

# **Rhode Island School of Design**

Financial Statements  
June 30, 2010 and 2009

**Rhode Island School of Design**  
**Index**  
**June 30, 2010 and 2009**

---

	<b>Page(s)</b>
<b>Report of Independent Auditors</b> .....	1
<b>Financial Statements</b>	
Statements of Financial Position.....	2
Statements of Activities.....	3-4
Statements of Cash Flows.....	5
Notes to Financial Statements.....	6-23

**Report of Independent Auditors**

To Board of Trustees of  
Rhode Island School of Design:

In our opinion, the accompanying statements 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, 2010 and 2009, and the results of its operations, changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the School's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

*PricewaterhouseCoopers LLP*

October 4, 2010

Rhode Island School of Design  
Statements of Financial Position  
June 30, 2010 and 2009

	2010	2009
<b>ASSETS</b>		
Cash and cash equivalents	\$ 23,374,795	\$ 14,420,861
Short-term investments	5,050,000	2,021,954
Accounts receivable (net)	2,509,709	3,558,388
Student loans receivable (net)	6,113,513	6,368,511
Pledges receivable (net)	5,185,918	5,247,857
Funds held in trust by others	13,100,584	11,644,454
Inventories	1,853,788	1,803,883
Prepaid expenses and deferred charges	2,094,135	2,087,756
Other investments	4,574,108	5,151,521
Long-term investments	274,542,669	263,300,094
Property, plant and equipment (net)	192,473,605	189,028,395
	\$ 530,872,824	\$ 504,633,674
<b>LIABILITIES</b>		
Accounts payable and accrued liabilities	\$ 9,165,501	\$ 7,954,933
Deferred income	6,079,152	6,234,947
Agency accounts and other liabilities	109,901	97,851
Obligations under long-term agreements	13,307,495	7,379,160
U.S. Government loan funds	3,890,790	3,820,786
Liability for interest rate swap	9,031,255	6,526,844
Bonds payable	173,843,609	176,656,975
Asset retirement obligation	3,553,705	3,368,441
	218,981,408	212,039,937
<b>NET ASSETS</b>		
Unrestricted net assets		
Board designated funds	9,960,943	13,175,010
Designated for endowment	189,712,978	176,973,847
Other funds	30,509,144	26,358,586
	230,183,065	216,507,443
Temporarily restricted net assets	52,956,920	49,591,861
Permanently restricted net assets	28,751,431	26,494,433
	311,891,416	292,593,737
	\$ 530,872,824	\$ 504,633,674

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, 2010  
 (with comparative totals for 2009)

	Unrestricted	Temporarily Restricted	Permanently Restricted	2010 Total	2009 Total
Operating revenues:					
Tuition and fees	\$ 92,029,808			\$ 92,029,808	\$ 88,150,639
Less: School-sponsored financial aid	12,115,694			12,115,694	10,824,800
Donor-sponsored financial aid	2,014,876			2,014,876	1,849,739
Net tuition	77,899,238			77,899,238	75,476,100
Campus support services	21,311,125			21,311,125	20,549,719
Total return income and gain used for operations	7,250,632			7,250,632	12,263,216
Gifts, grants and pledges	975,110			975,110	926,015
Museum services	1,703,324			1,703,324	2,084,958
Other income	492,686			492,686	379,305
Net assets released from restrictions	6,854,851			6,854,851	6,457,045
	<u>116,486,966</u>			<u>116,486,966</u>	<u>118,136,358</u>
Operating expenses:					
Instruction	37,503,345			37,503,345	38,363,599
Academic support	6,973,224			6,973,224	7,862,743
Campus support services	9,115,475			9,115,475	11,623,615
Institutional support	14,479,225			14,479,225	17,071,497
Museum services	6,733,838			6,733,838	8,610,193
Student services	4,278,141			4,278,141	4,245,932
Plant maintenance	12,383,112			12,383,112	11,363,709
Interest	5,322,130			5,322,130	5,894,820
Depreciation	10,644,494			10,644,494	10,047,778
Research	682,753			682,753	550,317
	<u>108,115,737</u>			<u>108,115,737</u>	<u>115,634,203</u>
Operating net income before budgetary designations	8,371,229			8,371,229	2,502,155
Net budgetary designations (Note 1)	(3,026,090)			(3,026,090)	(1,981,077)
Operating Net Income	\$ 5,345,139			\$ 5,345,139	\$ 521,078
Non operating:					
Investment income	\$ 415,658	\$ 1,681,160		\$ 2,096,818	\$ 631,790
Other investment income	-			-	290
Unrealized loss and interest expense on interest rate swap	(5,133,217)			(5,133,217)	(5,077,876)
Realized and unrealized gain/(loss) on investments, net	8,878,896	5,062,463		13,941,359	(94,932,020)
Gifts and grants	286,596	4,332,747	2,256,998	6,876,341	5,825,599
Recovery of amounts transferred to restore underwater endowments	856,460	(856,460)		-	-
Non operating assets allocated for budgetary designations	3,026,090			3,026,090	1,981,077
Net assets released from restrictions	-	(6,854,851)		(6,854,851)	(6,457,045)
Increase/(Decrease) in net assets from nonoperating activities	8,330,483	3,365,059	2,256,998	13,952,540	(98,028,185)
Increase/(Decrease) in net assets	<u>13,675,622</u>	<u>3,365,059</u>	<u>2,256,998</u>	<u>19,297,679</u>	<u>(97,507,107)</u>
Total net assets at the beginning of the year	216,507,443	49,591,861	26,494,433	292,593,737	390,100,844
Total net assets at the end of the year	<u>\$ 230,183,065</u>	<u>\$ 52,956,920</u>	<u>\$ 28,751,431</u>	<u>\$311,891,416</u>	<u>\$ 292,593,737</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 30,2009

