KPMG

BRYANT UNIVERSITY

Financial Statements

June 30, 2006 and 2005

(With Independent Auditors' Report Thereon)

BRYANT UNIVERSITY

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Independent Auditors' Report

The Board of Trustees
Bryant University:

We have audited the accompanying statements of financial position of Bryant University (the University) as of June 30, 2006 and 2005, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the University's management. Our responsibility is to express an opinion on these 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 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 includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the University as of June 30, 2006 and 2005, 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 15, effective July 1, 2005, the University adopted FASB Interpretation No. 47, *Accounting for Conditional Asset Retirement Obligations – an interpretation of FASB Statement No. 143.*

KPMG LLP

September 19, 2006

BRYANT UNIVERSITY

Statements of Financial Position

June 30, 2006 and 2005

(Dollars in thousands)

Assets		**2006**	**2005**
Cash and short-term investments (note 3)	$	25,391	17,736
Accounts receivable, net		1,042	886
Contributions receivable, net (note 4)		1,699	2,280
Prepaid expenses and other assets		1,602	896
Notes receivable, net (note 5)		5,963	5,471
Interest rate swap asset (note 8)		422	—
Long-term investments (note 3)		154,727	141,231
Deposits held by bond trustees (note 7)		20,578	358
Land, buildings, and equipment, net (notes 6, 7 and 15)		101,700	90,236
Total assets	$	313,124	259,094
Liabilities and Net Assets			
Liabilities:			
Accounts payable and accrued liabilities	$	12,653	8,900
Deferred revenues and advance payments		6,963	6,264
Asset remediation obligation (note 15)		3,974	—
Interest rate swap liability (note 8)		—	2,513
Notes and bonds payable, net (note 7)		72,371	44,506
Refundable advances – U.S. government grants (note 5)		5,526	5,469
Total liabilities		101,487	67,652
Net assets:			
Unrestricted:			
Available for operations		10,867	6,423
Designated for long-term investment		139,477	126,945
Net investment in plant		46,355	43,574
Total unrestricted net assets		196,699	176,942
Temporarily restricted (note 9)		2,217	2,552
Permanently restricted (notes 10 and 13)		12,721	11,948
Total net assets		211,637	191,442
Total liabilities and net assets	$	313,124	259,094

See accompanying notes to financial statements.

BRYANT UNIVERSITY

Statement of Activities

Year ended June 30, 2006

(Dollars in thousands)

	Unrestricted	Temporarily restricted	Permanently restricted	Total 2006
Operating:				
Revenues:				
Tuition and fees	$ 79,894	—	—	79,894
Residence and dining	22,497	—	—	22,497
Less scholarships and grants	(22,555)	—	—	(22,555)
Net student revenue	79,836	—	—	79,836
Contributions	970	—	—	970
Net assets released from restrictions (note 11)	743	—	—	743
Government grants	647	—	—	647
Long-term investment income used in operations (note 3)	6,084	—	—	6,084
Short-term investment income	1,489	—	—	1,489
Public service	2,209	—	—	2,209
Auxiliary and other sources	3,781	—	—	3,781
Total operating revenues	95,759	—	—	95,759
Expenses (note 14):				
Instruction	23,990	—	—	23,990
Academic support	8,856	—	—	8,856
Student services	16,813	—	—	16,813
Institutional support	14,989	—	—	14,989
Public service	3,164	—	—	3,164
Auxiliary services	19,956	—	—	19,956
Total operating expenses	87,768	—	—	87,768
Increase in net assets from operating activities	7,991	—	—	7,991
Nonoperating:				
Capital contributions	—	886	395	1,281
Net assets released from restrictions (note 11)	622	(1,365)	—	(743)
Net unrealized and realized gain on long-term investments, less amount used in operations (note 3)	11,733	—	521	12,254
Change in fair value of interest rate swaps (note 8)	2,935	—	—	2,935
Other	327	144	(143)	328
Changes in net assets from nonoperating activities	15,617	(335)	773	16,055
Change in accounting principle relating to asset remediation obligation (note 15)	(3,851)	—	—	(3,851)
Change in net assets	19,757	(335)	773	20,195
Net assets:				
Beginning of year	176,942	2,552	11,948	191,442
End of year	$ 196,699	2,217	12,721	211,637

See accompanying notes to financial statements.

