BRYANT UNIVERSITY

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Consolidated Financial Statements

June 30, 2009 and 2008

(With Independent Auditors' Report Thereon)

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BRYANT UNIVERSITY

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KPMG LLP
50 Kennedy Plaza
Providence, RI 02903

Independent Auditors' Report

The Board of Trustees
Bryant University:

We have audited the accompanying consolidated statements of financial position of Bryant University (the University) as of June 30, 2009 and 2008, and the related consolidated statements of activities and cash flows for the years then ended. These consolidated financial statements are the responsibility of the University's management. Our responsibility is to express an opinion on these 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 of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the University's internal control over financial reporting. Accordingly, we express no such opinion. An audit also 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, as well as evaluating the overall consolidated financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the University as of June 30, 2009 and 2008, and the changes in its net assets and its cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles.

As discussed in note 4, effective June 30, 2009, the State of Rhode Island adopted the *Uniform Prudent Management of Institutional Funds Act* (UPMIFA). As a result, the University reclassified certain net asset balances to conform to the accounting provisions of Financial Accounting Standards Board (FASB) Staff Position No. 117-1, *Endowments of Not-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*.

KPMG LLP

October 28, 2009

BRYANT UNIVERSITY

Consolidated Statements of Financial Position

June 30, 2009 and 2008

(Dollars in thousands)

Assets		**2009**	**2008**
Cash and short-term investments (note 3)	$	30,265	38,484
Accounts receivable, net		945	1,227
Contributions receivable, net (note 5)		267	387
Prepaid expenses and other assets		1,206	1,362
Notes receivable, net (note 6)		6,375	6,070
Long-term investments (note 3 and 4)		122,593	171,337
Deposits held by bond trustees (note 8)		391	494
Land, buildings, and equipment, net (notes 7 and 8)		157,122	140,493
Total assets	$	319,164	359,854
Liabilities and Net Assets			
Liabilities:			
Accounts payable and accrued liabilities	$	16,600	16,134
Deferred revenues and advance payments		8,144	8,402
Asset retirement obligation		2,999	3,100
Interest rate swaps (note 9)		6,133	2,913
Notes and bonds payable, net (note 8)		86,376	88,226
Refundable advances – U.S. government grants (note 6)		5,791	5,706
Total liabilities		126,043	124,481
Net assets:			
Unrestricted:			
Available for operations		8,606	19,024
Designated for long-term investment		105,135	153,193
Net investment in plant		62,005	46,748
Total unrestricted net assets		175,746	218,965
Temporarily restricted (note 4 and 10):			
Designated for long-term investment		3,285	—
Other temporarily restricted programs		2,129	991
Total temporarily restricted		5,414	991
Permanently restricted (notes 4 and 11)		11,961	15,417
Total net assets		193,121	235,373
Commitments and contingencies (note 3)			
Total liabilities and net assets	$	319,164	359,854

See accompanying notes to consolidated financial statements.

BRYANT UNIVERSITY

Consolidated Statement of Activities

Year ended June 30, 2009

(Dollars in thousands)

	Unrestricted	Temporarily restricted	Permanently restricted	Total 2009
Operating:				
Revenues:				
Tuition and fees	$ 106,393	—	—	106,393
Residence and dining	30,698	—	—	30,698
Less scholarships and grants	(34,396)	—	—	(34,396)
Net student revenue	102,695	—	—	102,695
Contributions	1,003	—	—	1,003
Net assets released from restrictions (note 12)	811	—	—	811
Government grants	685	—	—	685
Long-term investment income used in operations (note 3)	7,854	—	—	7,854
Short-term investment loss	(461)	—	—	(461)
Public service	1,073	—	—	1,073
Auxiliary and other sources	5,703	—	—	5,703
Total operating revenues	119,363	—	—	119,363
Expenses (note 14):				
Instruction	33,286	—	—	33,286
Academic support	10,731	—	—	10,731
Student services	22,823	—	—	22,823
Institutional support	19,275	—	—	19,275
Public service	2,111	—	—	2,111
Auxiliary services	26,660	—	—	26,660
Total operating expenses	114,886	—	—	114,886
Increase in net assets from operating activities	4,477	—	—	4,477
Nonoperating:				
Capital contributions	—	2,390	357	2,747
Net assets released from restrictions (note 12)	401	(1,212)	—	(811)
Net unrealized and realized loss on long-term investments, less amount used in operations (note 3)	(49,013)	—	—	(49,013)
Change in fair value of interest rate swaps (note 9)	(3,220)	—	—	(3,220)
Net proceeds from termination of swaps	3,399	—	—	3,399
Other	208	(40)	1	169
Change in net assets from nonoperating activities	(48,225)	1,138	358	(46,729)
Change in accounting principle relating to endowment (note 4)	529	3,285	(3,814)	—
Change in net assets	(43,219)	4,423	(3,456)	(42,252)
Net assets:				
Beginning of year	218,965	991	15,417	235,373
End of year	$ 175,746	5,414	11,961	193,121

See accompanying notes to consolidated financial statements.