	Unrestricted	Temporarily Restricted	Permanently Restricted	2009 Total
<b>Operating revenues:</b>				
Tuition and fees	\$ 88,150,639			\$ 88,150,639
Less: School-sponsored financial aid	10,824,800			10,824,800
Donor-sponsored financial aid	1,849,739			1,849,739
Net tuition	75,476,100			75,476,100
Campus support services	20,549,719			20,549,719
Total return income and gain used for operations	12,263,216			12,263,216
Gifts, Grants and pledges	926,015			926,015
Museum services	2,084,958			2,084,958
Other income	379,305			379,305
Net assets released from restrictions	6,457,045			6,457,045
	<u>118,136,358</u>			<u>118,136,358</u>
<b>Operating expenses:</b>				
Instruction	38,363,599			38,363,599
Academic support	7,862,743			7,862,743
Campus support services	11,623,615			11,623,615
Institutional support	17,071,497			17,071,497
Museum services	8,610,193			8,610,193
Student services	4,245,932			4,245,932
Plant maintenance	11,363,709			11,363,709
Interest	5,894,820			5,894,820
Depreciation	10,047,778			10,047,778
Research	550,317			550,317
	<u>115,634,203</u>			<u>115,634,203</u>
Operating net income before budgetary designations	2,502,155			2,502,155
Net budgetary designations (Note 1)	(1,981,077)			(1,981,077)
Operating Net Income	\$ 521,078			\$ 521,078
<b>Non operating:</b>				
Investment income	\$ 121,401	\$ 510,389		\$ 631,790
Other investment income	290			290
Unrealized (loss) and interest expense on interest rate swap	(5,077,876)			(5,077,876)
Realized and unrealized gain/(loss) on investments, net	(85,457,365)	(9,474,655)		(94,932,020)
Gifts and grants	1,592,152	1,785,438	2,448,009	5,825,599
Transfer to restore underwater endowments	(1,753,971)	1,753,971		-
Non operating assets allocated for budgetary designations	1,981,077			1,981,077
Net assets released from restrictions	29,009,603	(35,466,648)		(6,457,045)
Adoption of UPMIFA	(5,782,716)	19,457,675	(13,674,959)	-
Decrease in net assets from nonoperating activities	<u>(65,367,405)</u>	<u>(21,433,830)</u>	<u>(11,226,950)</u>	<u>(98,028,185)</u>
Total decrease in net assets	(64,846,327)	(21,433,830)	(11,226,950)	(97,507,107)
Total net assets at the beginning of the year	281,353,770	71,025,691	37,721,383	390,100,844
Total net assets at the end of the year	<u>\$ 216,507,443</u>	<u>\$ 49,591,861</u>	<u>\$ 26,494,433</u>	<u>\$ 292,593,737</u>

The accompanying notes are an integral part of the financial statements

Rhode Island School of Design  
Statements of Cash Flows  
for the year ended June 30, 2010 and 2009

