,356,651			6,356,651	6,153,954
Student services	9,092,580			9,092,580	8,123,083
Institutional support	21,732,486			21,732,486	23,202,315
Operation and maintenance	27,472,690			27,472,690	25,398,400
Auxiliary services	13,358,228			13,358,228	12,124,127
Museum	8,452,331			8,452,331	8,269,002
Total expenses	<u>135,181,394</u>	<u>-</u>	<u>-</u>	<u>135,181,394</u>	<u>130,632,603</u>
Net income	8,646,134	(231,813)	-	8,414,321	8,356,889
Nonoperating					
Realized and unrealized loss on interest rate swap	(2,043,857)			(2,043,857)	(1,872,494)
Realized and unrealized (loss) gain on investments, net	(4,355,327)	46,169		(4,309,158)	23,023,964
Gifts and pledges			6,429,049	6,429,049	2,797,817
Recovery of amounts transferred to restore underwater endowments	3,264	(3,264)		-	-
Increase in net assets from nonoperating activities	<u>(6,395,920)</u>	<u>42,905</u>	<u>6,429,049</u>	<u>76,034</u>	<u>23,949,287</u>
Increase in net assets	2,250,214	(188,908)	6,429,049	8,490,355	32,306,176
Total net assets					
Beginning of year	<u>275,288,130</u>	<u>69,529,090</u>	<u>37,771,431</u>	<u>382,588,651</u>	<u>350,282,475</u>
End of year	<u>\$ 277,538,344</u>	<u>\$ 69,340,182</u>	<u>\$ 44,200,480</u>	<u>\$ 391,079,006</u>	<u>\$ 382,588,651</u>

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

Rhode Island School of Design
Statements of Activities
Year Ended June 30, 2014

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>2014 Total</u>
Operating revenues				
Tuition and fees	\$ 108,555,419			\$ 108,555,419
Less:				
School sponsored financial aid	(17,631,197)			(17,631,197)
Donor sponsored financial aid	(2,050,584)			(2,050,584)
Net tuition	88,873,638	-	-	88,873,638
Gifts and pledges	1,448,108	3,801,152		5,249,260
Grants	298,165	1,205,370		1,503,535
Auxiliary enterprises	23,346,442			23,346,442
Museum services	1,077,337			1,077,337
Investment income	9,490,776	6,603,044		16,093,820
Other income	2,822,741	22,719		2,845,460
Net assets released from restrictions	7,864,450	(7,864,450)		-
Total revenue	<u>135,221,657</u>	<u>3,767,835</u>	<u>-</u>	<u>138,989,492</u>
Operating expenses				
Instruction	47,018,818			47,018,818
Research	337,516			337,516
Public service	5,388			5,388
Academic support	6,153,954			6,153,954
Student services	8,123,083			8,123,083
Institutional support	23,202,315			23,202,315
Operation and maintenance	25,398,400			25,398,400
Auxiliary services	12,124,127			12,124,127
Museum	8,269,002			8,269,002
Total expenses	<u>130,632,603</u>	<u>-</u>	<u>-</u>	<u>130,632,603</u>
Net income	4,589,054	3,767,835	-	8,356,889
Nonoperating				
Realized and unrealized loss on interest rate swap	(1,872,494)			(1,872,494)
Realized and unrealized gain on investments, net	16,391,029	6,632,935		23,023,964
Gifts and pledges			2,797,817	2,797,817
Recovery of amounts transferred to restore underwater endowments	185,079	(185,079)		-
Increase in net assets from nonoperating activities	<u>14,703,614</u>	<u>6,447,856</u>	<u>2,797,817</u>	<u>23,949,287</u>
Increase in net assets	19,292,668	10,215,691	2,797,817	32,306,176
Total net assets				
Beginning of year	<u>255,995,462</u>	<u>59,313,399</u>	<u>34,973,614</u>	<u>350,282,475</u>
End of year	<u>\$ 275,288,130</u>	<u>\$ 69,529,090</u>	<u>\$ 37,771,431</u>	<u>\$ 382,588,651</u>

The accompanying notes are an integral part of these financial statements.

