

Rhode Island School of Design

**Consolidated Financial Statements
and Supplemental Information
June 30, 2017 and 2016**

Rhode Island School of Design

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June 30, 2017 and 2016

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Report of Independent Auditors

To the Board of Trustees of
Rhode Island School of Design:

We have audited the accompanying consolidated financial statements of Rhode Island School of Design, which comprise the consolidated statement of financial position as of June 30, 2017 and 2016, and the related consolidated statements of activities and of cash flows for the years then ended.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Rhode Island School of Design as of June 30, 2017 and 2016, and the changes in its net assets and its cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The consolidating information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The consolidating information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves and other additional procedures, in accordance with auditing standards generally accepted in the United States of America. In our opinion, the consolidating information is fairly stated, in all material respects, in relation to the consolidated financial statements taken as a whole. The consolidating information is presented for purposes of additional analysis of the consolidated financial statements rather than to present the financial position, results of operations and cash flows of the individual entities and is not a required part of the consolidated financial statements. Accordingly, we do not express an opinion on the financial position, results of operations and cash flows of the individual entities.

PricewaterhouseCoopers LLP
October 17, 2017

Rhode Island School of Design
Consolidated Statements of Financial Position
June 30, 2017 and 2016
(Dollars in thousands)

	<u>2017</u>	<u>2016</u>
Assets		
Cash and cash equivalents (Note 2)	\$ 35,570	\$ 35,157
Accounts receivable, net (Note 4)	3,310	3,058
Student loans receivable, net (Note 5)	3,027	3,487
Pledges receivable, net (Notes 2, 6)	3,035	2,219
Funds held in trust by others (Note 2)	19,253	16,964
Inventories (Note 7)	1,488	1,479
Prepaid expenses (Note 8)	861	174
Other investments (Notes 2)	913	974
Long-term investments (Note 2)	324,417	298,236
Property, plant and equipment, net (Note 10)	207,541	206,237
Total assets	<u>\$ 599,415</u>	<u>\$ 567,985</u>
Liabilities		
Accounts payable and accrued liabilities (Note 11)	\$ 8,269	\$ 8,586
Deferred income (Note 12)	8,222	6,911
Obligations under long-term agreements (Note 13)	9,971	11,207
U.S. Government loan funds (Note 14)	2,347	2,781
Liability for interest rate swap (Notes 2, 15)	4,678	7,352
Bonds payable, net (Note 15)	153,079	157,216
Total liabilities	<u>186,566</u>	<u>194,053</u>
Net Assets		
Unrestricted net assets (Note 16, 17)	293,780	267,956
Temporarily restricted net assets (Note 17)	68,573	60,947
Permanently restricted net assets (Note 17)	50,496	45,029
Total net assets	<u>412,849</u>	<u>373,932</u>
Total liabilities and net assets	<u>\$ 599,415</u>	<u>\$ 567,985</u>

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

Rhode Island School of Design
Consolidated Statement of Activities
Year Ended June 30, 2017
(With Summarized Financial Information for the Year Ended June 30, 2016)
(Dollars in thousands)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>2017 Total</u>	<u>2016 Total</u>
Operating revenues					
Tuition and fees	\$ 121,695	\$ -	\$ -	\$ 121,695	\$ 118,249
Less:					
School sponsored financial aid	(19,613)	-	-	(19,613)	(19,226)
Donor sponsored financial aid	(2,016)	-	-	(2,016)	(1,962)
Net tuition	100,066	-	-	100,066	97,061
Gifts and pledges	2,805	2,687	-	5,492	4,163
Grants	427	1,708	-	2,135	2,188
Auxiliary enterprises	25,883	-	-	25,883	24,886
Museum services	1,024	-	-	1,024	1,060
Investment income	12,623	4,356	-	16,979	16,138
Other income	2,988	(9)	-	2,979	2,810
Net assets released from restrictions	7,852	(7,852)	-	-	-
Total revenues	153,668	890	-	154,558	148,306
Operating expenses					
Instruction	49,706	-	-	49,706	47,951
Research	247	-	-	247	151
Academic support	7,256	-	-	7,256	6,584
Student services	8,669	-	-	8,669	8,716
Institutional support	22,879	-	-	22,879	21,916
Operation and maintenance	29,545	-	-	29,545	29,409
Auxiliary services	14,653	-	-	14,653	13,665
Museum	8,214	-	-	8,214	8,684
Total expenses	141,169	-	-	141,169	137,076
Increase in net assets from operating activities	12,499	890	-	13,389	11,230
Nonoperating					
Realized and unrealized gain (loss) on interest rate swap	755	-	-	755	(2,412)
Realized and unrealized gain (loss) on investments, net	12,395	6,911	-	19,306	(26,793)
Gifts and pledges	-	-	5,467	5,467	828
Recovery of amounts transferred to restore underwater endowments	175	(175)	-	-	-
Increase (decrease) in net assets from nonoperating activities	13,325	6,736	5,467	25,528	(28,377)
Increase (decrease) in net assets	25,824	7,626	5,467	38,917	(17,147)
Total net assets					
Beginning of year	267,956	60,947	45,029	373,932	391,079
End of year	\$ 293,780	\$ 68,573	\$ 50,496	\$ 412,849	\$ 373,932

