

# **Rhode Island School of Design**

Financial Statements  
June 30, 2009 and 2008

**Report of Independent Auditors**

To Board of Trustee of  
Rhode Island School of Design:

In our opinion, the accompanying statement of financial position and the related statements of activities and cash flows present fairly, in all material respects, the financial position of Rhode Island School of Design (the "School") at June 30, 2009 and 2008, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. These 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.

As discussed in Note 1 to financial statements, the School changed the manner in which it classifies net assets donor-restricted endowment funds and adopted a new fair value measurements standard in 2009.

*PricewaterhouseCoopers LLP*

September 21, 2009

Rhode Island School of Design  
Statements of Financial Position  
June 30, 2009 and 2008

ASSETS	2009	2008
Cash and cash equivalents	\$ 14,420,861	\$ 3,733,045
Short-term investments	2,021,954	4,698,692
Accounts receivable (net)	3,558,388	3,167,801
Student loans receivable (net)	6,368,511	5,535,333
Pledges receivable (net)	5,247,857	6,799,481
Funds held in trust by others	11,644,454	14,485,023
Inventories	1,803,883	1,320,198
Prepaid expenses and deferred charges	2,087,756	2,319,699
Other investments	5,151,521	16,780,028
Long-term investments	263,300,094	361,714,360
Property, plant and equipment (net)	189,028,395	192,773,090
	\$ 504,633,674	\$ 613,326,750
LIABILITIES		
Accounts payable and accrued liabilities	\$ 7,954,933	\$ 13,873,601
Short term line of credit	-	5,000,000
Deferred income	6,234,947	6,460,648
Obligations under a capital lease, current	613,726	528,447
Agency accounts and other liabilities	97,851	101,862
Obligations under a capital lease, long-term	6,765,434	7,255,922
U.S. Government loan funds	3,820,786	3,775,194
Liability for interest rate swap	6,526,844	3,640,602
Bonds payable	176,656,975	179,396,795
Asset retirement obligation	3,368,441	3,192,835
	212,039,937	223,225,906
NET ASSETS		
Unrestricted net assets		
Board designated funds	13,175,010	27,979,941
Designated for endowment	176,973,847	234,711,785
Other funds	26,358,586	18,662,044
	216,507,443	281,353,770
Temporarily restricted net assets	49,591,861	71,025,691
Permanently restricted net assets	26,494,433	37,721,383
	292,593,737	390,100,844
	\$ 504,633,674	\$ 613,326,750

The accompanying notes are an integral part of the financial statements

Rhode Island School of Design  
Statements of Activities  
for the year ended June 30, 2009  
(with comparative totals for 2008)

	Unrestricted	Temporarily Restricted	Permanently Restricted	2009 Total	2008 Total
<b>Revenues:</b>					
Tuition and fees	\$ 88,150,639			\$ 88,150,639	\$ 82,468,343
Less: School sponsored financial aid	10,824,800			10,824,800	9,955,222
Donor sponsored financial aid	1,849,739			1,849,739	1,551,059
Net tuition	75,476,100			75,476,100	70,962,062
Campus support services	20,549,719			20,549,719	19,849,136
Total return income and gain used for operations	12,263,216			12,263,216	10,435,746
Gifts, grants and pledges	926,015			926,015	1,020,653
Museum services	2,084,958			2,084,958	1,175,763
Other income	379,305			379,305	1,073,818
Net assets released from restrictions	6,457,045			6,457,045	6,513,135
	<u>118,136,358</u>			<u>118,136,358</u>	<u>111,030,313</u>
<b>Operating expenses:</b>					
Instruction	38,363,599			38,363,599	36,691,353
Academic support	7,862,743			7,862,743	7,503,190
Campus support services	11,623,615			11,623,615	12,429,236
Institutional support	17,071,497			17,071,497	15,981,667
Museum services	8,610,193			8,610,193	7,548,707
Student services	4,245,932			4,245,932	3,062,543
Plant maintenance	11,363,709			11,363,709	9,731,057
Interest	5,894,820			5,894,820	6,946,016
Depreciation	10,047,778			10,047,778	9,073,214
Research	550,317			550,317	392,076
	<u>115,634,203</u>			<u>115,634,203</u>	<u>109,359,059</u>
Surplus before budgetary designations	2,502,155			2,502,155	1,671,254
Net budgetary designations (Note 1)	(1,981,077)			(1,981,077)	132,975
Operating surplus	\$ 521,078			\$ 521,078	\$ 1,804,229
<b>Non operating:</b>					
Investment income	\$ 121,401	\$ 510,389		\$ 631,790	\$ 573,793
Other investment income	290			290	94,716
Unrealized (loss) and interest expense on interest rate swap	(5,077,876)			(5,077,876)	(4,379,059)
Realized and unrealized gain/(loss) on investments	(85,457,365)	(9,474,655)		(94,932,020)	(1,237,366)
Loss on early extinguishment of debt				-	(1,836,712)
Gifts and grants	1,592,152	1,785,438	2,448,009	5,825,599	5,772,659
Transfer to restore underwater endowments	(1,753,971)	1,753,971		-	-
Non operating assets allocated for budgetary designations	1,981,077			1,981,077	(132,975)
Net assets released from restrictions	29,009,603	(35,466,648)		(6,457,045)	(6,513,135)
Adoption of UPMIFA	(5,782,716)	19,457,675	(13,674,959)	-	-
Decrease in net assets from nonoperating activities	(65,367,405)	(21,433,830)	(11,226,950)	(98,028,185)	(7,658,079)
Decrease in net assets before change in accounting principle	(64,846,327)	(21,433,830)	(11,226,950)	(97,507,107)	(5,853,850)
Cumulative change in accounting principle (Note 1)					1,204,534
Total decrease in net assets	(64,846,327)	(21,433,830)	(11,226,950)	(97,507,107)	(4,649,316)
Total net assets at the beginning of the year	281,353,770	71,025,691	37,721,383	390,100,844	394,750,160
Total	<u>\$ 216,507,443</u>	<u>\$ 49,591,861</u>	<u>\$ 26,494,433</u>	<u>\$ 292,593,737</u>	<u>\$ 390,100,844</u>