	2010	2009
<u>Cash flows from operating activities:</u>		
Change in net assets	\$ 19,297,679	\$ (97,507,107)
Adjustments to reconcile change in net assets to net cash used by operating activities:		
(Gain)/loss on investments	(17,038,315)	84,675,426
Unrealized loss on interest rate swap	2,504,411	2,886,242
Change in funds held in trust by others	(1,456,130)	2,807,966
Depreciation and amortization	10,500,864	9,932,352
Contributions restricted for long-term purposes	(1,337,157)	(2,480,804)
Contributions of securities	(174,396)	(729,377)
Change in asset retirement obligation	185,264	175,606
Increase in U.S. Government loan funds	70,004	45,592
Amortization of long-term agreements	202,526	323,480
Changes in operating assets and liabilities that provide (use) cash:		
Accounts receivable	1,048,679	(390,587)
Pledges receivable	61,939	1,551,624
Inventories	(49,905)	(483,685)
Prepaid expenses and deferred charges and other assets	(6,379)	231,943
Accounts payable and accrued expenses	1,048,705	(661,877)
Agency accounts and other liabilities	12,050	(4,011)
Deferred income	(155,795)	(225,701)
 Net cash provided by operating activities	 14,714,045	 147,082
 <u>Cash flows for investing activities:</u>		
Purchases of buildings and equipment	(6,816,113)	(11,384,268)
Student loans issued	(759,894)	(1,643,551)
Student loans repaid	1,014,892	810,373
Change in short term investments	(3,028,046)	2,676,738
Decrease in deposit with trustee	-	32,603
Purchases of investments	(241,744,277)	(260,992,092)
Sales of investments	248,291,826	287,088,816
 Net cash (used in) provided by investing activities	 (3,041,612)	 16,588,619
 <u>Cash flows from financing activities:</u>		
Net proceeds from short-term borrowing	-	(5,000,000)
Payments on long-term debt	(2,855,000)	(2,800,000)
Payments on obligations under long-term agreements	(1,200,655)	(728,689)
Contributions restricted for long-term purposes	1,337,157	2,480,804
 Net cash used in by financing activities	 (2,718,498)	 (6,047,885)
 Net decrease/increase in cash and cash equivalents	 8,953,934	 10,687,816
Cash and cash equivalents at beginning of the year	14,420,861	3,733,045
Cash and cash equivalents at end of the year	\$ 23,374,795	\$ 14,420,861
 Non cash activity		
Assets acquired through long-term agreements:		
Property, plant and equipment	6,387,509	
Obligations under long-term agreements	6,387,509	

The accompanying notes are an integral part of the financial statements

# Rhode Island School of Design

## Notes to the Financial Statements for the Years Ended June 30, 2010 and 2009

### 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 ("US GAAP") and with the reporting principles of not-for-profit accounting.

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

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

### **Operations**

Revenues earned and expenses incurred in conducting the programs and services of the School 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 income/loss may be designated for budgetary purposes, for capital acquisitions, for student loan funds, for principal payments on debt, or for future use by the Board of Trustees.

### **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 2010 and 2009 are as follows:



**Rhode Island School of Design**  
**Notes to the Financial Statements for the Years Ended June 30, 2010 and 2009**

	<u>2010</u>	<u>2009</u>
Capital expenditures	\$ (5,700,000)	\$ (6,210,527)
Depreciation (excluding long-term obligations)	10,644,494	9,527,163
Debt service adjustment	(5,318,054)	(5,327,318)
Reclassification of operating expenses associated with long-term agreement	(1,376,539)	115,407
Reclassification of (expenses)/income related to non-operating income	(1,275,991)	446,198
Other	-	(532,000)
Net Budgetary Designation	<u>\$ (3,026,090)</u>	<u>\$ (1,981,077)</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 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, 2010 and 2009. Alternative investments include limited partnerships, limited liability corporations, real estate and offshore investment funds. Because investments in alternative investment funds are not marketable, the estimated value is subject to uncertainty and therefore, may differ significantly from the value that would have been used had a market for such investments existed and such differences could be material.

**Cash and Cash Equivalents**

The School considers highly liquid investments with maturities of three-months or less when purchased to be cash equivalents. Cash equivalents are stated at cost, which approximates fair value.

**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, 2010, the majority of the balance represents a \$4,800,000 six-month CD. At June 30, 2009, the majority of the balance

# Rhode Island School of Design

## Notes to the Financial Statements for the Years Ended June 30, 2010 and 2009

represented the School's investment in the Common Fund - Short-term Investment Fund (Common Fund STIF), which had no remaining balance at June 30, 2010.

### 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 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 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 value as of the date of the gift, net of accumulated depreciation (See Note 10). 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 15) 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 Statement of Activities.

### Collections

The School does not capitalize or assign a value to the museum collections. Collections that are acquired through purchases and contributions are not recognized as assets on the 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 Years Ended June 30, 2010 and 2009

### 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.

### Reclassifications

The Statement of Cash Flows for the year ended June 30, 2009 has been modified to present all contributions for long-term purposes as financing activities rather than operating activities. The effect of the modification was to decrease net cash provided by operating activities and net cash used in financing activities by \$1,483,877.