Rhode Island School of Design
Consolidated Statements of Cash Flows
Years Ended June 30, 2015 and 2014

	<u>2015</u>	<u>2014</u>
Cash flows from operating activities		
Change in net assets	\$ 8,490,355	\$ 32,306,176
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Gain on investments	(3,677,924)	(33,759,858)
Unrealized gain on interest rate swap	(233,755)	(455,096)
Change in funds held in trust by others	(839,197)	(1,780,648)
Depreciation and amortization	10,104,504	8,899,940
Contributions restricted for long-term purposes	(282,528)	(774,904)
Change in asset retirement obligation	226,698	214,876
Change in U.S. Government loan funds	89,994	129,452
Amortization of long-term agreements	403,041	452,017
Changes in operating assets and liabilities that provide (use) cash		
Accounts receivable	(387,737)	(258,430)
Pledges receivable	(333,000)	528,190
Inventories	93,846	(97,530)
Prepaid expenses and deferred charges	(451,412)	685,900
Accounts payable and accrued liabilities	(1,604,368)	3,421,811
Deferred income	(967,492)	1,533,538
Net cash provided by operating activities	<u>10,631,025</u>	<u>11,045,434</u>
Cash flows from investing activities		
Purchases of buildings and equipment	(14,183,400)	(18,433,587)
Student loans issued	(1,297,861)	(47,917)
Student loans repaid	707,106	868,984
Changes in short-term investments	250,000	-
Purchases of investments	(232,133,068)	(373,068,148)
Sales of investments	<u>232,999,266</u>	<u>383,746,421</u>
Net cash used in investing activities	<u>(13,657,957)</u>	<u>(6,934,247)</u>
Cash flows from financing activities		
Payments on long-term debt	(3,665,000)	(3,545,000)
Payments on obligations under long-term agreements	(1,620,794)	(1,568,208)
Contributions restricted for long-term purposes	<u>282,528</u>	<u>774,904</u>
Net cash used in financing activities	<u>(5,003,266)</u>	<u>(4,338,304)</u>
Net decrease in cash and cash equivalents	(8,030,198)	(227,117)
Cash and cash equivalents		
Beginning of year	<u>43,522,146</u>	<u>43,749,263</u>
End of year	<u>\$ 35,491,948</u>	<u>\$ 43,522,146</u>
Noncash activity		
Costs accrued for capital expenditures	\$ 117,749	\$ 86,930
Cash paid for interest	5,872,154	6,049,634

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

Rhode Island School of Design

Notes to the Financial Statements

June 30, 2010 and 2009

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 activities 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, and trusts that 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. Temporarily restricted assets also include unspent appreciation on the permanent endowment.
- 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 the net assets resulting from any operating income 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 net realized and unrealized gains and losses on the interest rate swaps, contributions to be invested by the School to generate a return that will support future operations, and investment return beyond what the School has appropriated for current operational support in accordance with the School's investment return spending guidelines 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

Years Ended June 30, 2015 and 2014

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, 2015 and 2014. 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

Cash and cash equivalents include highly liquid investments with maturities of three-months or less at the time of purchase. Cash equivalents are stated at cost, which approximates fair value. Cash restricted for the Perkins loans totaled \$3,731,708 and \$4,126,939 at June 30, 2015 and 2014, 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

Years Ended June 30, 2015 and 2014

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

Years Ended June 30, 2015 and 2014

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 outsourced primary 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 or less) are classified as Level 2. Investments which cannot be redeemed on the measurement date or in the near term are classified as Level 3. However, in accordance with new guidance, ASU 2015-07, *Fair Value Measurements: Disclosures for Investments in Certain Entities that Calculate Net Asset Value per Share (or Its Equivalent)* ("ASU 2015-07") issued in May 2015, certain investments that are measured at fair value using the net asset value per share (or its equivalent) practical expedient have not been classified in the fair value hierarchy.

Reclassifications

Effective June 30, 2015, permanently restricted gifts and pledges are presented under nonoperating income in the Consolidated Statements of Activities in order to provide a more meaningful net operating income number to users of these financial statements. As a result, certain amounts from the June 30, 2014, financial statements have been reclassified to conform to the 2015 presentation.

Effective June 30, 2015, in accordance with the implementation of pronouncement ASU 2012-05, the disclosure of contributions of securities has been removed from both the operating and investing activities of the Consolidated Statements of Cash Flows for the years ended June 30, 2015 and 2014, respectively.

New Accounting Pronouncements

In May 2015, the FASB issued ASU 2015-07, *Fair Value Measurement: Disclosures for Investments in Certain Entities that Calculate Net Asset Value per Share (or Its Equivalent)*. The pronouncement removes the requirement to categorize within the fair value hierarchy all investments for which fair value is measured using the net asset value per share as a practical expedient. The pronouncement also removes the requirement to make certain disclosures for all investments that are eligible to be measured at fair value using the net asset value per share as a practical expedient. Rather, those disclosures are limited to investments for which the entity has elected to measure the fair value using that practical expedient.

Rhode Island School of Design

Notes to the Consolidated Financial Statements

Years Ended June 30, 2015 and 2014

The School has elected to early adopt the pronouncement for the current reporting period, which is permitted, and has applied the new guidance retrospectively to all periods presented.