The accompanying notes are an integral part of the financial statements

Rhode Island School of Design  
Statements of Activities  
for the year ended June 30,2008

	Unrestricted	Temporarily Restricted	Permanently Restricted	2008 Total
<b>Revenues:</b>				
Tuition and fees	\$ 82,468,343			\$ 82,468,343
Less: School sponsored financial aid	9,955,222			9,955,222
Donor sponsored financial aid	1,551,059			1,551,059
Net tuition	70,962,062			70,962,062
Campus support services	19,849,136			19,849,136
Total return income and gain used for operations	10,435,746			10,435,746
Gifts, grants and pledges	1,020,653			1,020,653
Museum services	1,175,763			1,175,763
Other income	1,073,818			1,073,818
Net assets released from restrictions	6,513,135			6,513,135
	<u>111,030,313</u>			<u>111,030,313</u>
<b>Operating expenses:</b>				
Instruction	36,691,353			36,691,353
Academic support	7,503,190			7,503,190
Campus support services	12,429,236			12,429,236
Institutional support	15,981,667			15,981,667
Museum services	7,548,707			7,548,707
Student services	3,062,543			3,062,543
Plant maintenance	9,731,057			9,731,057
Interest	6,946,016			6,946,016
Depreciation	9,073,214			9,073,214
Research	392,076			392,076
	<u>109,359,059</u>			<u>109,359,059</u>
Surplus before budgetary designations	1,671,254			1,671,254
Net budgetary designations (Note 1)	132,975			132,975
Operating surplus	\$ 1,804,229			\$ 1,804,229
<b>Non operating:</b>				
Investment income	\$ 112,200	\$ 461,593		\$ 573,793
Other investment income	94,716			94,716
Net realized and unrealized income/(loss) on interest rate swap	(4,379,059)			(4,379,059)
Realized and unrealized gain/(loss) on investments	(2,499,141)	356,872	904,903	(1,237,366)
Loss on early extinguishment of debt	(1,836,712)			(1,836,712)
Gifts and grants for capital purposes	272,102	3,103,969	2,396,588	5,772,659
Non operating assets allocated for budgetary designations	(132,975)			(132,975)
Net assets released from restrictions		(6,513,135)		(6,513,135)
Increase (decrease) in net assets from nonoperating activities	(8,368,869)	(2,590,701)	3,301,491	(7,658,079)
Increase (decrease) in net assets before change in accounting principle	(6,564,640)	(2,590,701)	3,301,491	(5,853,850)
Cumulative change in accounting principle (see Note 1)	1,204,534			1,204,534
Total increase (decrease) in net assets	(5,360,106)	(2,590,701)	3,301,491	(4,649,316)
Total net assets at the beginning of the year	286,713,876	73,616,392	34,419,892	394,750,160
Total	<u>\$ 281,353,770</u>	<u>\$ 71,025,691</u>	<u>\$ 37,721,383</u>	<u>\$ 390,100,844</u>

The accompanying notes are an integral part of the financials statements.