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

Rhode Island School of Design
Consolidated Statement of Activities
Year Ended June 30, 2016
(Dollars in thousands)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>2016 Total</u>
Operating revenues				
Tuition and fees	\$ 118,249	\$ -	\$ -	\$ 118,249
Less:				
School sponsored financial aid	(19,226)	-	-	(19,226)
Donor sponsored financial aid	(1,962)	-	-	(1,962)
Net tuition	97,061	-	-	97,061
Gifts and pledges	2,337	1,826	-	4,163
Grants	406	1,782	-	2,188
Auxiliary enterprises	24,886	-	-	24,886
Museum services	1,060	-	-	1,060
Investment income	12,164	3,974	-	16,138
Other income	2,802	8	-	2,810
Net assets released from restrictions	9,212	(9,212)	-	-
Total revenues	149,928	(1,622)	-	148,306
Operating expenses				
Instruction	47,951	-	-	47,951
Research	151	-	-	151
Academic support	6,584	-	-	6,584
Student services	8,716	-	-	8,716
Institutional support	21,916	-	-	21,916
Operation and maintenance	29,409	-	-	29,409
Auxiliary services	13,665	-	-	13,665
Museum	8,684	-	-	8,684
Total expenses	137,076	-	-	137,076
Increase (decrease) in net assets from operating activities	12,852	(1,622)	-	11,230
Nonoperating				
Realized and unrealized loss on interest rate swap	(2,412)	-	-	(2,412)
Realized and unrealized loss on investments, net	(19,858)	(6,935)	-	(26,793)
Gifts and pledges	-	-	828	828
Transfer to restore underwater endowments	(164)	164	-	-
(Decrease) increase in net assets from nonoperating activities	(22,434)	(6,771)	828	(28,377)
(Decrease) increase in net assets	(9,582)	(8,393)	828	(17,147)
Total net assets				
Beginning of year	277,538	69,340	44,201	391,079
End of year	\$ 267,956	\$ 60,947	\$ 45,029	\$ 373,932

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

Rhode Island School of Design
Consolidated Statements of Cash Flows
Years Ended June 30, 2017 and 2016
(Dollars in thousands)

	<u>2017</u>	<u>2016</u>
Cash flows from operating activities		
Change in net assets	\$ 38,917	\$ (17,147)
Adjustments to reconcile change in net assets to net cash provided by operating activities		
(Gain) loss on investments	(29,961)	10,298
Unrealized (gain) loss on interest rate swap	(2,675)	255
Change in funds held in trust by others	(2,289)	1,117
Depreciation and amortization	10,471	11,816
Contributions restricted for long-term purposes	(1,024)	(256)
Change in asset retirement obligation	198	239
Change in U.S. Government loan funds	(434)	(1,686)
Amortization of long-term agreements	191	350
Changes in operating assets and liabilities that provide (use) cash		
Accounts receivable	(252)	(399)
Pledges receivable	(816)	2,526
Inventories	(9)	13
Prepaid expenses	(687)	774
Accounts payable and accrued liabilities	594	(2,472)
Deferred income	1,311	446
Net cash provided by operating activities	<u>13,535</u>	<u>5,874</u>
Cash flows from investing activities		
Purchases of buildings and equipment	(12,872)	(12,830)
Student loans issued	(213)	(221)
Student loans repaid	673	716
Purchases of investments	(209,632)	(227,859)
Sales of investments	213,472	239,210
Net cash used in investing activities	<u>(8,572)</u>	<u>(984)</u>
Cash flows from financing activities		
Payments on long-term debt	(3,950)	(3,805)
Payments on obligations under long-term agreements	(1,624)	(1,676)
Contributions restricted for long-term purposes	1,024	256
Net cash used in financing activities	<u>(4,550)</u>	<u>(5,225)</u>
Net increase (decrease) in cash and cash equivalents	413	(335)
Cash and cash equivalents		
Beginning of year	35,157	35,492
End of year	<u>\$ 35,570</u>	<u>\$ 35,157</u>
Noncash activity		
Costs accrued for capital expenditures	\$ 575	\$ 1,485
Cash paid for interest	5,620	5,693

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

Rhode Island School of Design
Notes to the Consolidated Financial Statements
Years ended June 30, 2017 and 2016
(Dollars in thousands)

1. Summary of Significant Accounting Policies

The consolidated financial statements of the Rhode Island School of Design (the "School") have been prepared in accordance with generally accepted accounting principles in the United States of America ("US GAAP") and with the reporting principles of not-for-profit accounting. The School includes RISD Holdings, Inc. ("RH"), a wholly owned subsidiary founded in 1999, and organized for the exclusive purposes of acquiring, holding title to, and collecting income from, real property.

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

- Unrestricted net assets are not subject to donor-imposed stipulations, but may be designated for specific purpose by action of the Board of Trustees.
- Temporarily restricted net assets include gifts, pledges, and trusts that can be expended but for which restrictions have not yet been met. Such restrictions include purpose restrictions where donors have specified the purpose for which the net assets are to be spent, or time restrictions imposed by donors or implied by the nature of the gift. Temporarily restricted assets also include unspent appreciation on the permanent endowment.
- Permanently restricted net assets include the original amounts of gifts, including pledges, trusts, and remainder interests, which are required by donors to be permanently retained.

Basis of Consolidation

The accompanying consolidated financial statements include the accounts of the School and its wholly owned subsidiary, RH. All significant inter-entity balances and transactions have been eliminated.

Operations

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

Nonoperating

Nonoperating revenue and expenses include net realized and unrealized gains and losses on the interest rate swaps, contributions to be invested by the School to generate a return that will support future operations, and investment return or loss beyond what the School has appropriated for current operational support in accordance with the School's investment return spending guidelines as described below.

Gifts and Pledges

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

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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, 2017 and 2016. Alternative investments include limited partnerships, limited liability corporations, real estate, and offshore investment funds. Because investments in alternative investment funds are not marketable, the estimated value is subject to uncertainty and therefore, may differ significantly from the value that would have been used had a market for such investments existed and such differences could be material.

Cash and Cash Equivalents

Cash and cash equivalents include highly liquid investments with maturities of three-months or less at the time of purchase. Cash equivalents are stated at cost, which approximates fair value. Cash restricted for the Perkins loans totaled \$1,149 and \$1,375 at June 30, 2017 and 2016, respectively.

Split-Interest Agreements

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

Property, Plant and Equipment

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

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

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

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Collections

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

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

Auxiliary Services

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

Deferred Income

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

Tax Status

The School is qualified for exemption from Federal income tax under Section 501(c)(3) of the Internal Revenue Code. RH is qualified for exemption from Federal income tax under Section 501(c)(25) of the Internal Revenue Code.

Use of Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Fair Value Measurements

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

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

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

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observable or can be corroborated by observable market data by correlation or other means.

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

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

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

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

The guidance also requires additional disclosures to enable users of the consolidated financial statements to understand the nature and risk of the School's investments. Furthermore, investments which can be redeemed at NAV by the School on the measurement date or in the near term (defined as 90 days or less) are classified as Level 2. Investments which cannot be redeemed on the measurement date or in the near term are classified as Level 3. However, in accordance with ASU 2015-07, *Fair Value Measurements: Disclosures for Investments in Certain Entities that Calculate Net Asset Value per Share (or Its Equivalent)* ("ASU 2015-07") issued in May 2015, certain investments that are measured at fair value using the net asset value per share (or its equivalent) practical expedient have not been classified in the fair value hierarchy.

New Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2014-09, *Revenue from Contracts with Customers (Topic 606) and Other Assets and Deferred Costs—Contracts with Customers* (Subtopic 340-40). The ASU introduces a single framework for revenue recognition under which revenue recognized is reflective of the consideration to which the entity expects to be entitled in exchange for goods and services. The ASU is effective for fiscal years beginning after December 15, 2017.

In August 2014, the FASB issued ASU 2014-15, *Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern*. The standard requires management to assess if there is substantial doubt about an entity's ability to continue as a going concern within one year after the issuance date and, as applicable, provide additional disclosures on management's plan to alleviate the substantial doubt. The ASU is effective for fiscal years ending after December 15, 2016, and interim periods within annual periods beginning after December 15, 2016.

In April 2015, the FASB issued ASU 2015-03 - *Imputation of Interest: Simplifying the Presentation of Debt Issuance Costs*, which requires all costs incurred to issue debt to be presented in the balance sheet as a direct deduction from the carrying value of the associated debt liability. The

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School has decided to early adopt the guidance effective June 30, 2017 and change its reporting on debt issuance cost. Accordingly, certain amounts within the 2016 consolidated financial statements have been reclassified to conform to the 2017 presentation. Previously reported debt issuance costs amounts in other noncurrent assets of \$1,038 in 2016, have been reclassified as a reduction of long-term debt.

In January 2016, the FASB issued ASU 2016-01, *Recognition and Measurement of Financial Assets and Financial Liabilities*, which addresses certain aspects of recognition, measurement, presentation and disclosure of financial instruments. This guidance allows an entity to choose, investment-by-investment, to report an equity investment that neither has a readily determinable fair value, nor qualifies for the practical expedient for fair value estimation using NAV, at its cost minus impairment (if any), plus or minus changes resulting from observable price changes in orderly transactions for the identical or similar investment of the same issue. Impairment of such investments must be assessed qualitatively at each reporting period. Entities must disclose their financial assets and liabilities by measurement category and form of asset either on the face of the statement of financial position or in the accompanying notes. The ASU is effective for annual reporting periods beginning after December 15, 2018, or fiscal year 2020 for the School. The provision to eliminate the requirement to disclose the fair value of financial instruments measured at cost (such as the fair value of debt) may be early adopted. The School is adopting the ASU effective June 30, 2017 and the impact to the financial statements is limited to Footnote 15.

In February 2016, the FASB issued ASU 2016-02, *Leases*, which, for operating leases, requires a lessee to recognize a right-of-use asset and a lease liability, initially measured at the present value of the lease payments, in its balance sheet. The standard also requires a lessee to recognize a single lease cost, calculated so that the cost of the lease is allocated over the lease term, on a generally straight-line basis. The guidance also expands the required quantitative and qualitative disclosures surrounding leases. The ASU is effective for fiscal years beginning after December 15, 2018, or fiscal year 2020 for the School. Early adoption is permitted.

In August 2016, the FASB issued ASU 2016-14, *Presentation of Financial Statements for Not-for-Profit Entities*. The new pronouncement amends certain financial reporting requirements for not-for-profit entities, including revisions to the classification of net assets and expanded disclosure requirements concerning expenses and liquidity. The ASU is effective for fiscal years beginning after December 15, 2017, with early adoption permissible.

In January 2017, the FASB issued ASU 2017-02, *Clarifying When a Not-for-Profit Entity That Is a General Partner or a Limited Partner Should Consolidate a For-Profit Limited Partnership or Similar Entity*, which amends the consolidation guidance for not-for-profit (NFP) entities in ASC 958-810. The issued final guidance clarifies the model used by NFP entities to evaluate the consolidation of investments in limited partnerships (and limited liability companies that are similar to limited partnerships). Under the new guidance, NFP investors in a limited partnership or similar entity will continue to apply a presumption that the general partner has control and should consolidate the investment unless substantive kick-out or participating rights held by any limited partners overcome that presumption. If the general partner does not have control, the limited partners have to evaluate whether they have control. If a limited partner has control, consolidation is required unless the investment is part of a portfolio for which the NFP "portfolio-wide" fair value option has been elected. In that situation, the limited partner can instead report its interest at fair value, mirroring an exception that already exists for NFP general partners. The new standard also affirms the FASB's intent to retain the NFP "portfolio-wide" fair value option under its new investment recognition and measurement rules that will take effect in fiscal years beginning after December 15, 2018. The new guidance should be adopted at the same time an NFP adopts the FASB's other new consolidation

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guidance, which is required for fiscal years beginning after December 15, 2016. Early adoption is permitted. NFPs that early adopted the consolidation guidance should apply the new guidance retrospectively to the earliest period affected by that adoption.

The School is evaluating the impact of each of these new standards on its consolidated financial statements.

2. Fair Value of Financial Instruments

In accordance with accounting guidance for *Fair Value Measurements*, the tables below summarize the financial instruments carried at fair value on a recurring basis as of June 30, 2017 and 2016, aggregated by the level in the fair value hierarchy within which those measurements fall. However, certain investments that are measured at fair value using the net asset value per share (or its equivalent) practical expedient have not been classified in the fair value hierarchy and instead are included in the following tables as “investments valued using the NAV practical expedient”. The fair value amounts presented in the following tables are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the Consolidated Statements of Financial Position:

	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Investments Valued Using the NAV Practical Expedient	2017 Total Fair Value
Assets					
Cash and cash equivalents	\$ 9,035	\$ -	\$ -	\$ -	\$ 9,035
Investments					
Cash and cash equivalents	1,643	-	-	-	1,643
Hedge funds					
Multi-strategy hedge fund of funds	-	-	-	75,802	75,802
Equity long hedge fund of funds	-	-	-	75,146	75,146
Fixed income	-	-	-	23,485	23,485
Fixed income securities	187	30,046	-	-	30,233
Benchmark equity	91,470	-	-	-	91,470
Private equity	-	-	-	26,736	26,736
Total investments	93,300	30,046	-	201,169	324,515
Beneficial interests held by third parties	-	-	18,918	-	18,918
Total assets at fair value	\$ 102,335	\$ 30,046	\$ 18,918	\$ 201,169	\$ 352,468
Liabilities					
Interest rate swap	\$ -	\$ (4,678)	\$ -	\$ -	\$ (4,678)
Total liabilities at fair value	\$ -	\$ (4,678)	\$ -	\$ -	\$ (4,678)