In October 2012, the FASB issued ASU 2012-05, *Not-for-Profit Entities: Classification of the Sale Proceeds of Donated Financial Assets in the Statement of Cash Flows*. The pronouncement requires a not-for-profit entity to classify cash receipts from the sale of donated financial assets as cash flows from operating activities in the Statement of Cash Flows if those cash receipts are from the sale of donated financial assets, have no imposed restrictions and are converted nearly immediately into cash. If, however, the donor restricts the use of the contributed resources to long-term purposes, those cash receipts are to be classified as cash flows from financing activities. If neither of these scenarios applies, the cash receipts from the sale of donated financial assets are to be classified as cash flows from investing activities. The School has adopted and applied this guidance to the cash flow statement for the current reporting period, and retrospectively applied it to all prior periods presented.

2. Fair Value of Financial Instruments

In accordance with accounting guidance for *Fair Value Measurements*, the tables below summarize the financial instruments carried at fair value on a recurring basis as of June 30, 2015 and 2014, aggregated by the level in the fair value hierarchy within which those measurements fall. However, certain investments that are measured at fair value using the net asset value per share (or its equivalent) practical expedient have not been classified in the fair value hierarchy and instead are included in the following tables as "investments valued using the NAV practical expedient". The fair value amounts presented in the following tables are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the Consolidated Statements of Financial Position:

	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Investments Valued Using the NAV Practical Expedient	2015 Total Fair Value
Assets					
Cash and cash equivalents	\$ 13,002,652				\$ 13,002,652
Investments					
Cash and cash equivalents	2,178,050				2,178,050
Hedge funds					
Multi-strategy hedge fund of funds				79,826,741	79,826,741
Equity long/short				20,452	20,452
Equity long hedge fund of funds	10,000,000			57,322,411	67,322,411
Fixed income				30,839,421	30,839,421
Fixed income securities	6,824,860	29,354,475			36,179,335
Benchmark equity	67,210,529				67,210,529
Private equity	229,439			36,144,183	36,373,622
Real estate			5,200,000		5,200,000
Total investments	86,442,878	29,354,475	5,200,000	204,153,208	325,150,561
Beneficial interests held by third parties			18,827,561		18,827,561
Total assets at fair value	\$ 99,445,530	\$ 29,354,475	\$ 24,027,561	\$ 204,153,208	\$ 356,980,774
Liabilities					
Interest rate swap	\$ -	\$ (7,097,571)	\$ -	\$ -	\$ (7,097,571)
Total liabilities at fair value	\$ -	\$ (7,097,571)	\$ -	\$ -	\$ (7,097,571)

Rhode Island School of Design

Notes to the Consolidated Financial Statements

Years Ended June 30, 2015 and 2014

Reconciliation to Consolidated Statement of Financial Position

Long-term investments, per Consolidated Statement of Financial Position	\$ 324,954,572
Other investments, per Consolidated Statement of Financial Position	1,104,824
Less: Pooled income and gift annuities held in trust by RISD	<u>(908,835)</u>
Total investments held in trust by third parties	<u>\$ 325,150,561</u>

Pledges receivable, per Consolidated Statement of Financial Position	\$ 4,745,645
Funds held in trust by others, per Consolidated Statement of Financial Position	18,081,803
Less: Charitable remainder unitrusts held in trust by RISD	<u>(1,101,993)</u>
Less: Pledges and gifts receivable, net	<u>(2,897,894)</u>
Total beneficial interests held in trust by third parties	<u>\$ 18,827,561</u>

	<u>Quoted Prices in Active Markets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>	<u>Investments Valued Using the NAV Practical Expedient</u>	<u>2014 Total Fair Value</u>
Assets					
Cash and cash equivalents	\$ 21,001,646				\$ 21,001,646
Short-term investments	250,000				250,000
Investments					
Cash and cash equivalents	5,946,252				5,946,252
Receivable from fund manager	1,350,242				1,350,242
Hedge funds					
Multi-strategy hedge fund of funds				77,412,728	77,412,728
Equity long/short				98,327	98,327
Equity long hedge fund of funds				52,033,192	52,033,192
Fixed income				30,569,182	30,569,182
Fixed income securities	6,286,778	30,694,272			36,981,050
Benchmark equity	71,750,744				71,750,744
Private equity				40,969,376	40,969,376
Real estate			5,200,000		5,200,000
Total investments	<u>85,334,016</u>	<u>30,694,272</u>	<u>5,200,000</u>	<u>201,082,805</u>	<u>322,311,093</u>
Beneficial interests held by third parties			17,993,673		17,993,673
Total assets at fair value	<u>\$ 106,585,662</u>	<u>\$ 30,694,272</u>	<u>\$ 23,193,673</u>	<u>\$ 201,082,805</u>	<u>\$ 361,556,412</u>
Liabilities					
Interest rate swap	\$ -	\$ (7,331,326)	\$ -	\$ -	\$ (7,331,326)
Total liabilities at fair value	<u>\$ -</u>	<u>\$ (7,331,326)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (7,331,326)</u>