**Rhode Island School of Design**  
**Statements of Cash Flows**  
**for the years ended June 30, 2009 and 2008**

	2009	2008
<u>Cash flows from operating activities:</u>		
Change in net assets	\$ (97,507,107)	\$ (4,649,316)
Adjustments to reconcile change in net assets to net cash used by operating activities:		
(Gain)/loss on investments	84,675,426	(7,358,341)
Net realized and unrealized loss on interest rate swap	2,886,242	3,635,990
Change in funds held in trust by others	2,807,966	45,303
Depreciation and amortization	9,932,352	9,155,287
Contributions restricted for long-term purposes	(996,927)	(2,362,089)
Contributions of securities	(729,377)	(2,631,500)
Change in asset retirement obligation	175,606	166,451
Increase in U.S. Government loan funds	45,592	97,472
Amortization of capital lease	323,480	369,965
Effect of change in accounting principle (Note 1)	-	(1,204,534)
Loss on extinguishment of debt	-	1,836,712
Changes in operating assets and liabilities that provide (use) cash:		
Accounts receivable	(390,587)	526,714
Pledges receivable	1,551,624	5,114,918
Inventories	(483,685)	107,080
Prepaid expenses and deferred charges and other assets	231,943	1,490,968
Accounts payable and accrued expenses	(661,877)	1,551,590
Agency accounts and other liabilities	(4,011)	(931)
Deferred income	(225,701)	413,259
 Net cash provided by operating activities	 1,630,959	 6,304,998
 <u>Cash flows for investing activities:</u>		
Purchases of buildings and equipment	(11,384,268)	(31,434,960)
Student loans issued	(1,643,551)	(1,725,550)
Student loans repaid	810,373	1,080,925
Change in short term investments	2,676,738	(505,538)
Decrease in deposit with trustee	32,603	7,260,824
Purchases of investments	(260,992,092)	(412,924,023)
Sales of investments	287,088,816	428,823,558
 Net cash (used in) provided by investing activities	 16,588,619	 (9,424,764)
 <u>Cash flows from financing activities:</u>		
Net proceeds from short-term borrowing	(5,000,000)	5,000,000
Payments on long-term debt	(2,800,000)	(97,441,712)
Payments on capital lease obligation	(728,689)	(394,831)
Proceeds from issuance of long term debt	-	93,780,000
Contributions restricted for long-term purposes	996,927	2,362,089
 Net cash (used in) provided by financing activities	 (7,531,762)	 3,305,546
 Net increase in cash and cash equivalents	 10,687,816	 185,780
Cash and cash equivalents at beginning of the year	3,733,045	3,547,265
Cash and cash equivalents at end of the year	\$ 14,420,861	\$ 3,733,045

The accompanying notes are an integral part of the financial statements

# Rhode Island School of Design

## Notes to the Financial Statements for the Year Ended June 30, 2009 and 2008

### 1. Summary of Significant Accounting Policies

The 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 and with the reporting principles of not-for-profit accounting. Certain amounts presented in the prior year financial statements have been reclassified to conform with current year presentation.

Net assets and current activity are classified into three categories; unrestricted net assets, 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, 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 are presented in the 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 surpluses/deficits 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.

### **Net Budgetary Designations**

Net budgetary designations reconcile operating net income or loss to management's internal net operating statement. Adjustments are made for non-expense items such as principal payments on debt and depreciation in excess of funds allocated for capital expenditures. Net budgetary designations also reflect management's decision to utilize or defer a portion of non-operating income to match expenses that are included in operating expenses. This income may be in the form of unrestricted gifts in the current year or from a prior year. It may also include utilization of funds designated by the Board of Trustees in prior years. Net budgetary designations for 2009 and 2008 are as follows:

# Rhode Island School of Design

## Notes to the Financial Statements for the Year Ended June 30, 2009 and 2008

	<u>2009</u>	<u>2008</u>
Capital expenditures	\$ (6,210,527)	\$ (7,540,537)
Depreciation (excluding capital lease)	9,527,163	8,552,598
Debt service adjustment	(5,327,318)	(1,938,403)
Capital lease variance	115,407	495,750
Reclassification of expenses related to non-operating income	446,198	563,567
Other	(532,000)	-
Net Budgetary Designation	<u>\$ (1,981,077)</u>	<u>\$ 132,975</u>

### Non Operating

Non operating revenue and expenses include all gifts, with the exception of those received in the annual fund, change in the value of interest rate swaps, other gains on sales of assets, loss on extinguishment of debt, investment income and realized and unrealized gains on investments to the extent not utilized in operations based on the School's spending policy, as described below, and amounts designated at the discretion of the School for budgetary purposes.

### 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 market 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, 2009 and 2008. 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 market.

### Short-term Investments

Operating cash invested with original maturities greater than three months at the date of purchase are classified as short-term investments. At June 30, 2009 and 2008, the majority of the balance represents the School's investment in the Common Fund - Short-term Investment Fund (Common Fund STIF). The School's investment in the Common Fund STIF was previously classified as cash and cash equivalents but was reclassified to Short-term investments based



# Rhode Island School of Design

## Notes to the Financial Statements for the Year Ended June 30, 2009 and 2008

upon updated redemption provisions. To conform with the 2009 presentation, the 2008 balance has also been reclassified.