BRYANT UNIVERSITY

Consolidated Statement of Activities

Year ended June 30, 2008

(Dollars in thousands)

	Unrestricted	Temporarily restricted	Permanently restricted	Total 2008
Operating:				
Revenues:				
Tuition and fees	$ 95,427	—	—	95,427
Residence and dining	28,684	—	—	28,684
Less scholarships and grants	(30,470)	—	—	(30,470)
Net student revenue	93,641	—	—	93,641
Contributions	875	—	—	875
Net assets released from restrictions (note 12)	751	—	—	751
Government grants	648	—	—	648
Long-term investment income used in operations (note 3)	7,136	—	—	7,136
Short-term investment income	1,370	—	—	1,370
Public service	1,160	—	—	1,160
Auxiliary and other sources	4,529	—	—	4,529
Total operating revenues	110,110	—	—	110,110
Expenses (note 14):				
Instruction	30,891	—	—	30,891
Academic support	10,056	—	—	10,056
Student services	20,344	—	—	20,344
Institutional support	17,246	—	—	17,246
Public service	2,195	—	—	2,195
Auxiliary services	25,054	—	—	25,054
Total operating expenses	105,786	—	—	105,786
Increase in net assets from operating activities	4,324	—	—	4,324
Nonoperating:				
Capital contributions	—	622	1,196	1,818
Net assets released from restrictions (note 2)	336	(1,087)	—	(751)
Net unrealized and realized (loss) gain on long-term investments, less amount used in operations (note 3)	(8,709)	—	734	(7,975)
Change in fair value of interest rate swaps (note 9)	(3,242)	—	—	(3,242)
Other	(676)	(10)	—	(686)
Change in net assets from nonoperating activities	(12,291)	(475)	1,930	(10,836)
Change in net assets	(7,967)	(475)	1,930	(6,512)
Net assets:				
Beginning of year	226,932	1,466	13,487	241,885
End of year	$ 218,965	991	15,417	235,373

See accompanying notes to consolidated financial statements.

BRYANT UNIVERSITY

Consolidated Statements of Cash Flows

Years ended June 30, 2009 and 2008

(Dollars in thousands)

		2009	2008
Cash flows from operating activities:			
Change in net assets	$	(42,252)	(6,512)
Adjustment to reconcile change in net assets to cash provided by operating activities:			
Depreciation and amortization		15,017	13,518
Write-off of issuance costs of series 2005 and 2007 bonds		—	959
Net unrealized and realized loss on long-term investments		42,959	3,336
Net loss on disposal of assets		—	69
Contributions of furniture, equipment, and other assets		(66)	(41)
Contributions received for long-term investment		(303)	(1,231)
Change in fair value of interest rate swaps		3,220	3,242
Net proceeds from termination of swaps		(3,399)	—
Net change in working capital		648	2,151
Net cash provided by operating activities		15,824	15,491
Cash flows from investing activities:			
Additions to land, buildings, and equipment		(31,714)	(29,850)
Proceeds from sale of equipment		276	227
Proceeds from maturities and sales of investments		248,658	235,833
Cost of purchases of investments		(236,296)	(234,858)
Change in deposits held by bond trustees		103	18,176
Change in notes receivable, net		(305)	(109)
Net cash used in investing activities		(19,278)	(10,581)
Cash flows from financing activities:			
Contributions received for long-term investment		303	1,231
Repayment of principal on notes and bonds payable		(1,915)	(2,401)
Retirement of debt		—	(50,000)
Proceeds from debt issuance		—	50,420
Payment of bond issuance costs		(59)	(520)
Net proceeds from termination of swaps		3,399	—
Increase in refundable advances – U.S. government grants		85	66
Net cash provided by (used in) financing activities		1,813	(1,204)
Change in cash		(1,641)	3,706
Cash, beginning of year (note 3)		1,469	(2,237)
Cash (overdraft), end of year (note 3)	$	(172)	1,469

See accompanying notes to consolidated financial statements.

(1) Description of the University

Bryant University (the University) is a private, nonsectarian, co-educational institution of higher education chartered under the laws of the State of Rhode Island, composed of a College of Business and a College of Arts and Sciences. The University was founded in 1863 and is located in Smithfield, Rhode Island, on approximately 420 acres. The University offers a program leading to bachelor's degrees in business administration, communications, information technology, applied psychology, and liberal studies. Additionally, the University offers graduate programs leading to master's degrees in accounting, business administration, and taxation.

The University has a wholly owned consolidated subsidiary, BRU LLC. The purpose of the subsidiary is to own and manage real estate and to conduct or engage in any lawful business or purpose related thereto. All significant intercompany transactions and balances have been eliminated in consolidation.

(2) Summary of Significant Accounting Policies

The accompanying consolidated financial statements, which are presented on the accrual basis of accounting, have been prepared to focus on the University as a whole and to present balances and transactions according to the existence or absence of donor-imposed restrictions.

(a) Net Assets

Net assets, revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets and changes therein are classified as follows:

- *Permanently restricted net assets* – Net assets subject to donor-imposed stipulations that they be maintained permanently by the University. Generally, the donors of these assets permit the University to use all or part of the income and gains, if any, on related investments for general or specific purposes.
- *Temporarily restricted net assets* – Net assets subject to donor-imposed stipulations that may or will be met by actions of the University and/or the passage of time.
- *Unrestricted net assets* – Net assets not subject to donor-imposed stipulations which the University may use at its discretion.