BRYANT UNIVERSITY

Statement of Activities

Year ended June 30, 2005

(Dollars in thousands)

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Operating:				
Revenues:				
Tuition and fees	$ 71,819	—	—	71,819
Residence and dining	19,954	—	—	19,954
Less scholarships and grants	(20,529)	—	—	(20,529)
Net student revenue	71,244	—	—	71,244
Contributions	1,141	—	—	1,141
Net assets released from restrictions (note 11)	567	—	—	567
Government grants	617	—	—	617
Long-term investment income used in operations (note 3)	6,028	—	—	6,028
Short-term investment income	698	—	—	698
Public service	2,407	—	—	2,407
Auxiliary and other sources	3,377	—	—	3,377
Total operating revenues	86,079	—	—	86,079
Expenses (note 14):				
Instruction	22,551	—	—	22,551
Academic support	8,708	—	—	8,708
Student services	14,444	—	—	14,444
Institutional support	14,240	—	—	14,240
Public service	3,187	—	—	3,187
Auxiliary services	18,094	—	—	18,094
Total operating expenses	81,224	—	—	81,224
Increase in net assets from operating activities	4,855	—	—	4,855
Nonoperating:				
Capital contributions	199	1,019	682	1,900
Net assets released from restrictions (note 11)	1,817	(2,406)	22	(567)
Net unrealized and realized gain on long-term investments, less amount used in operations (note 3)	8,880	—	289	9,169
Change in fair value of interest rate swaps (note 8)	(2,513)	—	—	(2,513)
Other	(65)	54	—	(11)
Capital campaign fundraising expenses	(1,072)	—	—	(1,072)
Changes in net assets from nonoperating activities	7,246	(1,333)	993	6,906
Change in net assets	12,101	(1,333)	993	11,761
Net assets:				
Beginning of year	164,841	3,885	10,955	179,681
End of year	$ 176,942	2,552	11,948	191,442

See accompanying notes to financial statements.

BRYANT UNIVERSITY

Statements of Cash Flows

Years ended June 30, 2006 and 2005

(Dollars in thousands)

		2006	2005
Cash flows from operating activities:			
Change in net assets	$	20,195	11,761
Adjustment to reconcile change in net assets to cash provided by operating activities:			
Depreciation and amortization		10,504	8,574
Net unrealized and realized gain on long-term investments		(15,641)	(12,705)
Contributions of furniture, equipment, and other assets		(67)	(14)
Contributions received for long-term investment		(415)	(783)
Change in fair value of interest rate swaps		(2,935)	2,513
Increase in asset remediation obligations		3,974	—
Net change in working capital		1,536	2,403
Net cash provided by operating activities		17,151	11,749
Cash flows from investing activities:			
Additions to land, buildings, and equipment		(18,392)	(14,328)
Proceeds from maturities and sales of investments		106,417	145,182
Cost of purchases of investments		(114,609)	(139,772)
Increase in deposits held by bond trustees		(20,220)	(8)
Change in notes receivable, net		(491)	(66)
Net cash used in investing activities		(47,295)	(8,992)
Cash flows from financing activities:			
Contributions received for long-term investment		415	783
Repayment of principal on notes and bonds payable		(2,200)	(3,562)
Proceeds from debt issuance		30,000	—
Payment of bond issuance costs		(810)	—
Increase in refundable advances – U.S. government grants		57	104
Net cash provided by (used in) financing activities		27,462	(2,675)
Change in cash		(2,682)	82
Cash, beginning of year		148	66
Cash (overdraft), end of year	$	(2,534)	148

See accompanying notes to 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 400 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 business administration, information systems, and taxation.