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Notes to the Consolidated Financial Statements
Years ended June 30, 2017 and 2016
(Dollars in thousands)

	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Investments Valued Using the NAV Practical Expedient	2016 Total Fair Value
Assets					
Cash and cash equivalents	\$ 9,008	\$ -	\$ -	\$ -	\$ 9,008
Investments					
Cash and cash equivalents	1,934	-	-	-	1,934
Hedge funds					
Multi-strategy hedge fund of funds	-	-	-	73,282	73,282
Equity long hedge fund of funds	-	-	-	61,611	61,611
Fixed income	-	-	-	30,128	30,128
Fixed income securities	4,685	25,417	-	-	30,102
Benchmark equity	69,926	-	-	-	69,926
Private equity	-	-	-	31,389	31,389
Total investments	76,545	25,417	-	196,410	298,372
Beneficial interests held by third parties	-	-	16,732	-	16,732
Total assets at fair value	\$ 85,553	\$ 25,417	\$ 16,732	\$ 196,410	\$ 324,112
Liabilities					
Interest rate swap	\$ -	\$ (7,352)	\$ -	\$ -	\$ (7,352)
Total liabilities at fair value	\$ -	\$ (7,352)	\$ -	\$ -	\$ (7,352)

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

The value of alternative investments (principally limited partnership interests in hedge, private equity, and other similar funds) represents the ownership interest in the NAV of the respective partnership as reported by the general partner. The School has performed due diligence around its alternative investments to ensure that they are recorded at fair value, which is based on the NAV. However, certain investments that are measured at fair value using the net asset value per share (or its equivalent) practical expedient have not been classified in the fair value hierarchy.

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

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

	Fair Value June 30, 2016	Realized Gains (Losses)	Unrealized Gains (Losses)	Purchases	Sales	Transfers In (Out)	Fair Value June 30, 2017
Beneficial interests held by third parties	\$ 16,732	\$ -	\$ 2,211	\$ -	\$ (25)	\$ -	\$ 18,918

	Fair Value June 30, 2015	Realized Gains (Losses)	Unrealized Gains (Losses)	Purchases	Sales	Transfers In (Out)	Fair Value June 30, 2016
Real estate	\$ 5,200					(5,200)	\$ -
Total investments	\$ 5,200	\$ -	\$ -	\$ -	\$ -	\$ (5,200)	\$ -
Beneficial interests held by third parties	\$ 18,828	\$ -	\$ (2,034)	\$ -	\$ (62)	\$ -	\$ 16,732

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All net realized and unrealized gains (losses) in the tables above are reflected in the accompanying Consolidated Statements of Activities and relate to those financial instruments held by the School at June 30, 2017 and 2016.

There were no transfers between levels for the years ended June 30, 2017 and 2016.

The following tables present liquidity information for the investments carried at fair value at June 30, 2017 and 2016, respectively.

	Investments Asset Value as of June 30, 2017			
	Fair Value	Unfunded Commitments	Redemption Frequency	Notice Period
Investment type				
Cash and cash equivalents	\$ 1,643	\$ -	Liquid	N/A
Hedge funds				
Multi-Strategy Hedge Fund of Funds	75,802	-	See Footnote "a"	
Equity Long Hedge Fund of Funds	75,146	-	Quarterly	7 Days
Fixed Income	23,485	-	Quarterly	7 Days
Fixed income securities	30,233	-	Daily	1 Day
Benchmark equity	91,470	-	Daily	1 Day
Private equity	26,736	13,815	At Manager's Discretion	
Total	\$ 324,515	\$ 13,815		

	Investments Asset Value as of June 30, 2016			
	Fair Value	Unfunded Commitments	Redemption Frequency	Notice Period
Investment type				
Cash and cash equivalents	\$ 1,934	\$ -	Liquid	N/A
Hedge funds				
Multi-Strategy Hedge Fund of Funds	73,282	-	See Footnote "a"	
Equity Long Hedge Fund of Funds	61,611	-	Quarterly	7 Days
Fixed Income	30,128	-	Quarterly	7 Days
Fixed income securities	30,102	-	Daily	1 Day
Benchmark equity	69,926	-	Daily	1 Day
Private equity	31,389	16,495	At Manager's Discretion	
Total	\$ 298,372	\$ 16,495		

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

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3. Investment Income

Investment income for the years ended June 30, 2017 and 2016, was as follows:

	2017			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Interest and dividend income	\$ 2,304	\$ 4,356	\$ -	\$ 6,660
Realized gains (losses)	2,191	(2,127)	-	64
Increase in net unrealized appreciation	20,523	9,038	-	29,561
Total investment return	<u>\$ 25,018</u>	<u>\$ 11,267</u>	<u>\$ -</u>	<u>\$ 36,285</u>

Reconciliation from Consolidated Statement of Activities

Investment income	\$ 16,979
Realized and unrealized gain on investments, net	19,306
Total investment return	<u>\$ 36,285</u>

	2016			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Interest and dividend income	\$ 1,891	\$ 3,974	\$ -	\$ 5,865
Realized losses	(1,142)	(3,410)	-	(4,552)
Increase in net unrealized depreciation	(8,443)	(3,525)	-	(11,968)
Total investment return	<u>\$ (7,694)</u>	<u>\$ (2,961)</u>	<u>\$ -</u>	<u>\$ (10,655)</u>

Reconciliation from Consolidated Statement of Activities

Investment income	\$ 16,138
Realized and unrealized loss on investments, net	(26,793)
Total investment return	<u>\$ (10,655)</u>

Investment management fees and other expenses (netted from interest and dividend income) totaled \$536 and \$1,009 for the years ended June 30, 2017 and 2016, respectively.