Reconciliation to Consolidated Statement of Financial Position

Long-term investments, per Consolidated Statement of Financial Position	\$ 321,597,157
Other investments, per Consolidated Statement of Financial Position	1,650,515
Less: Pooled income and gift annuities held in trust by RISD	<u>(936,579)</u>
Total investments held in trust by third parties	<u>\$ 322,311,093</u>

Pledges receivable, per Consolidated Statement of Financial Position	\$ 4,412,645
Funds held in trust by others, per Consolidated Statement of Financial Position	17,242,606
Less: Charitable remainder unitrusts held in trust by RISD	<u>(1,127,176)</u>
Less: Pledges and gifts receivable, net	<u>(2,534,402)</u>
Total beneficial interests held in trust by third parties	<u>\$ 17,993,673</u>

Rhode Island School of Design

Notes to the Consolidated Financial Statements

Years Ended June 30, 2015 and 2014

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

The value of alternative investments (principally limited partnership interests in hedge, private equity, and other similar funds) 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. However, certain investments that are measured at fair value using the net asset value per share (or its equivalent) practical expedient have not been classified in the fair value hierarchy.

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 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, 2014	Realized Gains (Losses)	Unrealized Gains (Losses)	Purchases	Sales	Transfers In/Out	Fair Value June 30, 2015
Investments							
Hedge funds							
Multi-strategy hedge fund of funds	\$ 77,412,728	\$ -	\$ -	\$ -	\$ -	\$ (77,412,728)	\$ -
Equity long/short	52,131,520					(52,131,520)	-
Fixed income	30,569,182					(30,569,182)	-
Private equity	40,969,375					(40,969,375)	-
Real estate	5,200,000						5,200,000
Total investments	\$ 206,282,805	\$ -	\$ -	\$ -	\$ -	\$ (201,082,805)	\$ 5,200,000
Beneficial interests held by third parties	\$ 17,993,673	\$ -	\$ 821,247	\$ 19,408	\$ (6,767)	\$ -	\$ 18,827,561

	Fair Value June 30, 2013	Realized Gains (Losses)	Unrealized Gains (Losses)	Purchases	Sales	Transfers In/Out	Fair Value June 30, 2014
Investments							
Hedge funds							
Multi-strategy hedge fund of funds	\$ 69,235,031	\$ -	\$ -	\$ -	\$ -	\$ (69,235,031)	\$ -
Equity long/short	32,098,596					(32,098,596)	-
Fixed income	27,634,425					(27,634,425)	-
Natural resources	13,252,382					(13,252,382)	-
Private equity	41,019,512					(41,019,512)	-
Real estate	5,200,000						5,200,000
Total investments	\$ 188,439,946	\$ -	\$ -	\$ -	\$ -	\$ (183,239,946)	\$ 5,200,000
Beneficial interests held by third parties	\$ 16,147,402	\$ -	\$ 1,846,271	\$ -	\$ -	\$ -	\$ 17,993,673

\$204,153,208 and \$201,082,805 of investments at June 30, 2015 and 2014, respectively, are valued using NAV as the practical expedient and, therefore, are not included in the Level 3 rollforward tables above.

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, 2015 and 2014.

Rhode Island School of Design

Notes to the Consolidated Financial Statements

Years Ended June 30, 2015 and 2014

There were no transfers between levels for the years ended June 30, 2015 and 2014.

The following tables present liquidity information for the investments carried at fair value at June 30, 2015 and 2014, respectively.

Investment type	Investments Asset Value as of June 30, 2015			
	Fair Value	Unfunded Commitments	Redemption Frequency	Notice Period
Cash and cash equivalents	\$ 2,178,050	\$ -	Liquid	N/A
Hedge funds				
Multi-Strategy Hedge Fund of Funds	79,826,741	-	See Footnote "a"	
Equity Long/Short	20,452	-	In Liquidation	
Equity Long Hedge Fund of Funds	67,322,411	-	Quarterly	7 Days
Fixed Income	30,839,421	-	Quarterly	7 Days
Fixed income securities	36,179,335	-	Daily	1 Day
Benchmark equity	67,210,529	-	Daily	1 Day
Private equity	36,373,622	19,317,679	At Manager's Discretion	
Real estate	5,200,000	-	N/A	N/A
Total	<u>\$ 325,150,561</u>	<u>\$ 19,317,679</u>		