### 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 market value in Other Investments on the Statement 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 market value of the trust assets as of the balance sheet date 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.

### 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.

### Property, Plant and Equipment

Property, plant and equipment is stated at acquisition cost or the fair market value as of the date of the gift, net of accumulated depreciation (See Note 8). Depreciation is computed on a straight-line basis over the following estimated useful lives:

Buildings and improvements	15 - 45 years
Machinery and equipment	5 - 8 years
Furniture and fixtures	5 - 8 years

Expenditures for maintenance, repairs, interest and depreciation are expensed as incurred and allocated to functional classifications of expense (see Note 13) based on actual expenditures or relative square footage. 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 operations.

### 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 Statement 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 financial statements. Proceeds from deaccessions or insurance recoveries are reflected as increases in the appropriate net asset classes.

# Rhode Island School of Design

## Notes to the Financial Statements for the Year Ended June 30, 2009 and 2008

### Campus Support Services

Campus support 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 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 financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

### Fair Value Measurements

In February 2007, the FASB issued Statement No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities Including an amendment of FASB Statement No. 115*. This Statement permits all entities to choose, at specified election dates to measure eligible items at fair value (the "fair value option"). This Statement is effective for fiscal years beginning after November 15, 2007. The School adopted SFAS 159 on July 1, 2008 and did not elect to apply the fair value option for any assets or liabilities not already measured at fair value.

On July 1, 2008, the School adopted Statement of Financial Accounting Standards No. 157, "Fair Value Measurements" ("SFAS 157"). SFAS 157 defines fair value, establishes a framework for measuring fair value under GAAP, and expands disclosures about fair value measurements. SFAS 157 applies to reported balances that are required or permitted to be measured at fair value under existing accounting pronouncements.

SFAS 157 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, SFAS 157 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.

## **Rhode Island School of Design**

### **Notes to the Financial Statements for the Year Ended June 30, 2009 and 2008**

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.

#### **Uniform Prudent Management of Institutional Funds Act” (UPMIFA) / Endowment Funds**

On June 30, 2009, the State of Rhode Island enacted Uniform Prudent Management of Institutional Funds Act” (UPMIFA) for the regulation of charitable gifts. The UPMIFA is a modernized version of the Uniform Management of Institutional Funds Act of 1972 (UMIFA). In addition, for the year ended June 30, 2009, the School adopted FASB Staff Position (FSP) 117-1, *Endowments of Non-for-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act, and Enhanced Disclosures for all Endowment Funds*, which provides guidance on the net asset classification of donor-restricted endowment funds subject to UPMIFA and expanded disclosures about the School's donor restricted and board-designated endowment funds. Previously, the State of Rhode Island UMIFA law required the addition of sufficient net appreciation to the historical gift amounts based on inflation in order to maintain the purchasing power of the original dollar value of the funds.

The impact of the repeal of UMIFA resulted in a reclassification of net assets from permanently restricted of \$13,674,959 and unrestricted of \$5,782,716 to temporarily restricted.

#### **Subsequent Events**

For the year ended June 30, 2009, the School adopted FASB Statement of Financial Accounting Standards No. 165, *Subsequent Events*, (FAS 165) which was released on May 28, 2009. The FASB establishes standards of accounting for and disclosure of events that occur after the balance sheet date, but before financial statements are issued or are available to be issued. The School has evaluated subsequent events through September 21, 2009, the date of financial statements issuance.

#### **New Accounting Pronouncements**

EITF 06-2, “Accounting for Sabbatical Leave and Other Similar Benefits Pursuant to FASB Statement No. 43- *Accounting for Compensated Absences*” was adopted by the School in 2008. Upon adoption of EITF 06-2, the School concluded that sabbatical leaves for members of the faculty require the faculty to demonstrate that their professional development benefits the School. Since the sabbatical is considered a condition of employment, the expense should be recognized when incurred. The adoption of EITF 06-2 in 2008 resulted in a one-time reversal of previously recorded accrued expenses of \$1,205,504, which is included in the Statement of Activities as a cumulative change in accounting principle.

## **2. Fair Value of Financial Instruments**

In accordance with SFAS 157, the following table summarizes the financial instruments carried at fair value on a recurring basis as of June 30, 2009, aggregated by the level in the fair value hierarchy within which those measurements fall.