Revenues are reported as increases in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulations or law. Expirations of temporary restrictions on net assets, that is, the donor-imposed stipulated purpose has been accomplished and/or the stipulated time period has elapsed, are reported as net assets released from restrictions between the applicable classes of net assets.

(Continued)

Dividends, interest, and net gains (losses) on investments are reported as follows:

- as increases in permanently restricted net assets if the terms of the gift or the University's interpretation of relevant state law requires that they be added to the principal of a permanently restricted fund;
- as increases (decreases) in temporarily restricted net assets if the terms of the contributions impose restrictions on the current use of the income and/or net gains; and
- as increases (decreases) in unrestricted net assets in all other cases.

Contributions, including unconditional promises to give, are recognized as revenues in the period received. Contributions subject to donor-imposed stipulations that are met in the same reporting period are reported as unrestricted revenues. Promises to give that are scheduled to be received after the consolidated statements of financial position dates are shown as increases in temporarily restricted net assets and are released to unrestricted net assets when the purpose and/or time restrictions are met. Promises to give subject to donor-imposed stipulations that the corpus be maintained permanently are recognized as increases in permanently restricted net assets. Conditional promises to give are not recognized until they become unconditional, that is, when the conditions on which they depend are substantially met. Contributions of assets other than cash are recorded at their estimated fair value. The University reports contributions of land, buildings, or equipment as unrestricted revenues unless the donor places restrictions on their use. Contributions of cash or other assets that must be used to acquire long-lived assets are reported as unrestricted revenues provided the long-lived assets are placed in service in the same reporting period. Otherwise, the contributions are reported as temporarily restricted support until the assets are acquired and placed in service.

Unconditional promises to give that are receivable as of the end of the fiscal year are recorded at their net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of estimated future cash flows. The discounts on those amounts are computed using a risk-free interest rate applicable to the year in which the promise is expected to be received. Amortization of the discount is recorded as additional contribution revenue in accordance with the donor-imposed restrictions, if any.

The University adheres to the American Institute of Certified Public Accountants (AICPA), *Not for Profit Organizations Audit and Accounting Guide,* in reporting expenses by their functional classification. Accordingly, depreciation, interest, and operations and maintenance expenses have been allocated to functional classifications based on building square footage. In addition, total fundraising expenses were $2,373 and $2,057 for the years ended June 30, 2009 and 2008, respectively.

(b) Short-Term Investments

Short-term investments include cash equivalents having maturities at date of purchase of three months or less, and are carried at cost, which approximates market value.

(c) Investments

Investments are reported at fair value. If an investment is held directly by the University and an active market with quoted prices exists, the University reports the fair value as the market price of the security. The University also holds shares or units in nonmarketable securities including alternative investments such as private equity, venture capital, hedge funds, and real assets strategies. Such alternative investment funds may hold securities or other financial instruments for which a ready market exists and are priced accordingly. In addition, such funds may hold assets, which require the estimation of fair values in the absence of readily determinable market values. Such valuations are determined by fund managers and generally consider variables such as operating results, comparable earnings multiples, projected cash flows, recent sales prices, and other pertinent information, and may reflect discounts for the illiquid nature of certain investments held.

In connection with the adoption of Financial Accounting Standards Board (FASB) Statement No. 157, *Fair Value Measurements* (SFAS No. 157), the University adopted the accounting provisions of Accounting Standards Update No. 2009-12, *Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)*, to its alternative investments. This standard amends SFAS No. 157 and allows for the estimation of the fair value of investments in investment companies for which the investment does not have a readily determinable fair value using net asset value (NAV) per share or its equivalent as a practical expedient.

These investments are generally redeemable or may be liquidated at net asset value (NAV) under the original terms of the subscription agreements and operations of the underlying funds. However, it is possible that these redemption rights may be restricted or eliminated by the funds in the future in accordance with the underlying fund agreements. Due to the nature of the investments held by these funds, changes in market conditions and the economic environment may significantly impact the NAV of the funds and, consequently, the fair value of the University's interests in the funds. Furthermore, changes to the liquidity provisions of the funds may significantly impact the fair value of the University's interest in the funds. Although certain investments may be sold in secondary market transactions, subject to meeting certain requirements of the governing documents of the funds, the secondary market is not active and individual transactions are not necessarily observable. It is therefore reasonably possible that if the University were to sell its interest in a fund in the secondary market, the sale could occur at an amount materially different than the reported value.

(d) Use of Estimates

The preparation of consolidated financial statements in conformity with U.S. generally accepted accounting principles (GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities, as of 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. The current economic environment increases the uncertainty in those estimates.

(e) Land, Buildings, and Equipment

Land, constructed and purchased property, and equipment are carried at historical cost. Long-lived fixed assets, with the exception of land, are depreciated using the straight-line method over their estimated useful lives, which range from two to forty years.