Certain net assets are pooled for investment income purposes. Units in the pool are assigned on the basis of fair value at the time net assets to be invested are received, and income is distributed monthly thereafter on a per-unit basis. The market value of long-term investments, as stated in the Consolidated Statements of Financial Position, represents the value of pooled endowment plus other nonpooled investments at June 30, 2017 and 2016.

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4. Accounts Receivable

Accounts receivable consisted of the following at June 30, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Student tuition and fees	\$ 2,027	\$ 2,401
Computer loan programs	136	131
Government grants	859	417
Other	645	736
	<u>3,667</u>	<u>3,685</u>
Less: Allowance for uncollectible accounts	<u>(357)</u>	<u>(627)</u>
Accounts receivable, net	<u>\$ 3,310</u>	<u>\$ 3,058</u>

5. Student Loans Receivable

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

Student loans receivable consisted of the following at June 30, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Student loan funds	\$ 3,437	\$ 3,897
Less: Allowance for uncollectible accounts	<u>(410)</u>	<u>(410)</u>
Student loans receivable, net	<u>\$ 3,027</u>	<u>\$ 3,487</u>

6. Pledges Receivable

Pledges receivable at June 30, 2017 and 2016, are expected to be realized in the following periods:

	<u>2017</u>	<u>2016</u>
In one year or less	\$ 902	\$ 780
Between one year and five years, net of discount	1,497	677
Five years and over, net of discount	881	908
	<u>3,280</u>	<u>2,365</u>
Less: Allowance for uncollectible pledges	<u>(245)</u>	<u>(146)</u>
Pledges receivable, net	<u>\$ 3,035</u>	<u>\$ 2,219</u>

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Pledges receivable expected to be collected within one year are recorded at their net realizable value. Those expected to be collected in future years are recorded at the present value of estimated future cash flows. The present value of estimated future cash flows has been measured at the time of the pledge using rates indicative of the market and credit risk associated with the pledge, which resulted in a discount of \$63 and \$16 for the years ended June 30, 2017 and 2016, respectively.

7. Inventories

Inventories are stated at the lower of cost or market. The School uses the first-in, first-out method of accounting for inventory. Inventory consists primarily of items held for resale by the School's stores. Inventories consisted of the following at June 30, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
RISD Store	\$ 932	\$ 877
RISD Store 3D	315	324
RISD Works	190	242
Dining	54	52
Postage and other	42	29
	<u>1,533</u>	<u>1,524</u>
Less: Obsolescence reserve	(45)	(45)
Inventories, net	<u>\$ 1,488</u>	<u>\$ 1,479</u>

8. Prepaid Expenses

Prepaid expenses consisted of the following at June 30, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Prepaid expenses	\$ 861	\$ 174

9. Related Parties

Management and the Board of Trustees report and monitor related party transactions in accordance with the School's conflict of interest policy. There were no related party transactions during the years ended June 30, 2017 and 2016, respectively.

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10. Property, Plant and Equipment

	<u>2017</u>	<u>2016</u>
Land and buildings		
Educational plant	\$ 190,947	\$ 186,468
Dormitories and refectory	92,962	91,924
Capital lease	-	7,809
Administrative and other	33,543	31,553
Residences	1,680	1,566
Construction in progress	5,159	1,527
Land	11,124	11,124
	<u>335,415</u>	<u>331,971</u>
Furniture, fixtures and equipment	<u>60,672</u>	<u>56,884</u>
	396,087	388,855
Less: Accumulated depreciation	<u>(188,546)</u>	<u>(182,618)</u>
Property, plant and equipment, net	<u>\$ 207,541</u>	<u>\$ 206,237</u>

Depreciation expense for the years ended June 30, 2017 and 2016 was \$10,616 and \$12,062, respectively.

11. Accounts Payable and Accrued Liabilities

Accounts payable and accrued liabilities consisted of the following at June 30, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Trade accounts payable	\$ 3,580	\$ 2,596
Accrued interest	890	943
Annuities payable	548	609
Accrued payroll	364	963
Accrued vacation	536	527
Payroll-related liabilities	(129)	(288)
Management fees	91	206
Deposits	555	575
Other	1,834	2,455
Accounts payable and accrued liabilities	<u>\$ 8,269</u>	<u>\$ 8,586</u>

12. Deferred Income

Deferred income represents tuition payments that were received in advance of the start of the academic semester and grant revenue that has not yet been earned. Deferred income at June 30, 2017 and 2016 was \$8,222 and \$6,911, respectively.

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13. Obligations Under Long-Term Agreements

During fiscal year 2004, the School entered into a long-term agreement with a third party in order to purchase the Center for Integrative Technology building. The amount outstanding on the capital lease was \$5,186 and \$5,395 at June 30, 2017 and 2016, respectively. Based on a variety of assumptions, the current estimation is that the lease term will end on or about 2031.

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

2018	\$	399
2019		439
2020		439
2021		439
2022		439
2023-2031		<u>4,452</u>
Total minimum lease payments		6,607
Interest expense		<u>(1,421)</u>
Total obligation	\$	<u>5,186</u>

In June 2007, the School entered into a capital lease for the Charles Landing building. The original lease term was 119 months with an initial obligation of \$7,809. Interest was computed using the incremental borrowing rate of 4.27%. The amount outstanding on the 2007 capital lease was \$1,225 at June 30, 2016. Effective July 1, 2016, the School entered into a new lease agreement for the Charles Landing building that replaced the 2007 capital lease agreement. The new lease term is 60 months with an option to extend for an additional 60 months. As a result, beginning in fiscal year 2017, the lease is treated as an operating lease agreement, and neither the related asset nor the liability is recorded on the balance sheet. Annual rent payments due for the building over the next four years are as follows:

2018	\$	1,294
2019		1,314
2020		1,333
2021		<u>1,353</u>
Total rent payments	\$	<u>5,294</u>

The School presents an asset retirement obligation on its Consolidated Statements of Financial Position that represents the probability and projected cost to remedy certain environmental hazards in relation to its buildings and boiler systems. The asset retirement obligation was \$4,785 and \$4,588 at June 30, 2017 and 2016, respectively.

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14. U.S. Government Loan Funds

Federal fund balance is shown as a liability in the event that the Perkins Loan program ceases. This number represents the federal capital contribution and federal percentage of revenues and expenses for the current year's Perkins Loan program. At June 30, 2017 and 2016, the liability was \$2,347 and \$2,781, respectively.