# Rhode Island School of Design

## Notes to the Financial Statements for the Year Ended June 30, 2009 and 2008

<b>Assets</b>	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	FY09 Total Fair Value	FY08 Total Fair Value
Short term investments	\$ 250,000		\$ 1,771,954	\$ 2,021,954	\$ 4,698,692
Investments					
Cash and cash equivalents	21,506,082			21,506,082	13,527,010
Fixed income securities	39,817,600			39,817,600	37,290,857
Common and preferred stocks	46,784,581			46,784,581	83,219,821
Mutual funds	10,285,840			10,285,840	18,693,797
International securities			8,127,958	8,127,958	24,250,159
Hedge funds			108,388,326	108,388,326	169,631,890
Private equity			23,285,094	23,285,094	21,247,088
Real estate			9,109,422	9,109,422	9,136,915
Total investments*	<u>\$ 118,394,103</u>	-	<u>\$ 148,910,800</u>	<u>\$ 267,304,903</u>	<u>\$ 376,997,537</u>
Beneficial interests held by third parties*			12,278,252	12,278,252	15,596,411
Total assets at fair value	<u>\$ 118,644,103</u>	-	<u>\$ 162,961,006</u>	<u>\$ 281,605,109</u>	<u>\$ 397,292,640</u>
<b>Liabilities</b>					
Interest rate swap			\$ 6,526,844	\$ 6,526,844	\$ 3,640,602
Total liabilities at fair value	-	-	<u>\$ 6,526,844</u>	<u>\$ 6,526,844</u>	<u>\$ 3,640,602</u>

\* Total investments and beneficial interests held in trust by others vary in relation to the Statement of Financial Position because certain accounts thereon are reported in Pledges receivable and in Other investments.

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

Investments included in Level 3 primarily consist of the School's ownership in alternative investments (principally limited partnership interests in hedge, private equity, and other similar funds). The value of alternative investments represents the ownership interest in the net asset value (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. Approximately 33.1% of investments held by the partnerships consist of marketable securities and 66.9% are securities that are subject to the judgment of the general partner as reflected in the NAV's.

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:

**Rhode Island School of Design**  
**Notes to the Financial Statements for the Year Ended June 30, 2009 and 2008**

	Short Term Investments	Beneficial Interests Held Investments	By Third Parties	Interest Rate Swap
Fair Value, 7/1/08	\$ 4,698,692	\$ 224,266,053	\$ 15,596,411	\$ (3,640,602)
Interest and dividend income	25,540			
Realized gains / (losses)		(725,477)	30,437	
Unrealized gains / (losses)		(46,120,419)	(2,927,071)	(2,886,242)
Net purchases, sales, settlements	(2,952,278)	(10,646,539)	(421,525)	
Transfers in/out		(17,862,818)		
Fair Value, 6/30/09	<u>\$ 1,771,954</u>	<u>\$ 148,910,800</u>	<u>\$ 12,278,252</u>	<u>\$ (6,526,844)</u>

All net realized and unrealized gains/(losses) in the table above are reflected in the accompanying Statement of Activities. Net unrealized gains/(losses) relate to those financial instruments held by the School at June 30, 2009.

**3. Investments**

Investment income for the years ended June 30, 2009 and 2008 was as follows:

<u>2009</u>	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Interest and dividend income	\$ 2,128,313	\$ 510,389	-	\$ 2,638,702
Realized gains/(losses)	(15,113,275)	(1,613,690)	-	(16,726,965)
Increase in net unrealized appreciation/depreciation	<u>(60,087,496)</u>	<u>(7,860,965)</u>	<u>-</u>	<u>(67,948,461)</u>
Total investment return	<u>\$ (73,072,458)</u>	<u>\$ (8,964,266)</u>	<u>\$ -</u>	<u>\$ (82,036,724)</u>
<u>2008</u>	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Interest and dividend income	\$ 1,952,239	\$ 461,593	-	\$ 2,413,832
Realized gains/(losses)	17,962,809	1,877,059	\$ 904,903	20,744,771
Increase in net unrealized appreciation/(depreciation)	<u>(11,866,243)</u>	<u>(1,520,187)</u>	<u>-</u>	<u>(13,386,430)</u>
Total investment return	<u>\$ 8,048,805</u>	<u>\$ 818,465</u>	<u>\$ 904,903</u>	<u>\$ 9,772,173</u>

The School experienced net realized and unrealized losses during fiscal year 2009, therefore the entire \$16,124,321 was withdrawn from previously accumulated unrestricted realized gains in order to meet the spending formula. In 2008 the School earned \$7,358,341 of realized and unrealized gains all of which was utilized in order to meet the spending formula used in operations. Additionally, another \$663,573 was withdrawn from previously accumulated unrestricted realized gains in order to meet the spending formula.

Investment management fees and UBIT expenses (netted from interest and dividend income) totaled \$2,068,805 and \$2,453,024 in 2009 and 2008, respectively.