(f) Deferred Revenues

Students' reservation deposits, along with advance payments for tuition, room, board, and certain expenditures that relate to the University's summer or fall sessions, have been deferred and will be recorded as unrestricted revenues and expenses, respectively, in the year in which they are earned or incurred.

(g) Tax Status

The University is a tax-exempt organization as described in Section 501(c)(3) of the Internal Revenue Code (the Code) and is generally exempt from income taxes pursuant to Section 501(a) of the Code.

FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes—an interpretation of FASB Statement No. 109* (FIN 48), requires entities to determine whether it is more likely than not that a tax position will be sustained upon examination by the appropriate taxing authorities before any part of the benefit can be recorded in the financial statements. FIN 48 had no impact on the University's consolidated financial statements.

(h) Operations

The consolidated statements of activities report the changes in unrestricted, temporarily restricted, and permanently restricted assets from operating and nonoperating activities. Unrestricted operating revenues consist of those items attributable to the University's primary mission of providing education. It includes investment earnings on the University's operating funds. Investment earnings on the University's unrestricted long-term investments and all realized and unrealized gains and losses, net of the amount appropriated for operations, are classified as nonoperating. Net assets released from restrictions for capital purposes are also classified as nonoperating. Additionally, unrestricted operating revenues include contributions received related to annual fund support, while all other contributions and related capital campaign fundraising expenses are classified as nonoperating. Changes in the fair values of the University's swap investments, proceeds from swap terminations, and losses on early termination of debt are classified as nonoperating.

(i) Asset Retirement Obligations

The fair value of a liability for legal obligations associated with asset retirements is recognized in the period in which it is incurred in accordance with Statement of Financial Accounting Standards (SFAS) No. 143, *Accounting for Asset Retirement Obligations* (SFAS 143), and FASB Interpretation No. 47, *Accounting for Conditional Asset Retirement Obligations – an interpretation of FASB Statement No. 143* (FIN 47), if a reasonable estimate of the fair value of the obligation can be made. When the liability is initially recorded, the cost of the asset retirement obligation is capitalized by increasing the carrying amount of the related long-lived asset. Over time, the liability is accreted to its present value each period, and the capitalized cost associated with the retirement obligations is depreciated over the useful life of the related asset. Upon settlement of the obligation, any difference between the cost to settle the asset retirement obligation and the liability recorded is recognized as a gain or loss in the consolidated statements of activities. The University had an asset retirement obligation of $2,999 and $3,100 as of June 30, 2009 and 2008, respectively.

(j) Fair Value of Financial Instruments

SFAS No. 107, *Disclosures about Fair Value of Financial Instruments*, requires the University to disclose fair value information about all financial instruments, whether or not recognized in the consolidated statement of financial position, for which it is practicable to estimate fair value. Cash and short-term investments, accounts receivable, and accounts payable are carried at net realizable value, which approximates fair value. The fair values of all other financial assets and liabilities are disclosed in the accompanying notes.

(3) Investments

Effective July 1, 2008, the University adopted the recognition and disclosure provisions of SFAS No. 157. SFAS No. 157 defines fair value, establishes a framework for measuring fair value in GAAP for both recurring and nonrecurring measurements, whether accounted for or disclosed in the financial statements, and expands disclosures about fair value measurements. The University's recurring fair value measurements include investments and interest rate swaps. Fair value represents the price that would be received upon the sale of an asset or paid upon the transfer of a liability in an orderly transaction between market participants as of the measurement date. SFAS No. 157 establishes a fair value hierarchy that prioritizes observable and unobservable inputs used to measure fair value into three levels:

- Level 1 – quoted prices (unadjusted) in active markets that are accessible at the measurement date for assets or liabilities;
- Level 2 – observable prices that are based on inputs not quoted in active markets, but corroborated by market data; and
- Level 3 – unobservable inputs are used when little or no market data is available.

The fair value hierarchy gives the highest priority to Level 1 inputs and the lowest priority to Level 3 inputs. In determining fair value, the University utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs to the extent possible.

The University owns interests in alternative investment funds rather than in the securities underlying each fund, and therefore, it is generally required to consider such investments as Level 2 or 3 for purposes of applying SFAS No. 157, even though the underlying securities may not be difficult to value or may be readily marketable. Also, because of the use of NAV as a practical expedient to estimate fair value, the level in the fair value hierarchy in which each fund's fair value measurement is classified is based primarily on the University's ability to redeem interest in the fund at or near the date of the statement of financial position. Accordingly, the inputs or methodology used for valuing or classifying consolidated investments for financial reporting purposes are not necessarily an indication of the risk associated with investing in those investments or a reflection on the liquidity of each fund's underlying assets and liabilities.