Allowance for Credit Losses

Management regularly assesses the adequacy of the allowance for credit losses by performing evaluations on the student loan portfolio, current economic environment, and level of delinquent loans. The allowance is adjusted based on the results of these evaluations. Loans disbursed under the Federal Perkins Loan Program are able to be assigned to the Federal government in certain non-repayment situations. Management believes that this allowance at June 30, 2017 is adequate to absorb credit losses inherent in the portfolio as of that date. There were no changes in the allowance for credit losses for the year ended June 30, 2017.

15. Bonds Payable and Other Debt

Name	Original Issue	Rate	Maturity	2017	2016
Rhode Island Health and Education Building Corporation					
Series 2008A	\$61,930	1.25% - 2.60%	2035	\$ 47,110	\$ 48,740
Series 2008B	\$31,850	1.25% - 2.60%	2037	31,850	31,850
Series 2012	\$28,340	2.50% - 5.00%	2031	24,950	25,640
Series 2012B	\$51,815	2.50% - 5.00%	2036	45,650	47,280
Bonds payable, net				149,560	153,510
Add: Unamortized Premium on Bonds				4,499	4,744
Less: Bond Issuance Costs				(980)	(1,038)
Bonds payable, net				<u>\$ 153,079</u>	<u>\$ 157,216</u>

As of June 30, 2017 and 2016, the unaccrued premium on the 2012 Bonds amounted to \$325 and \$349, and for the 2012B Bonds the unaccrued premium amounted to \$4,174 and \$4,395, respectively, both of which are being accreted over the lives of the bonds using the effective interest basis.

Rhode Island Health and Education Building Corporation (RIHEBC)

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

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

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On June 1, 2011, the School secured a \$31,850 letter of credit to cover an amount up to the outstanding balance of the 2008B bonds at the time of redemption. Any payout was to be repaid immediately or accrue interest. If payout was not made in 90 days, the payout would convert to a term loan, due in five semi-annual installments beginning six months after the conversion date. The letter of credit will expire November 2, 2018.

On December 4, 2012, the School secured a \$53,180 letter of credit which covered an amount up to the outstanding balance of the 2008A bonds at the time of redemption. This letter of credit for the 2008A bonds was to expire December 4, 2015. On November 2, 2015, the School secured a new \$48,740 letter of credit to cover an amount up to the outstanding balance of the 2008A bonds at the time of redemption plus 45 days' interest at the maximum rate of 12%. This letter of credit will expire November 2, 2018.

The School is required to comply with debt covenants to support its letters of credit. Until November 2015, the debt service ratio minimum requirement was 1.25 to 1 and the liquidity ratio minimum requirement was 0.85 to 1. Effective November 2015, with the new 2008A letter of credit and the amended 2008B letter of credit, the debt service ratio minimum requirement is 1.15 to 1 and the liquidity ratio minimum requirement is 0.50 to 1. The School is in compliance with its debt covenant requirements.

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

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

	<u>RIHEBC</u>
2018	\$ 4,125
2019	4,305
2020	4,505
2021	4,705
2022	4,915
2023–2038	<u>127,005</u>
Annual principal payments	<u>\$ 149,560</u>

Cash paid for interest on long-term debt for the years ended June 30, 2017 and 2016, was \$3,509 and \$3,185, respectively. Total interest expense for the years ended June 30, 2017 and 2016, was \$4,034 and \$3,936, respectively.

The School has entered into various interest rate swap agreements to manage the interest cost and variable rate risk associated with its outstanding debt. The interest rate swap agreements were not entered into for trading or speculative purposes. The risks associated with interest rate swaps are primarily market risk. Under the terms of these agreements, the School pays a fixed rate, determined at inception, to a third party who in turn pays the School a variable rate on these respective notional principal amounts. During the years ended June 30, 2017 and 2016, the School incurred realized losses of \$1,920 and \$2,158, respectively.

The School records interest rate swaps at the estimated value at which the swaps could be settled as of June 30, 2017 and 2016. The estimated fair value of the swap instruments represents the

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estimated cost to the School to cancel the agreements at the reporting date, which is based on option pricing models that consider risks and market factors. Unrealized appreciation of \$2,675 and unrealized depreciation of \$255 was recorded for the swaps for the years ended June 30, 2017 and 2016, respectively. The interest rate swap balances are classified as liabilities on the Consolidated Statements of Financial Position. Net payments or receipts under the swap agreements, along with the change in fair value of the swaps, are included in nonoperating revenues on the Consolidated Statements of Activities and in the cash flows from operating activities on the Consolidated Statements of Cash Flows.

In June 2017, the School restructured its \$28,500 callable swap by extending the call date from August 2019 to August 2024. As a result, the interest rate the school pays on this Swap was reduced from 3.94% to 2.68%. In addition, the school entered into a \$17,995 at-market future swap commencing on February 2020 to hedge a portion of its outstanding variable rate debt. RISD owns an option to cancel the swap beginning August 15, 2027 and semi-annual thereafter.

The following schedule presents the notional principal amounts of the School's interest rate swaps at June 30, 2017.

Maturity	Original Notional	Fair Value at June 30, 2017
February 1, 2020	\$ 18,000	\$ (670)
August 15, 2025	24,300	(1,815)
August 15, 2034	28,500	(2,095)
August 15, 2036 (Effective February 1, 2020)	17,995	(98)
Liability for interest rate swap		<u>\$ (4,678)</u>

16. Net Assets

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

	2017	2016
Unrestricted net assets		
Designated funds	\$ 11,548	\$ 9,671
Designated for endowment	242,867	226,875
Operating funds	39,365	31,410
Total unrestricted net assets	<u>293,780</u>	<u>267,956</u>
Temporarily restricted net assets	68,573	60,947
Permanently restricted net assets	50,496	45,029
Total net assets	<u>\$ 412,849</u>	<u>\$ 373,932</u>

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17. Endowment Funds

The School's endowment consists of approximately 268 individual donor-restricted endowment funds and 35 board-designated endowment funds for a variety of purposes plus the following where the assets have been designated for endowment: pledges receivable, split interest agreements, and other net assets. The endowment includes both donor-restricted endowment funds and funds designated by the Board of Trustees to function as endowments. The net assets associated with endowment funds, including funds designated by the Board of Trustees to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