## **Rhode Island School of Design**

### **Notes to the Financial Statements for the Year Ended June 30, 2009 and 2008**

Certain net assets are pooled for investment income purposes. The unit market value at June 30, 2009 and 2008 was \$240.40 and \$311.70 respectively. The market value of long-term investments as stated in the Statement of Financial Position represents the value of pooled endowment at June 30, 2009 and 2008.

#### **4. 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 receivables, 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 "Uniform Prudent Management of Institutional Funds Act" (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 the appreciation of investments
6. Other resources of the School
7. The investment policies of the School.

The School had the following endowment activities during the year ended June 30, 2009 delineated by net asset class and donor-restricted versus Board-designated funds:

Endowment net asset composition by type of fund as of June 30, 2009:

**Rhode Island School of Design**  
**Notes to the Financial Statements for the Year Ended June 30, 2009 and 2008**

	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>
Board-designated			
For scholarships	\$ 6,847,705		
For academic and institutional purposes	168,415,782		
For museum support	1,710,360		
Total board designated	<u>176,973,847</u>		
Donor-restricted			
For scholarships		\$ 9,163,695	\$ 13,607,620
For academic and institutional purposes		6,161,835	3,650,719
For museum support		12,699,603	9,236,094
Total donor restricted		<u>28,025,133</u>	<u>26,494,433</u>
Total endowment funds	<u>\$ 176,973,847</u>	<u>\$ 28,025,133</u>	<u>\$ 26,494,433</u>

Changes in endowment net assets for the year ended June 30, 2009 were:

	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>
<b>Endowment net assets, 6/30/08</b>	\$ 234,711,785	\$ 15,279,585	\$ 37,721,383
Investment return:			
Investment income	2,006,622	510,389	
Net depreciation (realized and unrealized)	(90,311,441)	(12,225,432)	
Total investment return	<u>(88,304,819)</u>	<u>(11,715,043)</u>	
Gifts	1,448,038	(171,415)	2,448,009
Endowment return allocated for spending	13,005,145	3,119,176	
Assets released from restrictions for:			
Capital purposes	29,009,603		
Other	4,440,782		
Unspent current year revenue allocation		301,184	
Endowment decapitalization	(9,800,000)		
Transfer to restore underwater endowments	(1,753,971)	1,753,971	
Adoption of UPMIFA	<u>(5,782,716)</u>	<u>19,457,675</u>	<u>(13,674,959)</u>
<b>Endowment net assets, 6/30/09</b>	\$ 176,973,847	\$ 28,025,133	\$ 26,494,433
<b>Non-endowment net assets</b>	39,533,596	21,566,728	-
<b>Total net assets, 6/30/09</b>	<u>\$ 216,507,443</u>	<u>\$ 49,591,861</u>	<u>\$ 26,494,433</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. Deficits of this nature reported in unrestricted net assets were \$1,753,971 and \$32,000

## Rhode Island School of Design

### Notes to the Financial Statements for the Year Ended June 30, 2009 and 2008

as of June 30, 2009 and 2008, respectively. These deficits resulted from unfavorable market fluctuations that occurred shortly after the investment primarily of recently established endowments.

#### 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. Further, to achieve a prudent level of portfolio diversification, the securities of any one company or governmental agency does not exceed 5% of the total fund, and no more than 10% of the total fund is invested in any one industry.

#### 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. The current spending policy is that funds available for expenditure are calculated to be 5% of the twelve (12) quarter moving average of the market value of the endowment portfolio. Since the spending formula is based on the total return concept, earnings from realized gains may be utilized when current year income from interest and dividends is less than the authorized spending amount.

#### **5. Accounts Receivable**

Accounts receivable consisted of the following at June 30:

	<b><u>2009</u></b>	<b><u>2008</u></b>
Student tuition and fees	\$ 1,280,044	\$ 1,059,422
Computer loan programs	1,295,791	1,295,649
Notes receivable	600,000	600,000
Government grants	262,006	182,890
Other	617,207	452,848
Total	<u>\$ 4,055,048</u>	<u>\$ 3,590,809</u>
Less: Allowance for uncollectible accounts	<u>(496,660)</u>	<u>(423,008)</u>
Total	<u><u>\$ 3,558,388</u></u>	<u><u>\$ 3,167,801</u></u>

#### **6. Pledges Receivable**

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



## Rhode Island School of Design

### Notes to the Financial Statements for the Year Ended June 30, 2009 and 2008

	<u>2009</u>	<u>2008</u>
In one year or less	\$ 2,794,935	\$ 3,139,971
Between one year and five years, net of discount	4,517,897	5,003,216
Five years and over, net of discount	<u>1,453,978</u>	<u>2,170,500</u>
Total	\$ 8,766,810	\$ 10,313,687
Less: Allowance for uncollectible pledges	<u>(3,518,953)</u>	<u>(3,514,206)</u>
Pledges receivable, net	<u>\$ 5,247,857</u>	<u>\$ 6,799,481</u>

Discount to present value was calculated using a discount factor based on U.S. Treasury note rates for the respective pledges. The discount was \$409,454 and \$416,049 for 2009 and 2008 respectively.