(Dollars in thousands)

The following is a summary of investments classified based on SFAS No. 157 valuation category as of June 30:

	2009				2008
	Level 1	**Level 2**	**Level 3**	**Total**	**Total**
Short-term investments:					
Cash and equivalents	$ 8,654	24	—	8,678	4,657
Equity securities	402	503	—	905	1,073
Fixed income securities	—	20,558	124	20,682	26,976
Hedge funds	—	—	—	—	5,778
Total short-term investments	9,056	21,085	124	30,265	38,484
Deposits held by bond trustees	391	—	—	391	494
Long-term investments (endowment):					
Equity securities	44,129	6,505	—	50,634	77,497
Fixed income securities	11,326	9,932	355	21,613	29,189
Hedge funds	—	9,002	14,874	23,876	33,491
Real estate funds	—	—	5,162	5,162	9,455
Private equity and venture capital funds	—	—	14,009	14,009	14,563
Natural resource funds	—	1,715	4,672	6,387	7,134
Cash and equivalents	809	103	—	912	8
Total long-term investments	56,264	27,257	39,072	122,593	171,337
Total investments	$ 65,711	48,342	39,196	153,249	210,315

Substantially all of the investments classified as Level 2 and 3 have been valued using NAV as a practical expedient.

(Dollars in thousands)

The following table presents the University's activity for the fiscal year ended June 30, 2009 for investments measured at fair value using significant unobservable inputs (Level 3) as defined in SFAS No. 157:

Level 3 roll forward		**Private partnerships**	**Hedge funds**	**Fixed income**	**2009 Total**
Fair value as of July 1, 2008	$	31,153	21,759	4,889	57,801
Acquisitions		4,480	6,006	46,322	56,808
Dispositions		(2,402)	(8,912)	(50,732)	(62,046)
Net realized gain		232	836	—	1,068
Unrealized losses on investments		(9,620)	(4,815)	—	(14,435)
Fair value at June 30, 2009	$	23,843	14,874	479	39,196

Under the terms of certain limited partnership agreements, the University is obligated to remit additional funding periodically as capital or liquidity calls are exercised by investment managers. The University had outstanding commitments to such limited partnerships of $13,495 as of June 30, 2009.

		Projected capital calls
Fiscal year:		
2010	$	3,817
2011		3,425
2012		2,538
Thereafter		3,715
Total	$	13,495

These capital calls are based on the University's best estimate of the timing of the total remaining amounts committed to the partnerships, although there can be no assurance that the timing or the amounts of these estimates will materialize as shown.

Alternative investments including private partnerships are redeemable with the fund at net asset value under the original terms of the partnership agreement and/or subscription agreements and operations of the underlying funds. All marketable alternative investment fund redemptions require 65 days or less written notice prior to the redemption period.

(Dollars in thousands)

The investments fair values as of June 30, 2009 are broken out below by redemption period:

		Investment fair values
Investments redemption (or sale) period:		
Daily	$	82,721
Monthly		21,873
Quarterly		9,002
Annual		2,868
Locked up until liquidation		36,785
Total as of June 30, 2009	$	153,249

The limited partnerships with redemption lock-up periods have various terms with extensions of one to three years.

The expirations of redemption lock up periods are summarized in the table below:

		Amount
Fiscal year:		
2010	$	937
2011		12,006
2012		4,009
2013		—
2014		571
Thereafter		19,262
Total	$	36,785

Long-term investment activity consisted of the following for the years ended June 30, 2009 and 2008:

		2009	2008
Long-term investments at beginning of year	$	171,337	178,108
Contributions		303	1,231
Interest and dividends		3,547	5,112
Net realized and unrealized loss		(42,959)	(3,336)
Management fees		(1,747)	(2,615)
Total investment loss		(41,159)	(839)
Amount appropriated for operating activities		(7,854)	(7,136)
Interfund transfers		(34)	(27)
Long-term investments at end of year	$	122,593	171,337

(Continued)

Management fees have been calculated based on actual costs charged by investment managers and, in the case of mutual funds, based on an approximation of expense ratios on assets under management.

Cash and short-term investments as of June 30, 2009 and 2008, respectively, include a cash (overdraft) balance of $(172) and $1,469, respectively.

(4) Endowment

Effective June 30, 2009, the University adopted the provisions of FASB Staff Position No. 117-1, *Endowments of Not-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* (FSP 117-1). FSP 117-1 provides guidance on required disclosures about endowment funds, both donor-restricted endowment funds and board-designated endowment funds.

The University's endowment consists of individual funds established for a variety of purposes including both donor-restricted endowment funds and funds designated by the Board of Trustees to function as endowments. 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.

(a) Interpretation of Relevant Law

On June 30, 2009, the Uniform Prudent Management of Institutional Funds Act (UPMIFA) was adopted by the State of Rhode Island. The Board of Trustees of the University has interpreted UPMIFA as providing precise standards to investing in a prudent manner by establishing a duty to minimize cost, diversify the investments, investigate facts relevant to the investment of the fund, to consider tax consequences of investment decisions and making investment decisions in light of the fund's entire portfolio as a part of an investment strategy having risk, and return objectives reasonably suited to the fund and to the University.

Under the Uniform Management of Institutional Funds Act (UMIFA), the predecessor of UPMIFA in the State of Rhode Island, the University historically made annual inflation reclassifications to the endowment in permanently restricted net assets. Since these are not required by UPMIFA, the University reinstated the accumulated inflation adjustments to the unrestricted net assets in the amount of $3,814 at June 30, 2009.