Investment type	Investments Asset Value as of June 30, 2014			
	Fair Value	Unfunded Commitments	Redemption Frequency	Notice Period
Cash and cash equivalents	\$ 5,946,252	\$ -	Liquid	N/A
Receivable from fund manager*	1,350,242	-	Liquid	N/A
Hedge funds				
Multi-Strategy Hedge Fund of Funds	77,412,728	-	See Footnote "a"	
Equity Long/Short	98,327	-	In Liquidation	
Equity Long Hedge Fund of Funds	52,033,192	-	Quarterly	7 Days
Fixed Income	30,569,182	-	Quarterly	7 Days
Fixed income securities	36,981,050	-	Daily	1 Day
Benchmark equity	71,750,744	-	Daily	1 Day
Private equity	40,969,376	6,256,686	At Manager's Discretion	
Real estate	5,200,000	-	N/A	N/A
Total	<u>\$ 322,311,093</u>	<u>\$ 6,256,686</u>		

*Receivable from fund manager includes redemption before June 30, 2014, for which cash was received after June 30, 2014.

a - Includes two investments in liquidation and two investments with quarterly redemption frequency with a 7-day notice period.

Rhode Island School of Design
Notes to the Consolidated Financial Statements
Years Ended June 30, 2015 and 2014

3. Investment Income

Investment income for the years ended June 30, 2015 and 2014, was as follows:

	2015			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Interest and dividend income	\$ 1,838,775	\$ 3,700,140	\$ -	\$ 5,538,915
Realized gains (losses)	2,503,536	(2,074,415)		429,121
Increase in net unrealized appreciation	3,404,699	2,120,584		5,525,283
Total investment return	<u>\$ 7,747,010</u>	<u>\$ 3,746,309</u>	<u>\$ -</u>	<u>\$ 11,493,319</u>

Reconciliation from Consolidated Statement of Activities

Investment income	\$ 15,802,477
Realized and unrealized loss on investments, net	(4,309,158)
Total investment return	<u>\$ 11,493,319</u>

	2014			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Interest and dividend income	\$ 1,870,739	\$ 3,622,573	\$ -	\$ 5,493,312
Realized losses	(3,127,408)	(1,093,384)		(4,220,792)
Increase in net unrealized appreciation	27,138,475	10,706,789		37,845,264
Total investment return	<u>\$ 25,881,806</u>	<u>\$ 13,235,978</u>	<u>\$ -</u>	<u>\$ 39,117,784</u>

Reconciliation from Consolidated Statement of Activities

Investment income	\$ 16,093,820
Realized and unrealized gain on investments, net	23,023,964
Total investment return	<u>\$ 39,117,784</u>

Investment management fees and other expenses (netted from interest and dividend income) totaled \$1,108,750 and \$969,363 for the years ended June 30, 2015 and 2014, 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, 2015 and 2014.

Rhode Island School of Design
Notes to the Consolidated Financial Statements
Years Ended June 30, 2015 and 2014

4. Accounts Receivable

Accounts receivable consisted of the following at June 30, 2015 and 2014:

	<u>2015</u>	<u>2014</u>
Student tuition and fees	\$ 2,029,968	\$ 905,481
Computer loan programs	132,911	126,609
Government grants	495,891	1,346,400
Other	630,232	380,706
	<u>3,289,002</u>	<u>2,759,196</u>
Less: Allowance for uncollectible accounts	<u>(630,155)</u>	<u>(488,086)</u>
Accounts receivable, net	<u>\$ 2,658,847</u>	<u>\$ 2,271,110</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.

Student loans receivable consisted of the following at June 30, 2015 and 2014:

	<u>2015</u>	<u>2014</u>
Student loan funds	\$ 4,391,966	\$ 3,877,551
Less: Allowance for uncollectible accounts	<u>(409,558)</u>	<u>(485,898)</u>
Student loans receivable, net	<u>\$ 3,982,408</u>	<u>\$ 3,391,653</u>

6. Pledges Receivable

Pledges receivable at June 30, 2015 and 2014, are expected to be realized in the following periods:

	<u>2015</u>	<u>2014</u>
In one year or less	\$ 2,195,091	\$ 931,082
Between one year and five years, net of discount	944,547	1,832,303
Five years and over, net of discount	1,920,700	1,908,548
	<u>5,060,338</u>	<u>4,671,933</u>
Less: Allowance for uncollectible pledges	<u>(314,693)</u>	<u>(259,288)</u>
Pledges receivable, net	<u>\$ 4,745,645</u>	<u>\$ 4,412,645</u>

Pledges receivable expected to be collected within one year are recorded at their net realizable value. Those expected to be collected in future years are recorded at the present value of

Rhode Island School of Design
Notes to the Consolidated Financial Statements
Years Ended June 30, 2015 and 2014

estimated future cash flows. The present value of estimated future cash flows has been measured at the time of the pledge using rates indicative of the market and credit risk associated with the pledge, which resulted in a discount of \$25,175 and \$99,716 for the years ended June 30, 2015 and 2014, respectively.