(2) Summary of Significant Accounting Policies

The accompanying 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.

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 permanent 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 statements of financial position date 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 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 $1,451 and $2,233 for the years ended June 30, 2006 and 2005, 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 carried at fair value. All long-term investments have been reported in the financial statements at their fair value in the case of marketable securities. The fair value of publicly traded securities is based upon quotes from the principal exchanges on which the security is traded. Mutual fund investments are valued based on net asset values. The net increase (decrease) in realized and unrealized appreciation (depreciation) in the fair value of such investments has been included in the statements of activities in the appropriate net asset classification.

Alternative investments are composed of hedge funds, partnerships in venture capital, private equity, natural resources, and real estate, for which quoted market prices are not available. The estimated fair value of these investments is based on valuations provided by the external investment managers. Since limited partnership investments are not readily marketable, their estimated value is subject to uncertainty and therefore may differ from the value that would have been used had a ready market for such investments existed, and such difference could be material.

Management is responsible for the fair measurements of investments reported in the financial statements. The University has implemented policies and procedures to assess the reasonableness of the fair values provided and believes that reported fair values as of the statements of financial position dates are reasonable.

(d) Liquidity

In order to provide information about liquidity, assets have been sequenced according to their convertibility to cash, and liabilities according to their estimated maturity.

(e) Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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 financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(f) 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 three to forty years.

(g) Deferred Revenues

Students' reservation deposits, along with advance payments for tuition, room, board, and certain expenditures which 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.

(h) 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.

(i) Operations

The statements of activities report the changes in unrestricted, temporarily restricted, and permanently restricted assets from operating and nonoperating activities. Unrestricted operating

(Continued)

(Dollars in thousands)

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, 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.

(j) 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 Financial Accounting Standards Board (FASB) Interpretation No. 47, *Accounting for Conditional Asset Retirement Obligations* (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 statements of activities.

(3) Investments

Long-term investments consisted of the following as of June 30, 2006 and 2005:

		2006	2005
Equity securities and mutual funds	$	80,907	75,859
Fixed income securities and mutual funds		26,283	26,083
Alternative investments:			
Hedge Funds		23,827	18,946
Real Estate Funds		11,941	11,993
Private Equity and Venture Capital Funds		7,131	4,272
Natural Resources		4,187	3,152
Cash equivalents		451	926
Total long-term investments, at fair value	$	154,727	141,231

The University had open purchase commitments for its partnership investments of $16,089 as of June 30, 2006.

(Dollars in thousands)

Long-term investment activity consisted of the following for the years ended June 30, 2006 and 2005:

		2006	2005
Long-term investments at beginning of year	$	141,231	131,279
Contributions		415	783
Interest and dividends		4,615	4,029
Net realized and unrealized gains		15,535	12,705
Management fees		(1,812)	(1,537)
Total investment earnings		18,338	15,197
Amount appropriated for operating activities		(6,084)	(6,028)
Net nonmandatory interfund transfers		827	—
Long-term investments at end of year	$	154,727	141,231

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.

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

Cash and short-term investments of $25,391 and $17,736 as of June 30, 2006 and 2005, respectively, include a cash balance (overdraft) of ($2,534) and $148, respectively.

(4) Contributions Receivable

Contributions receivable consisted of the following as of June 30, 2006 and 2005:

		2006	2005
Amounts due in:			
Less than one year	$	1,237	1,155
One to five years		802	1,676
Over five years		20	53
Less discount and allowance for uncollectible contributions		(360)	(604)
Contributions receivable, net	$	1,699	2,280

(5) 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.