UPMIFA also permits the University to appropriate for expenditure or accumulate so much of an endowment fund as the University determines to be prudent for the uses, benefits, purposes, and duration for which the endowment fund is established, thereby eliminating the restriction that a fund could not be spent below its historical dollar value. Seven criteria are to be used to guide the University in its yearly expenditure decisions: 1) duration and preservation of the endowment fund; 2) the purposes of the University and the endowment fund; 3) general economic conditions; 4) effect of inflation or deflation; 5) the expected total return from income and the appreciation of investments; 6) other resources of the University; and 7) the investment policy of the University. Since UPMIFA requires the University to appropriate endowment funds for usage under the aforementioned guidelines, the University, in accordance with FSP 117-1, reclassified $3,285 of unrestricted net assets to temporarily restricted net assets reflecting accumulated unappropriated gains on endowment funds as of June 30, 2009.

(Dollars in thousands)

The new act is effective for June 30, 2009 and governs decision made or actions taken on or after the effective date of the act. The University will be reviewing the provisions of the act to determine what changes, if any, may be required to the investing and spending policies of the University's Board of Trustees.

Endowment net asset composition by type of fund consists of the following at June 30, 2009:

		Unrestricted	Temporarily restricted	Permanently restricted	Total
Donor-restricted endowment funds	$	(488)	3,285	11,790	14,587
Board-designated endowment funds		105,623	—	—	105,623
Total endowed net assets	$	105,135	3,285	11,790	120,210

Changes in endowment net assets for the year ended June 30, 2009 are as follows:

		Unrestricted	Temporarily restricted	Permanently restricted	Total
Endowment net assets, July 1, 2008	$	153,193	—	15,301	168,494
Investment return:					
Investment income, net		1,771	—	—	1,771
Net losses		(42,504)	—	—	(42,504)
Total investment return		(40,733)	—	—	(40,733)
Contributions		—	—	303	303
Change in accounting principle		529	3,285	(3,814)	—
Appropriation of endowment assets for expenditure		(7,854)	—	—	(7,854)
Endowment net assets, June 30, 2009	$	105,135	3,285	11,790	120,210

(Dollars in thousands)

Endowment net asset composition by type of fund consists of the following at June 30, 2008:

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Donor-restricted endowment funds	$ —	—	15,301	15,301
Board-designated endowment funds	153,193	—	—	153,193
Total endowed net assets	$ 153,193	—	15,301	168,494

Changes in endowment net assets for the year ended June 30, 2008 are as follows:

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Endowment net assets, July 1, 2007	$ 161,726	—	13,337	175,063
Investment return:				
Investment income, net	1,732	—	733	2,465
Net losses	(3,129)	—	—	(3,129)
Total investment return	(1,397)	—	733	(664)
Contributions	—	—	1,231	1,231
Appropriation of endowment assets for expenditure	(7,136)	—	—	(7,136)
Endowment net assets, June 30, 2008	$ 153,193	—	15,301	168,494

Long-term investments as of June 30, 2009 and 2008 include $2,383 and $2,843, respectively, of operating investments, which are not part of the endowment investment pool.

(b) Funds with Deficiencies

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below their original contributed value. Deficiencies of this nature are reported in unrestricted net assets and were $488 as of June 30, 2009. These deficiencies resulted from unfavorable market fluctuations that occurred after the investment of new permanently restricted contributions. Subsequent gains that restore the fair value of the assets of the endowment fund to the required level will be classified as an increase in unrestricted net assets.

(c) Return Objectives and Risk Parameters

The University has adopted investment and spending policies for endowment assets that attempt to support the educational mission of the University by providing a reliable source of funds for current and future use. The financial objective is to provide a level of support consistent with the endowment's purchasing power being maintained or enhanced over time. It is expected that professional management and portfolio diversification will reduce volatility and assure a reasonably consistent level of return. Endowment assets include those assets of donor-restricted funds that the University must hold in perpetuity or for a donor-specified period as well as board-designated funds. The primary investment objective of the management of the endowment fund is to maintain and grow the fund's real value by generating average annual real returns that meet or exceed the spending rate, after inflation, management fees, and administrative costs. Consistent with this goal, the Board of Trustees and the Investment Committee intend that the endowment fund be managed to maximize total returns consistent with prudent levels of risk, reduce portfolio risk through asset allocation and diversification, and outperform each of the capital markets in which assets are invested.

(d) Strategies Employed for Achieving Objectives

To satisfy its long-term rate-of-return objectives, the University relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Investment Committee is responsible for establishing an asset allocation policy. The asset allocation policy is designed to attempt to achieve diversity among capital markets and within capital markets, by investment discipline and management style. The Investment Committee designs a policy portfolio in light of the endowment's needs for liquidity, preservation of purchasing power, and risk tolerances.

The University targets a diversified asset allocation that places emphasis on investments in domestic and international equities, fixed income, hedge funds and alternative investments such as private equity, venture capital, natural resources, and real estate, as well as cash equivalents, to achieve its long-term return objectives within prudent risk constraints. The Investment Committee periodically reviews the policy portfolio's asset allocation for possible rebalancing.