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, 2015 and 2014:

	<u>2015</u>	<u>2014</u>
RISD Store	\$ 885,004	\$ 1,042,235
RISD Store 3D	344,961	329,866
RISD Works	206,272	160,655
Dining	56,253	58,950
Postage and other	44,626	39,256
	<u>1,537,116</u>	<u>1,630,962</u>
Less: Obsolescence reserve	(45,000)	(45,000)
Inventories, net	<u>\$ 1,492,116</u>	<u>\$ 1,585,962</u>

8. Prepaid Expenses and Deferred Charges

Prepaid expenses and deferred charges consisted of the following at June 30, 2015 and 2014:

	<u>2015</u>	<u>2014</u>
Prepaid expenses	\$ 889,341	\$ 379,973
Bond issuance costs	1,095,783	1,153,739
Prepaid expenses and deferred charges	<u>\$ 1,985,124</u>	<u>\$ 1,533,712</u>

9. Related Parties

Management and the Board of Trustees report and monitor related party transactions in accordance with the School's conflict of interest policy. There were no related party transactions during the years ended June 30, 2015 and 2014, respectively.

Rhode Island School of Design
Notes to the Consolidated Financial Statements
Years Ended June 30, 2015 and 2014

10. Property, Plant and Equipment

	<u>2015</u>	<u>2014</u>
Land and buildings		
Educational plant	\$178,810,617	\$164,661,023
Dormitories and refectory	91,751,703	90,552,733
Capital lease	7,809,235	7,809,235
Administrative and other	24,161,266	22,443,396
Residences	1,169,540	1,169,540
Construction in progress	1,461,196	6,665,804
Land	9,675,598	9,675,598
	<u>314,839,155</u>	<u>302,977,329</u>
Furniture, fixtures and equipment	54,617,384	52,264,989
	<u>369,456,539</u>	<u>355,242,318</u>
Less: Accumulated depreciation	<u>(170,556,026)</u>	<u>(160,206,646)</u>
Property, plant and equipment, net	<u>\$198,900,513</u>	<u>\$195,035,672</u>

Depreciation expense for the years ended June 30, 2015 and 2014, was \$10,349,380 and \$9,144,814, respectively.

11. Accounts Payable and Accrued Liabilities

Accounts payable and accrued liabilities consisted of the following at June 30, 2015 and 2014:

	<u>2015</u>	<u>2014</u>
Trade accounts payable	\$ 3,848,981	\$ 4,375,864
Accrued interest	973,793	995,750
Annuities payable	698,519	738,015
Accrued payroll	979,154	2,399,241
Accrued vacation	528,750	531,001
Payroll-related liabilities	160,947	305,828
Management fees	214,600	207,005
Deposits	576,622	566,549
Other	1,709,151	1,144,813
Accounts payable and accrued liabilities	<u>\$ 9,690,517</u>	<u>\$ 11,264,066</u>

12. Deferred Income

Deferred income represents tuition payments that were received in advance of the start of the academic semester and grant revenue that has not yet been earned. Deferred income at June 30, 2015 and 2014 was \$6,465,412 and \$7,432,904, respectively.

Rhode Island School of Design
Notes to the Consolidated Financial Statements
Years Ended June 30, 2015 and 2014

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 \$2,350,475 and \$3,375,380 at June 30, 2015 and 2014, respectively.

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

2016	\$ 1,276,417
2017	<u>1,325,528</u>
Total minimum lease payments	2,601,945
Interest expense	<u>(251,470)</u>
Total obligation	<u>\$ 2,350,475</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 \$5,595,395 and \$5,788,245 at June 30, 2015 and 2014, 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:

2016	\$ 399,379
2017	399,379
2018	399,379
2019	439,317
2020	439,317
2021-2031	<u>5,328,922</u>
Total minimum lease payments	7,405,693
Interest expense	<u>(1,810,298)</u>
Total obligation	<u>\$ 5,595,395</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 \$4,348,443 and \$4,121,745 at June 30, 2015 and 2014, 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. At June 30, 2015 and 2014, the liability was \$4,467,199 and \$4,377,205, respectively.