### Fair Value Measurements

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

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

- Level 1 – Quoted prices in active markets for identical assets or liabilities.
- Level 2 – Inputs other than Level 1 that are observable, either directly or indirectly, such as quoted prices for similar assets or liabilities in active markets; quoted prices for identical assets or liabilities in markets that are not active; or inputs other than quoted prices that are observable or can be corroborated by observable market data by correlation or other means.
- Level 3 – Unobservable inputs for an asset or liability that are supported by little or no market activity.

## Rhode Island School of Design

### Notes to the Financial Statements for the Years Ended June 30, 2010 and 2009

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.

In 2009, new guidance related to the *Fair Value Measurements* standard was issued for estimating the fair value of investments in investment companies that have a calculated value of their capital account or net asset value (NAV) in accordance with, or in a manner consistent with US GAAP. As a practical expedient, the School is permitted under US GAAP to estimate the fair value of an investment at the measurement date using the reported 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 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 *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 financial statements to understand the nature and risk of the School's investments. Furthermore, investments which can be redeemed at NAV by the School on the measurement date or in the near term (defined as 90 days) are classified as Level 2. Investments which cannot be redeemed on the measurement date or in the near term are classified as Level 3. The new guidance did not materially affect the School's financial statements.

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

On June 30, 2009, the State of Rhode Island enacted the “Uniform Prudent Management of Institutional Funds Act” for the regulation of charitable gifts. The UPMIFA is a modernized version of the Uniform Management of Institutional Funds Act of 1972. In addition, for the year ended June 30, 2009, the School adopted new accounting guidance, *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 Uniform Management of Institutional Funds Act (“UMIFA”) 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.

In 2009, 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 new guidance related to *Subsequent Events*. 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 October 4, 2010, the date of financial statements' issuance.

# Rhode Island School of Design

## Notes to the Financial Statements for the Years Ended June 30, 2010 and 2009

### 2. Fair Value of Financial Instruments

In accordance with accounting guidance for *Fair Value Measurements*, the following table summarizes the financial instruments carried at fair value on a recurring basis as of June 30, 2010 and 2009, aggregated by the level in the fair value hierarchy within which those measurements fall:

<u>Assets</u>	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	FY10 Total Fair Value	FY09 Total Fair Value
Short term investments	\$ 5,050,000	\$ -	\$ -	\$ 5,050,000	\$ 2,021,954
Investments					
Cash and cash equivalents	8,449,361	-	-	8,449,361	21,506,082
Fixed income securities	a 37,928,495	-	-	37,928,495	39,817,600
Common and preferred stocks	b				
Domestic Large Cap Growth Equities	19,608,793	-	-	19,608,793	18,731,929
Domestic Large Cap Value Equities	20,974,742	-	-	20,974,742	18,617,239
Domestic Small/Mid Cap Growth Equities	11,406,594	-	-	11,406,594	9,435,413
Mutual funds	c 12,599,545	-	-	12,599,545	10,285,840
International securities	d -	11,457,280	-	11,457,280	8,127,958
Hedge funds					
Multi-Strategy Hedge Fund of Funds	e -	34,101,453	44,756,536	78,857,989	68,788,666
Equity Long/Short	f -	27,826,444	11,913,051	39,739,495	39,599,660
Private equity	g -	-	31,030,705	31,030,705	23,285,094
Real estate	h -	-	5,918,043	5,918,043	9,109,422
Total investments*	\$ 110,967,530	\$ 73,385,177	\$ 93,618,335	\$ 277,971,042	\$ 267,304,903
Beneficial interests held by third parties*			13,821,487	13,821,487	12,278,252
Total assets at fair value	\$ 116,017,530	\$ 73,385,177	\$ 107,439,822	\$ 296,842,529	\$ 281,605,109
<u>Liabilities</u>					
Interest rate swap	\$ -	\$ -	(9,031,255)	(9,031,255)	(6,526,844)
Total liabilities at fair value	\$ -	\$ -	(9,031,255)	(9,031,255)	(6,526,844)

\* 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, Other Investments and Funds Held in Trust by Others.