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

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

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Endowment net asset composition by type of fund as of June 30, 2017 and 2016, were as follows:

	2017			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Board-designated				
For scholarships	\$ 11,948	\$ -	\$ -	\$ 11,948
For academic and institutional purposes	228,514	-	-	228,514
For museum support	2,405	-	-	2,405
For underwater endowments	-	-	-	-
Total board designated	<u>242,867</u>	<u>-</u>	<u>-</u>	<u>242,867</u>
Donor-restricted				
For scholarships	-	14,461	24,169	38,630
For academic and institutional purposes	-	5,558	11,034	16,592
For museum support	-	16,841	15,293	32,134
Total donor restricted	<u>-</u>	<u>36,860</u>	<u>50,496</u>	<u>87,356</u>
Total endowment funds	<u>\$ 242,867</u>	<u>\$ 36,860</u>	<u>\$ 50,496</u>	<u>\$ 330,223</u>

	2016			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Board-designated				
For scholarships	\$ 11,138	\$ -	\$ -	\$ 11,138
For academic and institutional purposes	213,808	-	-	213,808
For museum support	2,104	-	-	2,104
For underwater endowments	(175)	-	-	(175)
Total board designated	<u>226,875</u>	<u>-</u>	<u>-</u>	<u>226,875</u>
Donor-restricted				
For scholarships	-	11,932	22,181	34,113
For academic and institutional purposes	-	4,895	7,571	12,466
For museum support	-	14,891	15,277	30,168
Total donor restricted	<u>-</u>	<u>31,718</u>	<u>45,029</u>	<u>76,747</u>
Total endowment funds	<u>\$ 226,875</u>	<u>\$ 31,718</u>	<u>\$ 45,029</u>	<u>\$ 303,622</u>

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Changes in endowment net assets for the years ended June 30, 2017 and 2016, were as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets at June 30, 2016	\$ 226,875	\$ 31,718	\$ 45,029	\$ 303,622
Investment return				
Investment income	1,921	640	-	2,561
Net appreciation (realized and unrealized)	24,852	8,331	-	33,183
Total investment return	26,773	8,971	-	35,744
Gifts	7	-	5,467	5,474
Endowment return allocated for spending	(10,963)	(3,654)	-	(14,617)
Recovery of amounts transferred to restore underwater endowments	175	(175)	-	-
Endowment net assets at June 30, 2017	242,867	36,860	50,496	330,223
Nonendowment net assets	50,913	31,713	-	82,626
Total net assets at June 30, 2017	<u>\$ 293,780</u>	<u>\$ 68,573</u>	<u>\$ 50,496</u>	<u>\$ 412,849</u>

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets at June 30, 2015	\$ 250,488	\$ 36,953	\$ 44,201	\$ 331,642
Investment return				
Investment income	1,488	445	-	1,933
Net depreciation (realized and unrealized)	(8,567)	(2,498)	-	(11,065)
Total investment return	(7,079)	(2,053)	-	(9,132)
Gifts	32	-	828	860
Endowment return allocated for spending	(11,202)	(3,346)	-	(14,548)
Presentation change for RH	(5,200)	-	-	(5,200)
Transfer to restore underwater endowments	(164)	164	-	-
Endowment net assets at June 30, 2016	226,875	31,718	45,029	303,622
Nonendowment net assets	41,081	29,229	-	70,310
Total net assets at June 30, 2016	<u>\$ 267,956</u>	<u>\$ 60,947</u>	<u>\$ 45,029</u>	<u>\$ 373,932</u>

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

Endowment Funds with Deficits

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the value of the initial and subsequent donor gift amounts ("underwater"). When donor endowment deficits exist, they are classified as a reduction of unrestricted net assets. The total amount of endowment funds underwater was \$0 and \$175 as of June 30, 2017 and 2016, respectively. When the restricted endowment funds recover, the School will record income for the

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amounts originally transferred to restore the underwater endowments. Nonoperating income of \$175 and nonoperating loss of \$164, respectively, were recorded in unrestricted net assets as of June 30, 2017 and 2016, respectively. These results are directly driven by market fluctuations.

Return Objectives and Risk Parameters

The School has adopted endowment investment and spending policies that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of endowment assets. Under this policy, the return objective for the endowment assets, measured over a full market cycle of approximately five years, is to maximize the return against various market indexes across the investment portfolio as determined by the Investment Committee while minimizing risk. The goal of each investment manager over the investment horizon is to exceed the appropriate market index. The overall portfolio is intended to embody no greater risk than the risk of a blend of the indexes assigned to the managers.

Strategies Employed for Achieving Investment Objectives

To achieve its long-term rate of return objectives, the School relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized gains) and current yield (interest and dividends).

Endowment Spending Allocation and Relationship of Spending Policy to Investment Objectives

The Board of Trustees of the School determines the method to be used to appropriate endowment funds for expenditure. In 2017, the spending policy is to spend 4.75% of a rolling twenty-quarter average. In 2016, the spending policy is to spend the greater of 4.75% of a rolling twenty-quarter average or what was spent in 2015 adjusted for new gifts, not to exceed 5% of a rolling twenty-quarter average.

18. Museum

Museum revenues for the years ended June 30, 2017 and 2016, are described below:

	<u>2017</u>	<u>2016</u>
Service revenue per Consolidated Statements of Activities	\$ 1,024	\$ 1,060
Investment income	1,519	1,501
Gifts and grants	1,196	1,280
Total museum revenues	<u>\$ 3,739</u>	<u>\$ 3,841</u>

Collections

The majority of the School's collections resides in the Museum and consists of artifacts of historical significance, art objects and books that are held for educational, research, and curatorial purposes. Each of the items are cataloged, preserved, and cared for and activities verifying their existence and assessing their condition are performed periodically. The collections are subject to a policy that requires proceeds from their sales to be used to acquire other items for collections. The School expended \$599 and \$729 for acquisitions during the years ended June 30, 2017 and 2016, respectively. The School sold collections in the amount of \$26 and \$58 during the years ended June 30, 2017 and 2016, respectively. The sales proceeds were subsequently reinvested in the collection.