Rhode Island School of Design
Notes to the Consolidated Financial Statements
Years Ended June 30, 2015 and 2014

Allowance for Credit Losses

Management regularly assesses the adequacy of the allowance for credit losses by performing evaluations on the student loan portfolio, current economic environment, and level of delinquent loans. The allowance is adjusted based on the results of these evaluations. Loans disbursed under the Federal Perkins Loan Program are able to be assigned to the Federal government in certain non-repayment situations. Management believes that this allowance at June 30, 2015 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, 2015, 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	(79,023)
Net charge-offs	-
Balance at the end of the year	<u>\$ 301,942</u>

15. Bonds Payable and Other Debt

Name	Original Issue	Rate	Maturity	2015	2014
Rhode Island Health and Education Building Corporation					
Series 2008A	\$61,930,000	1.25% - 2.60%	2035	\$ 50,295,000	\$ 51,775,000
Series 2008B	\$31,850,000	1.25% - 2.60%	2037	31,850,000	31,850,000
Series 2012	\$28,340,000	2.50% - 4.00%	2031	26,335,000	27,005,000
Series 2012B	\$51,815,000	2.50% - 5.00%	2036	<u>48,835,000</u>	<u>50,350,000</u>
Bonds payable, net				157,315,000	160,980,000
Add: Unamortized Premium on Bonds				<u>4,988,782</u>	<u>5,233,656</u>
Bonds payable				<u>\$162,303,782</u>	<u>\$166,213,656</u>

As of June 30, 2015 and 2014, the unaccrued premium on 2012 Bonds amounted to \$373,294 and \$397,507, and for the 2012B Bonds the unaccrued premium amounted to \$4,615,488 and \$4,836,149, respectively, both of which are being accreted over the lives of the bonds using the effective interest basis.

Rhode Island Health and Education Building Corporation (RIHEBC)

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.

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

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Notes to the Consolidated Financial Statements
Years Ended June 30, 2015 and 2014

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.

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:

	<u>RIHEBC</u>
2016	\$ 3,805,000
2017	3,950,000
2018	4,125,000
2019	4,305,000
2020	4,505,000
2021–2038	<u>136,625,000</u>
Annual principal payments	<u>\$ 157,315,000</u>

Estimated fair value of debt was approximately \$161,379,673 and \$165,217,038 at June 30, 2015 and 2014, respectively. Cash paid for interest on long-term debt for the years ended June 30, 2015 and 2014, was \$3,191,502 and \$3,270,026, respectively. Total interest expense for the years ended June 30, 2015 and 2014, was \$3,905,765 and \$4,039,070, respectively.

Bond issuance costs are capitalized and amortized over the life of the bond. Unamortized bond issuance costs were \$1,095,783 and \$1,153,739 for the years ended June 30, 2015 and 2014, 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 the School a variable rate on these respective notional principal amounts. During the years ended June 30, 2015 and 2014, the School incurred realized losses of \$2,277,612 and \$2,327,590, respectively.

The School records interest rate swaps at the estimated value at which the swaps could be settled as of June 30, 2015 and 2014. 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. Unrealized appreciation of \$233,755 and \$455,096 was recorded for the swaps for the years ended June 30, 2015 and 2014,

Rhode Island School of Design
Notes to the Consolidated Financial Statements
Years Ended June 30, 2015 and 2014

respectively. 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 following schedule presents the notional principal amounts of the School's interest rate swaps at June 30, 2015.

Maturity	Original Notional	Fair Value at June 30, 2015
February 1, 2020	\$ 18,000,000	\$ (1,186,426)
August 15, 2025	24,300,000	(2,581,631)
August 15, 2034	28,500,000	<u>(3,329,514)</u>
Liability for interest rate swap		<u>\$ (7,097,571)</u>

16. Net Assets

Details of the School's Net Assets are provided below:

	2015	2014
Unrestricted net assets		
Designated funds	\$ 6,175,864	\$ 9,916,430
Designated for endowment	250,488,172	253,196,900
Operating funds	<u>20,874,308</u>	<u>12,174,800</u>
Total unrestricted net assets	277,538,344	275,288,130
Temporarily restricted net assets	69,340,182	69,529,090
Permanently restricted net assets	<u>44,200,480</u>	<u>37,771,431</u>
Total net assets	<u>\$ 391,079,006</u>	<u>\$ 382,588,651</u>

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
Years Ended June 30, 2015 and 2014

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, 2015 and 2014, were as follows:

	2015			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Board-designated				
For scholarships	\$ 12,008,160	\$ -	\$ -	\$ 12,008,160
For academic and institutional purposes	236,067,956			236,067,956
For museum support	2,423,242			2,423,242
For underwater endowments	(11,386)			(11,386)
Total board designated	<u>250,487,972</u>	<u>-</u>	<u>-</u>	<u>250,487,972</u>
Donor-restricted				
For scholarships		14,369,452	21,153,366	35,522,818
For academic and institutional purposes		5,593,843	8,633,396	14,227,239
For museum support		16,990,434	14,413,718	31,404,152
Total donor restricted	<u>-</u>	<u>36,953,729</u>	<u>44,200,480</u>	<u>81,154,209</u>
Total endowment funds	<u>\$250,487,972</u>	<u>\$ 36,953,729</u>	<u>\$ 44,200,480</u>	<u>\$331,642,181</u>