Under the University's endowment investment spending policy, up to 5% of the endowment investments' three-year average market value is appropriated for expenditure.

(Dollars in thousands)

(5) Contributions Receivable

Contributions receivable consisted of the following as of June 30, 2009 and 2008:

		2009	2008
Amounts due in:			
Less than one year	$	355	533
One to five years		110	161
Over five years		5	10
Less discount and allowance for uncollectible contributions		(203)	(317)
Contributions receivable, net	$	267	387

The risk adjusted discount rate, which ranged from 0.29% to 5.11%, is utilized in determining the fair value of such contributions receivable.

(6) Notes Receivable

Notes receivable include funds advanced to the University by the U.S. government under the Federal Perkins Loan Program (the Program). Such funds may be reloaned by the University after collection, but in the event that the University no longer participates in the Program, the amounts are generally refundable to the U.S. government. Notes receivable are principally amounts under the Program and are subject to significant restrictions. Accordingly, it is not practicable to determine the fair value of such amounts.

(7) Land, Buildings, and Equipment

The University's land, buildings and equipment are composed of the following as of June 30, 2009 and 2008:

		2009	2008
Buildings and leasehold improvements	$	189,056	175,817
Furniture, equipment, and other assets		46,126	43,823
Land and improvements		16,078	15,914
Construction in progress		17,275	5,364
		268,535	240,918
Less accumulated depreciation		(111,413)	(100,425)
Land, buildings, and equipment, net	$	157,122	140,493

Depreciation expense was $14,815 and $13,233 for the years ended June 30, 2009 and 2008, respectively. The University capitalized net interest on construction in progress in the amount of $(171) in 2008.

(Continued)

(Dollars in thousands)

(8) Notes and Bonds Payable

Notes and bonds payable outstanding as of June 30, 2009 and 2008 are as follows:

		2009	2008
3.000%, U.S. Department of Housing and Urban Development (HUD) Bryant College Dormitory Bonds of 1969, due in semiannual installments of varying amounts to 2010	$	43	125
4.240%, RIHEBC, 1998 Master Lease, due in varying amounts to 2009		—	303
4.000%–5.000%, RIHEBC, 2001 Series, due in varying amounts to 2032		25,795	26,410
4.300%–5.125%, RIHEBC, 2002 Series, due in varying amounts to 2019		10,315	11,115
Variable rate, RIHEBC, 2008 Series, due in varying amounts to 2035		50,305	50,420
Less unamortized bond discount		(82)	(147)
Notes and bonds payable, net	$	86,376	88,226

Cash paid for interest was $3,854 and $4,132 for the years ended June 30, 2009 and 2008, respectively.

The University's bonds trade periodically in a limited market. Utilizing available market pricing information provided by a third-party, the University estimated that the aggregate fair value of its debt was substantially equivalent to its carrying value as of June 30, 2009 and 2008.

Scheduled annual principal repayments of bonds payable are as follows:

Fiscal year:		
2010	$	1,823
2011		1,900
2012		1,965
2013		2,035
2014		2,115
Thereafter		76,620
Total principal payments	$	86,458

The 1969 HUD bonds are collateralized by a first mortgage on certain dormitories of the University.

In December 1998, the University entered into a $5,000 master lease with Rhode Island Health and Educational Building Corporation (RIHEBC). The lease is collateralized by the assets purchased with the lease proceeds. This obligation was paid off during 2009.

In January 2001, the University entered into an agreement with RIHEBC, which provided for the issuance of $30,000 Higher Education Facility Revenue Bonds, Series 2001 due in varying principal payments or sinking fund payments to December 1, 2031. These bonds are a general obligation of the University, requiring a pledge of tuition and admission fees received in each fiscal year.

In May 2002, the University entered into an agreement with RIHEBC, which provided for the issuance of $19,425 Higher Education Facility Revenue Refunding Bonds, 2002 Series A Bonds, due in varying principal payments or sinking fund payments to June 1, 2019. These bonds are a general obligation of the University, requiring a pledge of tuition and admission fees received in each fiscal year.

In June 2008, the University entered into an agreement with RIHEBC, which provided for the issuance of $50,420 variable rate, Higher Education Facility Revenue Refunding Bonds, due in varying principal payments or sinking fund payments to June 1, 2035. They are a general obligation of the University, requiring a pledge of tuition and admission fees received in each fiscal year. This bond series is backed by a $51,082 direct-pay Letter of Credit agreement with a bank, which expires on April 24, 2011. The purpose of issuing the 2008 debt was to refund the 2005 and 2007 variable rate bonds including certain expenses incurred in connection with the issuance. In conjunction with this refunding, the University wrote off unamortized debt issuance costs of $959, which were included as a nonoperating expense in 2008. The interest rate at June 30, 2009 was 0.25%.

In January 2009, the University obtained an unsecured line of credit with a bank for a maximum amount of $10,000. There is no balance outstanding under the line at June 30, 2009. The line of credit bears an interest rate per annum equal to the sum of the LIBOR Lending Rate for a specific interest period plus the LIBOR Rate Applicable Margin.

The University's bond and line of credit agreements contain certain covenants, which the University was in compliance with as of June 30, 2009.