(Dollars in thousands)

(6) Land, Buildings and Equipment

The University's land, buildings and equipment are comprised of the following as of June 30, 2006 and 2005:

		2006	2005
Buildings and leasehold improvements	$	123,374	119,669
Furniture, equipment, and other assets		35,889	31,205
Land and improvements		15,051	10,168
Construction in progress		8,474	940
		182,788	161,982
Less accumulated depreciation		(81,088)	(71,746)
Land, buildings and equipment, net	$	101,700	90,236

Depreciation expense was $10,269 and $8,420 for the years ended June 30, 2006 and 2005, respectively. The University capitalized net interest on construction in progress in the amount of $394 in 2006.

(7) Notes and Bonds Payable

Notes and bonds payable outstanding as of June 30, 2006 and 2005 are as follows:

		2006	2005
3%, U.S. Department of Housing and Urban Development (HUD) Bryant College Dormitory Bonds of 1969, due in semiannual installments of varying amounts to 2010	$	283	358
4.73%, RIHEBC, 1998 Master Lease, due in varying amounts to 2008		741	1,086
4.24%, RIHEBC, 1998 Master Lease, due in varying amounts to 2009		1,452	1,992
4.00%-5.00%, RIHEBC, 2001 Series, due in varying amounts to 2032		27,565	28,105
3.50%-5.125%, RIHEBC, 2002 Series, due in varying amounts to 2019		12,605	13,305
Variable rate, RIHEBC, 2002 Series, due in varying amounts to 2035		30,000	—
Less unamortized bond discount		(275)	(340)
Notes and bonds payable, net	$	72,371	44,506

Cash paid for interest was $2,700 and $2,277 for the years ended June 30, 2006 and 2005, respectively.

(Continued)

(Dollars in thousands)

The University believes that its debt approximates fair value based on estimates using interest rates available for similar debt with equivalent maturities.

Scheduled annual principal repayments of notes and bonds payable as of June 30, 2006 and 2005 are as follows:

		Bonds	Notes
Fiscal year:			
2007	$	1,368	925
2008		1,435	966
2009		1,497	302
2010		1,558	—
2011		1,635	—
Thereafter		62,960	—
Total principal payments	$	70,453	2,193

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

In June 1998, the University entered into a $3,100 Master Lease with RIHEBC. The lease is collateralized by the assets purchased with the lease proceeds.

In December 1998, the University entered into a $5,000 Master Lease with RIHEBC. The lease is collateralized by the assets purchased with the lease proceeds.

In January 2001, the University entered into an agreement with RIHEBC which provided for the issuance of $30,000, 4.00%-5.19%, Higher Education Facility Revenue Bonds, Series 2001 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 May 2002, the University entered into an agreement with RIHEBC which provided for the issuance of $19,425, 2.00%-5.24%, 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 December 2005, the University entered into an agreement with RIHEBC which provided for the issuance of $30,000, variable rate, Higher Education Facility Revenue Bonds, due in varying principal payments or sinking fund payments to June 30, 2035. These bonds are a general obligation of the University, requiring a pledge of tuition and admission fees received in each fiscal year.

(Dollars in thousands)

(8) Interest Rate Swaps

In February 2005, the University entered into two interest rate swap agreements with a financial institution counterparty. The purpose of these agreements is to swap the variable rate on the underlying debt issued for $30,000 in December 2005, and another $10,000 of debt anticipated to be issued in October 2007, for fixed rates of 3.79% and 3.79%, respectively. Counterparty payments will commence monthly from November 1, 2008 through June 1, 2035. In February 2006, the University entered into another interest rate swap in anticipation of issuing a further $10,000 of variable rate debt in October 2007. The variable rate on the underlying additional debt will be swapped for a fixed rate of 3.86%. Counterparty payments on this swap will commence monthly from October 1, 2007 through June 1, 2035. The University entered into the agreements to hedge cash flows attributable to interest payments on the anticipated debt issue and does not use such instruments for speculative purposes. Under SFAS 133, 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. The asset, representing an increase in value of the agreements, has been recorded as an unrestricted net asset on the statement of financial position for the year ended June 30, 2006 in the amount of $422 (a liability in the amount of $2,513 at June 30, 2005).