- a - Fixed Income securities include investments in government or municipal bonds, which pay a fixed rate. This category is made up of one investment type that has a daily redemption frequency and a 3-day notice period.
- b - Common and preferred stocks typically have a daily redemption frequency and a 3-day notification period. Domestic Large Cap Growth equities typically have a capitalization of \$5.0 billion or more and generate significantly positive cash flows or earnings, which increase at significantly faster rates than the overall economy. This category is made up of one type of investment that has a daily redemption frequency and a 3-day notice period.
- c - Mutual funds consist of a long-only strategy which invests in international securities. This category is made up of one type of investment that has a daily redemption frequency and a 3-day notice period.
- d - International securities are equity securities whose primary tracking markets are outside of the United States. This category is made up of two types of investments: one has a monthly redemption frequency with a 3-day notice period and the other has a quarterly redemption frequency with a 60-day notice period.
- e - Multi-Strategy Fund of Funds invest with multiple managers who choose investment strategies and provide the investor with the advantage of diversification among managers and styles. This category is made up of seven types of investments: three have a quarterly redemption frequency with a 65-day notice period (in Level 2), one has a

# Rhode Island School of Design

## Notes to the Financial Statements for the Years Ended June 30, 2010 and 2009

- monthly redemption frequency with a 60-day notice period (in Level 2), one has an annual redemption frequency with a 90-day notice period (in Level 3), one is in liquidation so any ability to redeem is at the manager's discretion (in Level 3), and one essentially has no liquidation rights at this time (in Level 3).
- f - Equity Long/Short investing consists of a core holding of long equities hedged at all times with short sales of stocks and/or stock index options. This category is made up of three types of investments: one has a rolling 3-year redemption frequency with a 45-day notice period (in Level 3), one has a quarterly redemption frequency with a 20-day notice period (in Level 2) and the third one has a quarterly redemption frequency with a 60-day notice period (in Level 2).
  - g - Private equity is money invested in companies that are not publicly traded on a stock exchange. They are illiquid long-term investments whose goals are to provide a meaningful return premium over public equity markets. This category has a total of \$6,503,261 of unfunded commitments. Any ability to redeem these securities is at the manager's discretion.
  - h - This category includes directly held real estate which is reported at appraised value which approximates fair value.

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 NAV of the respective partnership as reported by the general partner. The School has performed due diligence around its alternative investments to ensure that they are recorded at fair value, which is based on the NAV. At June 30, 2010, approximately 13.7% of investments held by the partnerships consist of marketable securities and investments with observable inputs and 86.3% are securities that are subject to the judgment of the general partner as reflected in the NAVs. At June 30, 2009, these percentages were 33.1% and 66.9%, respectively.

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

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

	Fair Value July 1, 2009	Realized gains/(losses)	Unrealized gains/(losses)	Net purchases, sales, and settlements	Transfers in/out	Fair Value June 30, 2010
Short term investments	\$ 1,771,954	\$ -	\$ -	\$ (1,771,954)	\$ -	\$ -
Investments						
International securities	\$ 8,127,958	\$ (667,507)	\$ 1,073,495	\$ 123,333	\$ (8,657,279)	\$ -
Hedge funds						
Multi-Strategy Hedge Fund of Funds	68,788,666	18,928,854	(14,109,999)	3,756,064	(32,607,049)	44,756,536
Equity Long/Short	39,599,660	(56,210)	2,997,815	-	(30,628,214)	11,913,051
Private equity	23,285,094	190,251	672,303	1,744,450	5,138,607	31,030,705
Real estate	9,109,422	-	(3,482,872)	291,493	-	5,918,043
Total Investments	\$ 148,910,800	\$ 18,395,388	\$ (12,849,258)	\$ 5,915,340	\$ (66,753,935)	\$ 93,618,335
Beneficial interests held by third parties	\$ 12,278,252	\$ -	\$ 882,027	\$ 661,208	\$ -	\$ 13,821,487
Interest rate swap	\$ (6,526,844)	\$ -	\$ (2,504,411)	\$ -	\$ -	\$ (9,031,255)

Note: As a result of adopting the new guidance for estimating fair value of investments, certain investments have been reclassified as Level 2 assets subject to criteria described above based upon the year end recorded amounts.

# Rhode Island School of Design

## Notes to the Financial Statements for the Years Ended June 30, 2010 and 2009

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, 2010.

### 3. Investments

Investment income for the years ended June 30, 2010 and 2009 was as follows:

	<u>2010</u>			
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Interest and dividend income	\$ 4,569,334	\$ 1,681,160	\$ -	\$ 6,250,494
Realized gains/(losses)	21,050,403	2,743,243	-	23,793,646
Increase in net unrealized appreciation/(depreciation)	<u>(9,074,551)</u>	<u>2,319,220</u>	<u>-</u>	<u>(6,755,331)</u>
Total investment return	<u>\$ 16,545,186</u>	<u>\$ 6,743,623</u>	<u>\$ -</u>	<u>\$ 23,288,809</u>

  

	<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>

In 2010, the School earned income of which \$10,910,825 was utilized in order to meet the spending formula. The School experienced net realized and unrealized losses during fiscal year 2009; therefore, the entire \$16,124,321 of endowment spending was withdrawn from previously accumulated earnings.