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	2014			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Board-designated				
For scholarships	\$ 12,124,486	\$ -	\$ -	\$ 12,124,486
For academic and institutional purposes	238,648,117			238,648,117
For museum support	2,438,947			2,438,947
For underwater endowments	(14,650)			(14,650)
Total board designated	<u>253,196,900</u>	<u>-</u>	<u>-</u>	<u>253,196,900</u>
Donor-restricted				
For scholarships		14,641,897	19,455,986	34,097,883
For academic and institutional purposes		5,566,948	7,676,133	13,243,081
For museum support		17,085,022	10,639,312	27,724,334
Total donor restricted	<u>-</u>	<u>37,293,867</u>	<u>37,771,431</u>	<u>75,065,298</u>
Total endowment funds	<u>\$253,196,900</u>	<u>\$ 37,293,867</u>	<u>\$ 37,771,431</u>	<u>\$328,262,198</u>

Changes in endowment net assets for the years ended June 30, 2015 and 2014, were as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets at June 30, 2014	\$253,196,900	\$ 37,293,867	\$ 37,771,431	\$328,262,198
Investment return				
Investment income	1,431,766	452,137		1,883,903
Net appreciation (realized and unrealized)	6,984,495	2,352,366		9,336,861
Total investment return	<u>8,416,261</u>	<u>2,804,503</u>	<u>-</u>	<u>11,220,764</u>
Gifts	10,486		6,429,049	6,439,535
Endowment return allocated for spending	(11,138,739)	(3,141,377)		(14,280,116)
Recovery of amounts transferred to restore underwater endowments	3,264	(3,264)		-
Endowment net assets at June 30, 2015	<u>250,488,172</u>	<u>36,953,729</u>	<u>44,200,480</u>	<u>331,642,381</u>
Nonendowment net assets	<u>27,050,172</u>	<u>32,386,453</u>	<u>-</u>	<u>59,436,625</u>
Total net assets at June 30, 2015	<u>\$277,538,344</u>	<u>\$ 69,340,182</u>	<u>\$ 44,200,480</u>	<u>\$391,079,006</u>

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Years Ended June 30, 2015 and 2014

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets at June 30, 2013	\$234,453,193	\$ 32,017,730	\$ 34,973,614	\$301,444,537
Investment return				
Investment income	1,457,537	408,000		1,865,537
Net appreciation (realized and unrealized)	<u>28,753,259</u>	<u>7,621,010</u>		<u>36,374,269</u>
Total investment return	30,210,796	8,029,010	-	38,239,806
Gifts	15,575		2,797,817	2,813,392
Endowment return allocated for spending	(11,667,743)	(2,567,794)		(14,235,537)
Recovery of amounts transferred to restore underwater endowments	<u>185,079</u>	<u>(185,079)</u>		-
Endowment net assets at June 30, 2014	253,196,900	37,293,867	37,771,431	328,262,198
Nonendowment net assets	<u>22,091,230</u>	<u>32,235,223</u>	-	<u>54,326,453</u>
Total net assets at June 30, 2014	<u>\$275,288,130</u>	<u>\$ 69,529,090</u>	<u>\$ 37,771,431</u>	<u>\$382,588,651</u>

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 \$50,794 and \$14,650 as of June 30, 2015 and 2014, respectively. As the restricted endowment funds begin to recover, the School records income for the amounts originally transferred to restore the underwater endowments. Nonoperating loss of \$36,144 and nonoperating income of \$185,079 was recorded in unrestricted net assets as of June 30, 2015 and 2014, 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 2015 and 2014, the spending policy was to spend the amount equal to 5% of a rolling twenty-quarter average.

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18. Museum

Museum revenues for the years ended June 30, 2015 and 2014, are described below:

	<u>2015</u>	<u>2014</u>
Service revenue per Statements of Activities	\$ 1,029,049	\$ 1,077,337
Investment income	1,300,731	1,332,915
Gifts and grants	<u>328,438</u>	<u>1,163,929</u>
Total museum revenues	<u>\$ 2,658,218</u>	<u>\$ 3,574,181</u>

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 \$638,429 and \$497,343 for acquisitions during the years ended June 30, 2015 and 2014, 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. For the year ended June 30, 2015, the School made contributions to the TIAA-CREF retirement plan, which totaled approximately \$3,919,680. For the year ended June 30, 2014, the School made contributions to both the TIAA-CREF and Fidelity retirement plans, which totaled approximately \$3,781,891.

Effective April 1, 2014, RISD transitioned to TIAA-CREF as the sole recordkeeper for the School's 403(b) retirement plan. Subsequently, Fidelity Investments ceased to receive contributions.

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 26, 2015, 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.