(9) Temporarily Restricted Net Assets

Temporarily restricted net assets consisted of the following as of June 30, 2006 and 2005:

	2006	2005
Contributions receivable, net	$ 1,614	2,136
Purpose restrictions:		
Scholarships	333	178
Instruction	114	101
Academic support	4	1
Student services	58	40
Institutional support	4	4
Public service	26	36
Buildings and facilities	15	21
Other capital campaign	49	35
Total purpose restrictions	603	416
Total temporarily restricted net assets	$ 2,217	2,552

(Dollars in thousands)

(10) Permanently Restricted Net Assets

Permanently restricted net assets consisted of the following as of June 30, 2006 and 2005:

		2006	2005
Contributions receivable, net	$	85	106
Assets for which income is restricted for the following purposes:			
Scholarships		10,619	9,953
Instruction and other programs		2,017	1,889
Total income restricted as to purpose		12,636	11,842
Total permanently restricted net assets	$	12,721	11,948

(11) 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:

		2006	2005
Buildings and facilities	$	648	1,816
Scholarships and other programs		717	590
Total net assets released from restrictions	$	1,365	2,406

(12) 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 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 $2,546 and $2,473 for the years ended June 30, 2006 and 2005, respectively.

(Dollars in thousands)

(13) Uniform Management of Institutional Funds Act

The University is incorporated under the laws of the State of Rhode Island and is, therefore, subject to the provisions of the Rhode Island Uniform Management of Institutional Funds Act (the Act), as amended. Under the Act, the accumulated realized and unrealized gains related to the investment of a permanently restricted contribution may legally be appropriated for expenditure by the University to a specified limit, with a fixed amount remaining with the permanently restricted contribution in order to account for any changes in the purchasing power of the historic dollar value of the contribution, unless donor-imposed restrictions explicitly provide otherwise, thus preserving the buying power of these contributions. Accordingly, the net gains on permanently restricted contributions that contain no donor restrictions as to the use of income derived therefrom have been included in unrestricted net assets. The net gains on permanently restricted contributions that contain donor restrictions as to the use of income derived therefrom have been included in temporarily restricted net assets to the extent that they are not spent pursuant to the restrictions in the same period they are earned. Only the original amount of permanently restricted contributions, plus the calculation of a portion of the income and gains based upon the consumer price index, has been included in permanently restricted net assets.

(14) Natural Classification of Operating Expenses

Operating expenses by their natural classification were as follows for the years ended June 30, 2006 and 2005:

		2006	2005
Salaries and wages	$	36,692	35,205
Fringe benefits		10,754	10,015
Depreciation and amortization		10,504	8,574
Food service		5,693	4,957
Purchased services		5,335	4,339
Utilities and communications		3,631	2,886
Facility renovations		2,279	2,153
Interest		2,307	2,267
Advertising and publications		2,106	1,948
Supplies and postage		1,205	1,262
Other		7,262	7,618
Total operating expenses	$	87,768	81,224

(15) Change in Accounting Principle

In March 2005, the FASB issued FIN 47, *Accounting for Conditional Asset Retirement Obligations – an interpretation of FASB Statement No. 143*. This Interpretation clarifies that an entity is required to recognize a liability for the fair value of a conditional asset retirement obligation if the fair value of the liability can be reasonably estimated. SFAS 143 requires the fair value of a liability for a legal obligation associated with an asset retirement be recorded in the period in which the obligation is incurred. When the liability is initially recorded, the cost of the asset retirement is capitalized.

The University adopted FIN 47 effective July 1, 2005 and recorded a liability of $3,974, of which $3,851 was recorded as a cumulative effect of a change in accounting principle, which reflects the accretion of the liability and depreciation of the related asset component from the liability inception date through June 30, 2006. Accretion of the liability will be provided in operations for future inflation of these costs, and subsequent actual costs will be charged as incurred to the liability account.