Investment management fees and other expenses (netted from interest and dividend income) totaled \$73,329 and \$2,068,805 in 2010 and 2009, respectively.

Certain net assets are pooled for investment income purposes. The unit market value at June 30, 2010 and 2009 was \$260.61 and \$240.40, respectively. The market value of long-term investments, as stated in the Statement of Financial Position, represents the value of pooled endowment plus other non-pooled investments at June 30, 2010 and 2009.

### 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 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 Financial Statements for the Years Ended June 30, 2010 and 2009

The School's Board of Trustees has interpreted the UPMIFA as requiring the preservation of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the School classifies as permanently restricted net assets, (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure of the School in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the School considers the following factors in making a determination to appropriate or accumulate endowment funds:

1. The duration and preservation of the fund
2. The purposes of the School and the donor-restricted endowment fund
3. General economic conditions
4. The possible effect of inflation and deflation
5. The expected total return from income and the 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, 2010 and 2009 were as follows:

<b>2010</b>	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>
Board-designated			
For scholarships	\$ 7,573,495		
For academic and institutional purposes	181,233,079		
For museum support	1,803,915		
For underwater endowments	(897,511)		
Total board-designated	<u>189,712,978</u>		
Donor-restricted			
For scholarships		\$ 10,482,626	\$ 14,109,517
For academic and institutional purposes		5,985,948	5,351,469
For museum support		13,590,500	9,290,445
Total donor-restricted		<u>30,059,074</u>	<u>28,751,431</u>
Total endowment funds	<u>\$ 189,712,978</u>	<u>\$ 30,059,074</u>	<u>\$ 28,751,431</u>



**Rhode Island School of Design**  
**Notes to the Financial Statements for the Years Ended June 30, 2010 and 2009**

2009	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>
Board-designated			
For scholarships	\$ 6,847,705		
For academic and institutional purposes	170,169,753		
For museum support	1,710,360		
For underwater endowments	(1,753,971)		
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, 2010 and 2009 were as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>
<b>Endowment net assets, 6/30/09</b>	\$ 176,973,847	\$ 28,025,133	\$ 26,494,433
Investment return:			
Investment income	4,569,334	1,681,160	
Net appreciation (realized and unrealized)	14,786,785	4,018,083	
Total investment return	<u>19,356,119</u>	<u>5,699,243</u>	
Gifts	502,754		2,256,998
Endowment return allocated for spending	(7,976,202)	(2,934,623)	
Unspent current year revenue allocation		125,781	
Recovery of amounts transferred to restore underwater endowments	<u>856,460</u>	<u>(856,460)</u>	
<b>Endowment net assets, 6/30/10</b>	\$ 189,712,978	\$ 30,059,074	\$ 28,751,431
<b>Non-endowment net assets</b>	40,470,087	22,897,846	-
<b>Total net assets, 6/30/10</b>	<u>\$ 230,183,065</u>	<u>\$ 52,956,920</u>	<u>\$ 28,751,431</u>

**Rhode Island School of Design**  
**Notes to the Financial Statements for the Years Ended June 30, 2010 and 2009**

	<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	2,128,025	510,389	
Net depreciation (realized and unrealized)	(74,222,554)	(5,987,080)	
Total investment return	(72,094,529)	(5,476,691)	
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	
Transfer to restore underwater endowments	(1,753,971)	1,753,971	
Adoption of UPMIFA	(5,782,716)	19,457,675	(13,674,959)
<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>	<b>\$ 216,507,443</b>	<b>\$ 49,591,861</b>	<b>\$ 26,494,433</b>

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. Non Operating Income of \$856,460 was reported in unrestricted net assets as of June 30, 2010 and a Non Operating Loss of \$1,753,971 was reported in unrestricted net assets as of June 30, 2009. 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. 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).

# Rhode Island School of Design

## Notes to the Financial Statements for the Years Ended June 30, 2010 and 2009

### 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 2010, the spending policy was to spend the amount equal to the debt service.

In 2009, the spending policy was that funds available for expenditure were calculated to be 5% of the twelve (12) quarter moving average of the market value of the endowment portfolio. Since this spending formula was based on the total return concept, earnings from realized gains could be utilized when current year income from interest and dividends was less than the authorized spending amount.