(9) Interest Rate Swaps

In November 2008, due to the default of the counterparty to the University's interest rate swaps, the University terminated its three existing interest rate swap agreements and negotiated new swap agreements with another set of counterparties. Net proceeds from the termination and renegotiation of the swaps totaled $3,399. The purpose of these new agreements was to swap the variable rate on the underlying $50,420 debt issued in June 2008 for fixed rates. One interest rate swap was entered into for $30,000 to obtain a fixed rate of 3.793%. Another two interest rate swaps were entered into for $10,000 each to obtain fixed rates of 3.790% and 3.856%, respectively. Counterparty payments will continue through June 1, 2035. The liability, representing a decrease in the value of all three swap agreements, has been recorded as an unrestricted net liability on the consolidated statements of financial position for the years ended June 30, 2009 and 2008 in the amount of $6,133 and $2,913, respectively.

The University entered into these agreements to hedge cash flows attributable to interest payments on the debt issues and does not use such instruments for speculative purposes. Under SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities*, the instruments' fair values and changes therein must be measured in the University's net assets. The values of the swap instruments represent the estimated benefit or cost to the University to cancel the agreements at the reporting date, and are based on option pricing models that consider risks and market factors.

(Dollars in thousands)

Counterparty	Issue date	Effective date	Expiration/ termination date	Remaining notional amount	Swap fixed rate	Fair value at June 30 Asset (liability) 2009	2008
Wells Fargo Bank, N.A.	11/24/08	11/24/08	06/01/35	$ 30,000	3.793%	$ (3,719)	—
Barclays Bank, PLC	11/24/08	11/24/08	06/01/35	10,000	3.790	(1,252)	—
Barclays Bank, PLC	11/24/08	11/24/08	06/01/35	9,900	3.856	(1,162)	—
Lehman Brothers Special Financing Inc.	02/07/05	10/01/08	11/24/08	30,000	3.793	—	(1,712)
Lehman Brothers Special Financing Inc.	02/07/05	10/01/08	11/24/08	10,000	3.790	—	(573)
Lehman Brothers Special Financing Inc.	02/13/06	10/01/07	11/24/08	10,000	3.856	—	(628)
Totals						$ (6,133)	(2,913)

Since the swap fair values are based predominantly on observable inputs that are corroborated by market data, they are categorized as Level 2 for purposes of valuation disclosure under SFAS No. 157.

(10) Temporarily Restricted Net Assets

Temporarily restricted net assets consisted of the following as of June 30, 2009 and 2008:

	2009	2008
Contributions receivable, net	$ 204	378
Purpose restrictions:		
Scholarships	318	357
Instruction	403	113
Academic support	1	1
Student services	84	41
Public service	9	—
Buildings and facilities	1,030	38
Other capital campaign	80	63
Cumulative endowment appreciation (note 4)	3,285	—
Total purpose restrictions	5,210	613
Total temporarily restricted net assets	$ 5,414	991

(Dollars in thousands)

(11) Permanently Restricted Net Assets

Permanently restricted net assets consisted of the following as of June 30, 2009 and 2008:

		2009	2008
Contributions receivable, net	$	63	9
Assets for which income is restricted for the following purposes:			
Scholarships		10,284	13,108
Instruction and other programs		1,614	2,300
Total income restricted as to purpose		11,898	15,408
Total permanently restricted net assets	$	11,961	15,417

(12) Net Assets Released from Restrictions

Net assets released from donor restrictions by incurring expenses or costs satisfying the restricted purposes or by occurrence of events specified by the donors were as follows:

		2009	2008
Buildings and facilities	$	400	331
Scholarships and other programs		812	756
Total net assets released from restrictions	$	1,212	1,087

(13) Retirement Plan

The University has a defined contribution retirement plan (the Plan) for eligible full-time academic, administrative and service personnel. The Plan is designed in accordance with the provisions of Section 403(b) of the Internal Revenue Code. Contributions are made by the University and the participants to the Teachers' Insurance and Annuity Association – College Retirement Equities Fund (TIAA-CREF) and the Fidelity Service Company, the Plan's investment custodians, based on participant elections. The University's expense under the Plan was $3,331 and $3,062 for the years ended June 30, 2009 and 2008, respectively.

(Dollars in thousands)

(14) Natural Classification of Operating Expenses

Operating expenses by their natural classification were as follows for the years ended June 30, 2009 and 2008:

		2009	2008
Salaries and wages	$	47,254	43,502
Depreciation and amortization		15,017	13,518
Fringe benefits		14,807	13,356
Purchased services		7,403	6,412
Food service		7,114	6,678
Utilities and communications		3,835	3,932
Interest		3,814	3,958
Advertising and publications		2,176	2,217
Facility renovations		2,082	1,837
Supplies and postage		1,585	1,603
Other		9,799	8,773
Total operating expenses	$	114,886	105,786

(15) Subsequent Events

For purposes of determining the effects of subsequent events on these financial statements, management has evaluated events subsequent to June 30, 2009 and through October 28, 2009, the date on which the consolidated financial statements were issued. The University concluded that no material subsequent events have occurred.