#### 7. Student Loan Funds

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 Statement 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 is shown net of an allowance for uncollectible accounts of \$529,397 and \$440,086 at June 30, 2009, and 2008, respectively.

#### 8. Bonds Payable and Other Debt

	<u>2009</u>	<u>2008</u>
Rhode Island Health and Education Building Corporation Series 2001, Range 3.5%-5%, original issue \$27,890,000	\$ 27,556,390	\$ 27,607,817
Rhode Island Health and Education Building Corporation Series 2004D, Range 3.0%-5.625% original issue \$58,435,000	57,120,585	58,008,978
Rhode Island Health and Education Building Corporation Series 2008A, Range 1.25%-2.60% original issue \$61,930,000	60,130,000	61,930,000
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
Total	<u>\$ 176,656,975</u>	<u>\$ 179,396,795</u>

As of June 30, 2009 and 2008 the unamortized discount on 2001 Bonds amounted to \$78,610 and \$82,183 respectively, which is being amortized over the life of the bond using the effective interest basis.

As of June 30, 2009 and 2008 the unaccreted premium on 2004D Bonds amounted to \$1,420,585 and \$1,363,978 respectively, which is being accreted over the life of the bond using the effective interest basis.

## Rhode Island School of Design

### Notes to the Financial Statements for the Year Ended June 30, 2009 and 2008

#### Rhode Island Health and Educational Building Corporation (RIHEBC)

RIHEBC Bonds (Series 2001) are due in principal amounts and sinking fund requirements ranging from \$55,000 in 2008 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. 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.

The Municipal Bond Assurance Association insures redemption of Series 2001 bonds. XL Capital Assurance insures redemption of the Series 2004D bonds. Series 2001 Bonds maturing on and after June 1, 2011 are subject to redemption prior to maturity at a redemption price of 100% to 102% of the principal amounts plus accrued interest through the date of redemption. 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. The School has secured a \$93,780,000 direct-pay letter of credit with Bank of America to cover an amount up to the outstanding balance of the 2008A and 2008B bonds at the time of redemption. Any payout by the bank on the letter of credit is to be repaid immediately or accrues interest and converts to a term loan if not paid within 180 days. The original letter of credit expires on March 26, 2011.

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>
2010	\$ 2,855,000
2011	2,940,000
2012	3,055,000
2013	3,140,000
2014-2037	<u>163,325,000</u>
	<u>\$175,315,000</u>

Estimated fair value of debt was approximately \$176,185,702 and \$179,720,655 at June 30, 2009 and 2008, respectively. Cash paid for interest on long-term debt for the years ended June 30, 2009 and 2008 was \$5,493,400 and \$7,724,780, respectively.

The School capitalizes the interest cost related to outstanding debt on qualifying assets. Interest costs capitalized for the years ended June 30, 2009 and 2008 totaled \$437,656 and \$1,434,359, respectively.

## Rhode Island School of Design

### Notes to the Financial Statements for the Year Ended June 30, 2009 and 2008

Bond issuance costs are capitalized and amortized over the life of the bond. Unamortized bond issuance costs were \$1,914,766 and \$1,989,762 for the years ended June 30, 2009 and 2008, respectively.

During the year ended June 30, 2008, the School issued \$61,930,000 and \$31,850,000 in Series 2008 A and Series 2008 B respectively. The proceeds from these issuances was used to repay principal balances of the Series 2004 A, Series 2004 B, Series 2006 A and Series 2006 B bond issuances. This repayment resulted in a realized loss of \$1,836,712, which is included as a non-operating loss on the Statement of Activities

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. 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, 2009 and 2008. The unrealized depreciation that was recognized for the swaps was \$2,886,243 and \$3,635,990 for the years ending June 30, 2009 and 2008, respectively. Net payments or receipts under the swap agreements along with the change in fair value of the swaps are included in non-operating revenues on the statement of activities. During 2009 and 2008 the School incurred a realized loss on the swaps of \$2,191,634 and \$726,852, respectively.

The estimated fair value of the swap instruments represent 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.

The following schedule presents the notional principal amounts of the School's interest swaps at June 30, 2009.