### **5. Accounts Receivable**

Accounts receivable consisted of the following at June 30:

	<b><u>2010</u></b>	<b><u>2009</u></b>
Student tuition and fees	\$ 1,033,207	\$ 1,280,044
Computer loan programs	1,196,389	1,295,791
Notes receivable	-	600,000
Government grants	146,840	262,006
Other	580,775	617,207
Total	<u>\$ 2,957,211</u>	<u>\$ 4,055,048</u>
Less: Allowance for uncollectible accounts	<u>(447,502)</u>	<u>(496,660)</u>
Total	<u><u>\$ 2,509,709</u></u>	<u><u>\$ 3,558,388</u></u>

### **6. Pledges Receivable**

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

	<b><u>2010</u></b>	<b><u>2009</u></b>
In one year or less	\$ 2,879,839	\$ 2,794,935
Between one year and five years, net of discount	3,892,232	4,517,897
Five years and over, net of discount	<u>1,600,197</u>	<u>1,453,978</u>
Total	\$ 8,372,268	\$ 8,766,810
Less: Allowance for uncollectible pledges	<u>(3,186,350)</u>	<u>(3,518,953)</u>
Pledges receivable, net	<u><u>\$ 5,185,918</u></u>	<u><u>\$ 5,247,857</u></u>

The discount was \$360,831 and \$409,454 for 2010 and 2009, respectively.

# Rhode Island School of Design

## Notes to the Financial Statements for the Years Ended June 30, 2010 and 2009

### 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 \$575,407 and \$529,397 at June 30, 2010, and 2009, respectively.

### 8. Bonds Payable and Other Debt

	<u>2010</u>	<u>2009</u>
Rhode Island Health and Education Building Corporation Series 2001, Range 3.5%-5%, original issue \$27,890,000	\$ 27,499,963	\$ 27,556,390
Rhode Island Health and Education Building Corporation Series 2004D, Range 3.0%-5.625% original issue \$58,435,000	56,188,646	57,120,585
Rhode Island Health and Education Building Corporation Series 2008A, Range 1.25%-2.60% original issue \$61,930,000	58,305,000	60,130,000
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>\$ 173,843,609</u>	<u>\$ 176,656,975</u>

As of June 30, 2010 and 2009, the unamortized discount on 2001 Bonds amounted to \$75,037 and \$78,610 respectively, which is being amortized over the life of the bonds using the effective interest basis.

As of June 30, 2010 and 2009, the unaccreted premium on 2004D Bonds amounted to \$1,458,646 and \$1,420,585 respectively, which is being accreted over the life of the bonds using the effective interest basis.

#### 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

## Rhode Island School of Design

### Notes to the Financial Statements for the Years Ended June 30, 2010 and 2009

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 accrue interest and convert 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>
2011	\$ 2,940,000
2012	3,055,000
2013	3,140,000
2014	3,275,000
2015-2037	160,050,000
	<u>\$172,460,000</u>

Estimated fair value of debt was approximately \$175,258,678 and \$176,185,702 at June 30, 2010 and 2009, respectively. Cash paid for interest on long-term debt for the years ended June 30, 2010 and 2009, was \$4,480,277 and \$5,493,400, respectively.

The School capitalizes the interest cost related to outstanding debt on qualifying assets. There were no interest costs capitalized in the year ended June 30, 2010. Interest costs capitalized for the year ended June 30, 2009, totaled \$437,656.

Bond issuance costs are capitalized and amortized over the life of the bond. Unamortized bond issuance costs were \$1,839,767 and \$1,914,766 for the years ended June 30, 2010 and 2009, respectively.

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

The School records interest rate swaps at the estimated value at which the swaps could be settled as of June 30, 2010 and 2009. The unrealized depreciation that was recognized for the swaps was \$2,504,411 and \$2,886,242 for the years ending June 30, 2010 and 2009, respectively. The interest rate swap balances are classified as liabilities on the Statement of Financial Position. Net payments or receipts under the swap agreements, along with the change

# Rhode Island School of Design

## Notes to the Financial Statements for the Years Ended June 30, 2010 and 2009

in fair value of the swaps, are included in non-operating revenues on the Statement of Activities and in the cash flows from operating activities on the Statement of Cash Flows.

The estimated fair value of the swap instruments represents the estimated cost to the School to cancel the agreements at the reporting date, which is based on option pricing models that consider risks and market factors. During 2010 and 2009, the School incurred interest expense of \$2,628,806 and \$2,191,634, respectively.

The following schedule presents the notional principal amounts of the School's interest swaps at June 30, 2010.

Maturity	Original Notional	Fair Value at June 30, 2010
Aug. 15, 2011	\$ 9,250,000	\$ (71,839)
Feb. 1, 2020	\$ 18,000,000	(927,403)
Aug. 15, 2025	\$ 27,000,000	(3,694,529)
Aug. 15, 2034	\$ 28,500,000	(4,337,484)
		\$ (9,031,255)

In June 2008, the School entered into a line of credit agreement with Bank of America that expires in June 2011. Under the terms of the agreement the School may borrow up to \$5,000,000. Interest on borrowings under the line of credit was based on the London Inter-Bank Offered (LIBOR) rate. There was no balance outstanding at the years ended June 30, 2010 and 2009.