Rhode Island School of Design
Notes to the Consolidated Financial Statements
Years ended June 30, 2017 and 2016
(Dollars in thousands)

19. Operating Expenses

Operating Expenses, as presented in natural classification, consisted of the following at June 30, 2017 and 2016:

	2017		2016
	Total		Total
Operating expenses			
Salaries and wages	\$ 69,475	\$	67,538
Benefits	19,239		17,427
Contractual services	15,709		10,416
Depreciation	11,025		12,471
Supplies and general	6,708		7,155
Utilities, plant and equipment	5,438		6,398
Interest and amortization	4,258		4,262
Food services	3,078		2,869
Travel	3,114		2,689
Other	3,125		5,851
	<u>141,169</u>		<u>137,076</u>
Total expenses	\$ 141,169	\$	137,076

20. Retirement and Pension Plans

The School participates in the Teachers Insurance and Annuity Association (TIAA) for eligible faculty, administrative and staff employees. The School made contributions to the TIAA retirement plan which totaled approximately \$4,262 and \$4,075 for the years ended June 30, 2017 and 2016, respectively.

21. Commitments and Contingencies

On November 2, 2015, the School secured a line of credit with TD Bank, N.A. of \$10,000. On January 19, 2017, the line of credit was amended to extend the maturity date to March 31, 2018. The School had no outstanding borrowings against the line of credit as of June 30, 2017 and 2016.

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

22. Subsequent Events

The School has evaluated subsequent events through October 17, 2017, the date the audited financial statements were issued, and has concluded that there were no such events that require adjustment to the audited financial statements.

SUPPLEMENTAL INFORMATION

Rhode Island School of Design
Consolidating Statement of Financial Position
June 30, 2017
(Dollars in thousands)

	<u>RISD</u>	<u>RISD Holdings</u>	<u>Eliminations</u>	<u>Consolidated</u>
Assets				
Cash and cash equivalents	\$ 34,770	\$ 800	\$ -	\$ 35,570
Accounts receivable, net	3,236	57	17	3,310
Student loans receivable, net	3,027	-	-	3,027
Pledges receivable, net	3,035	-	-	3,035
Funds held in trust by others	19,253	-	-	19,253
Inventories	1,488	-	-	1,488
Prepaid expenses and deferred charges	861	-	-	861
Other investments	913	-	-	913
Long-term investments	329,617	-	(5,200)	324,417
Property, plant and equipment, net	203,211	4,330	-	207,541
Total assets	<u>\$ 599,411</u>	<u>\$ 5,187</u>	<u>\$ (5,183)</u>	<u>\$ 599,415</u>
Liabilities				
Accounts payable and accrued liabilities	\$ 8,252	\$ 718	\$ (701)	\$ 8,269
Deferred income	8,168	54	-	8,222
Obligations under long-term agreements	9,971	5,200	(5,200)	9,971
U.S. Government loan funds	2,347	-	-	2,347
Liability for interest rate swap	4,678	-	-	4,678
Bonds payable, net	153,079	-	-	153,079
Total liabilities	<u>186,495</u>	<u>5,972</u>	<u>(5,901)</u>	<u>186,566</u>
Net Assets				
Unrestricted net assets	293,847	(785)	718	293,780
Temporarily restricted net assets	68,573	-	-	68,573
Permanently restricted net assets	50,496	-	-	50,496
Total net assets	<u>412,916</u>	<u>(785)</u>	<u>718</u>	<u>412,849</u>
Total liabilities and net assets	<u>\$ 599,411</u>	<u>\$ 5,187</u>	<u>\$ (5,183)</u>	<u>\$ 599,415</u>

Rhode Island School of Design
Consolidating Statement of Operations
Year Ended June 30, 2017
(Dollars in thousands)

	<u>RISD</u>	<u>RISD Holdings</u>	<u>Eliminations</u>	<u>Consolidated</u>
Unrestricted net assets				
Revenues				
Tuition and fees	\$ 121,695	\$ -	\$ -	\$ 121,695
Less:				
School sponsored financial aid	(19,613)	-	-	(19,613)
Donor sponsored financial aid	(2,016)	-	-	(2,016)
Net tuition	100,066	-	-	100,066
Gifts and pledges	2,805	-	-	2,805
Grants	427	-	-	427
Auxiliary enterprises	25,883	-	-	25,883
Museum services	1,024	-	-	1,024
Investment income	12,883	-	(260)	12,623
Other income	1,987	1,269	(268)	2,988
Net assets released from restrictions	7,852	-	-	7,852
Total revenue	152,927	1,269	(528)	153,668
Operating expenses				
Instruction	49,706	-	-	49,706
Research	247	-	-	247
Academic support	7,309	-	(53)	7,256
Student services	8,669	-	-	8,669
Institutional support	22,200	1,042	(363)	22,879
Operation and maintenance	29,516	101	(72)	29,545
Auxiliary services	14,671	-	(18)	14,653
Museum	8,236	-	(22)	8,214
Total expenses	140,554	1,143	(528)	141,169
Increase in unrestricted net assets from operating activities	12,373	126	-	12,499
Nonoperating				
Realized and unrealized gain on interest rate swap	755	-	-	755
Realized and unrealized gain on investments, net	12,395	-	-	12,395
Gifts and pledges	-	-	-	-
Recovery of amounts transferred to restore underwater endowments	175	-	-	175
Increase in unrestricted net assets from nonoperating activities	13,325	-	-	13,325
Increase in unrestricted net assets	25,698	126	-	25,824
Total unrestricted net assets				
Beginning of year	268,149	(911)	718	267,956
End of year	\$ 293,847	\$ (785)	\$ 718	\$ 293,780

Rhode Island School of Design
Notes to the Supplemental Consolidating Information
Years ended June 30, 2017
(Dollars in thousands)

1. Basis of Presentation

The accompanying supplemental consolidating information includes the consolidating statement of financial position and the consolidating statement of operations of the School and RH. All intercompany accounts and transactions between the School and RH have been eliminated. The consolidating information presented is prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America consistent with the consolidated financial statements. The consolidating information is presented for purposes of additional analysis of the consolidated financial statements and is not required as part of the basic financial statements.