Maturity	Original Notional	Fair Value at June 30, 2009
Dec. 1, 2009	\$ 31,550,000	\$ 387,232
Aug. 15, 2011	9,250,000	162,335
Aug. 15, 2025	27,000,000	2,764,880
Aug. 15, 2034	28,500,000	5,894,128
Aug. 15, 2034	28,500,000	(2,681,731)
		<u>\$ 6,526,844</u>

In June 2008, the School entered into a line of credit agreement with Bank of America that will expire in August 2010. Under the terms of the agreement the School may borrow up to \$5,000,000. Interest on borrowings under the line of credit is based on the London Inter-Bank Offered (LIBOR) rate. There was no balance outstanding at June 30, 2009. The balance outstanding at June 30, 2008 was \$5,000,000.

#### **9. Capital Leases**

In June 2007, the School entered into a capital lease for a building. The original lease term was 119 months with an initial obligation and net asset value of \$7,809,235. Interest is computed using the incremental borrowing rate of 4.27%. The amount outstanding on the capital lease was \$7,379,160 at June 30, 2009.

**Rhode Island School of Design**  
**Notes to the Financial Statements for the Year Ended June 30, 2009 and 2008**

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

2010	\$ 988,596
2011	1,026,042
2012	1,073,128
2013	1,122,852
2014-2017	<u>5,000,612</u>
	<u>\$ 9,211,230</u>

**10. Property, Plant and Equipment**

	<u>2009</u>	<u>2008</u>
Land and Buildings:		
Educational Plant	\$ 141,797,479	\$ 93,055,569
Dormitories and Refectory	85,266,765	84,987,434
Capital Lease	7,809,235	7,809,235
Administrative and Other	18,540,246	18,256,180
Residences	972,738	935,350
Construction in Progress	-	46,781,554
Land	<u>6,130,556</u>	<u>6,130,556</u>
Total	\$ 260,517,019	\$ 257,955,878
Furniture, Fixtures and Equipment	<u>40,792,998</u>	<u>37,284,444</u>
 Total	 \$ 301,310,017	 \$ 295,240,322
Less: Accumulated Depreciation	<u>(112,281,622)</u>	<u>(102,467,232)</u>
	<u>\$ 189,028,395</u>	<u>\$ 192,773,090</u>

Costs of \$32,898 and \$5,289,689 were accrued for capital expenditures at June 30, 2009 and 2008, respectively.

**11. Museum**

Revenues

The Museum realized service revenue of \$2,084,958 and \$1,175,763 as well as \$1,457,575 and \$1,220,271 of total return income and gain and \$2,245,678 and \$1,248,836 of gifts and grants for the years ended June 30, 2009, and 2008, respectively.

Collections

The majority of the School's collection 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 \$1,077,843 and \$1,606,506 for acquisitions during 2009 and 2008, respectively.

# Rhode Island School of Design

## Notes to the Financial Statements for the Year Ended June 30, 2009 and 2008

### **12. 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 the TIAA-CREF retirement plan of approximately \$4,091,494 and \$3,212,541 for the years ended June 30, 2009 and 2008 respectively.

### **13. Commitments and Contingencies**

Certain of the School's investments in privately held funds included unfunded commitments. As of June 30, 2009, unfunded commitments totaled \$11,649,277.

In conducting its activities, the School from time to time is the subject of various claims and also has claims against others. 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.

The School has four established employee bargaining units (Full-Time Faculty, Part-Time Faculty, Public Safety Officers and Museum Guards) and is currently negotiating a contract renewal with one of them.

### **14. Related Party Note**

The total outstanding secured notes from related parties in accordance with IRS Regulation 1.7872-5T(c)(1)(i) are \$600,000 for the years ended June 30, 2009 and 2008, respectively. Subsequent to June 30, 2009, \$300,000 of the total was repaid.

Certain members of the School's Board are executives with institutions which provide services to the School. A small portion of the School's cash balances are held at a bank at which a member of the School's Board serves as President. A member of the School's Board is an Executive at the counterparty to the School's investment in interest rate swaps to which net receipts, payments and change in market value were \$5,077,876 and \$4,379,059 during the years ended June 30, 2009 and 2008, respectively. The procurement of these services is performed in accordance with the School's established policies and procedures. Management and the Board of Trustees report and monitor related party transactions in accordance with the School's conflict of interest policy.

### **15. Functional Expenses**

Total expenses of the School by functional classification are as follows:

	<b><u>2009</u></b>	<b><u>2008</u></b>
Instruction	\$ 48,670,252	\$ 46,479,026
Campus Support Services	25,877,272	25,770,169
Institutional Support	17,244,082	16,148,438
Museum Services	10,047,616	8,912,260
Academic Support	8,725,669	8,337,044
Student Support	4,518,995	3,320,046
Research	550,317	392,076
Total	<b><u>\$ 115,634,203</u></b>	<b><u>\$ 109,359,059</u></b>