### **9. Obligations Under Long-Term Agreements**

In June 2007, the School entered into a capital lease for a 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 \$6,919,986 at June 30, 2010.

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

2011	\$ 1,026,042
2012	1,073,128
2013	1,122,852
2014	1,168,832
2015-2017	3,831,780
	\$ 8,222,634

During fiscal year 2004, the School entered into a long-term agreement with a third party in order to purchase a building. Prior to June 30, 2010, this agreement was accounted for as period expenses. During 2010, the School determined that the full amount of the obligation should be recorded in the financial statements. As such, this resulted in a \$6,387,509 increase to Obligations under long-term agreements as well as Property, plant and equipment.

**Rhode Island School of Design**  
**Notes to the Financial Statements for the Years Ended June 30, 2010 and 2009**

Minimum annual lease payments are estimated based on a variety of assumptions. Minimum annual lease payments due for the building over the next five years and thereafter are as follows:

2011	\$ 363,072
2012	363,072
2013	363,072
2014	399,379
2015-2031	<u>7,805,068</u>
	<u>\$ 9,293,663</u>

**10. Property, Plant and Equipment**

	<u>2010</u>	<u>2009</u>
Land and Buildings:		
Educational Plant	\$ 150,956,573	\$ 141,797,479
Dormitories and Refectory	85,813,583	85,266,765
Capital Lease	7,809,235	7,809,235
Administrative and Other	18,704,014	18,540,246
Residences	1,046,945	972,738
Land	<u>7,921,618</u>	<u>6,130,556</u>
Total	\$ 272,251,968	\$ 260,517,019
Furniture, Fixtures and Equipment	<u>42,962,479</u>	<u>40,792,998</u>
 Total	 \$ 315,214,447	 \$ 301,310,017
Less: Accumulated Depreciation	<u>(122,740,842)</u>	<u>(112,281,622)</u>
	<u>\$ 192,473,605</u>	<u>\$ 189,028,395</u>

Costs of \$194,761 and \$32,898 were accrued for capital expenditures at June 30, 2010 and June 30, 2009, respectively.

**11. Museum**

Revenues

The Museum realized service revenue of \$1,703,324 and \$2,084,958, as well as \$1,204,295 and \$1,457,575 of total return income and gain, and \$1,100,922 and \$2,245,678 of gifts and grants for the years ended June 30, 2010, and 2009, respectively.

Collections

The majority of the School's collections reside in the Museum and consist 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 \$683,417 and \$1,077,843 for acquisitions during 2010 and 2009, respectively.

# Rhode Island School of Design

## Notes to the Financial Statements for the Years Ended June 30, 2010 and 2009

### **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 \$3,377,214 and \$4,901,494 for the years ended June 30, 2010 and 2009, respectively.

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

Certain of the School's investments in privately held funds included unfunded commitments from private equity. As of June 30, 2010, unfunded commitments totaled \$6,503,261.

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 six established employee bargaining units (Full-Time Faculty, Part-Time Faculty, Public Safety Officers, Museum Guards, Technical Association (RISDTA), and Stationary Engineers).

### **14. Related Parties**

The total outstanding secured notes from related parties in accordance with IRS Regulations are \$600,000 for the year ended June 30, 2009. The notes were fully repaid during the year ended June 30, 2010.

During the year ended June 30, 2009, certain members of the School's Board were executives with institutions which provided services to the School. A small portion of the School's cash balances were held at a bank at which a member of the School's Board served as President. A member of the School's Board was an Executive at the counterparty to the School's investment in interest rate swaps to which net receipts, payments and change in market value was \$5,077,876 during the year ended June 30, 2009. The procurement of these services was performed in accordance with the School's established policies and procedures. During the year ended June 30, 2010, the individual cited above was no longer employed by the institution that provided investment services.

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



**Rhode Island School of Design**  
**Notes to the Financial Statements for the Years Ended June 30, 2010 and 2009**

**15. Functional Expenses**

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

	<u>2010</u>	<u>2009</u>
Instruction	\$ 48,167,666	\$ 48,670,252
Campus Support Services	23,966,985	25,877,272
Institutional Support	14,656,277	17,244,082
Museum Services	8,221,932	10,047,616
Academic Support	7,858,486	8,725,669
Student Support	4,561,638	4,518,995
Research	682,753	550,317
Total	<u>\$ 108,115,737</u>	<u>\$ 115,634,203</u>