



BRYANT UNIVERSITY

Consolidated Financial Statements

June 30, 2012 and 2011

(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 consolidated statements of financial position of Bryant University (the University) as of June 30, 2012 and 2011, 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, 2012 and 2011, 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.

KPMG LLP

October 22, 2012

BRYANT UNIVERSITY

Consolidated Statements of Financial Position

June 30, 2012 and 2011

(Dollars in thousands)

| Assets | 2012 | 2011 |
|---|-------------------|----------------|
| Cash and short-term investments (note 3) | \$ 45,802 | 37,285 |
| Accounts receivable, net | 1,184 | 1,916 |
| Contributions receivable, net (note 5) | 3,108 | 667 |
| Prepaid expenses and other assets | 1,569 | 1,539 |
| Notes receivable, net (note 6) | 5,477 | 5,558 |
| Long-term investments (notes 3 and 4) | 146,067 | 153,068 |
| Deposits held by trustees | 9 | — |
| Land, buildings, and equipment, net (notes 7 and 8) | 152,359 | 154,068 |
| Total assets | \$ 355,575 | 354,101 |
| Liabilities and Net Assets | | |
| Liabilities: | | |
| Accounts payable and accrued liabilities | \$ 16,491 | 16,014 |
| Deferred revenues and advance payments | 6,760 | 7,110 |
| Asset retirement obligation | 2,611 | 2,573 |
| Interest rate swaps (note 9) | 14,241 | 6,870 |
| Notes and bonds payable, net (note 8) | 81,035 | 82,734 |
| Refundable advances – U.S. government grants (note 6) | 6,102 | 5,983 |
| Total liabilities | 127,240 | 121,284 |
| Net assets: | | |
| Unrestricted: | | |
| Available for operations | 26,803 | 19,605 |
| Designated for long-term investment | 123,851 | 130,581 |
| Net investment in plant | 54,652 | 61,858 |
| Total unrestricted net assets | 205,306 | 212,044 |
| Temporarily restricted (notes 4 and 10): | | |
| Designated for long-term investment | 5,170 | 6,094 |
| Other temporarily restricted programs | 4,270 | 2,513 |
| Total temporarily restricted | 9,440 | 8,607 |
| Permanently restricted (notes 4 and 11) | 13,589 | 12,166 |
| Total net assets | 228,335 | 232,817 |
| Commitments and contingencies (note 3) | | |
| Total liabilities and net assets | \$ 355,575 | 354,101 |

See accompanying notes to consolidated financial statements.

BRYANT UNIVERSITY

Consolidated Statement of Activities

Year ended June 30, 2012

(Dollars in thousands)

| | <u>Unrestricted</u> | <u>Temporarily restricted</u> | <u>Permanently restricted</u> | <u>Total 2012</u> |
|--|---------------------|-----------------------------------|-----------------------------------|-----------------------|
| Operating: | | | | |
| Revenues: | | | | |
| Tuition and fees | \$ 119,355 | — | — | 119,355 |
| Residence and dining | 32,195 | — | — | 32,195 |
| Less scholarships and grants | <u>(40,398)</u> | — | — | <u>(40,398)</u> |
| Net student revenue | 111,152 | — | — | 111,152 |
| Contributions | 1,414 | — | — | 1,414 |
| Net assets released from restrictions (note 12) | 1,977 | — | — | 1,977 |
| Government grants | 1,941 | — | — | 1,941 |
| Long-term investment income used in operations (note 3) | 6,912 | — | — | 6,912 |
| Short-term investment income | 199 | — | — | 199 |
| Public service | 211 | — | — | 211 |
| Auxiliary and other sources | <u>6,023</u> | — | — | <u>6,023</u> |
| Total operating revenues | <u>129,829</u> | — | — | <u>129,829</u> |
| Expenses (note 14): | | | | |
| Instruction | 30,498 | — | — | 30,498 |
| Academic support | 11,297 | — | — | 11,297 |
| Research | 5,382 | — | — | 5,382 |
| Student services | 25,367 | — | — | 25,367 |
| Institutional support | 20,066 | — | — | 20,066 |
| Public service | 2,452 | — | — | 2,452 |
| Auxiliary services | <u>26,780</u> | — | — | <u>26,780</u> |
| Total operating expenses | <u>121,842</u> | — | — | <u>121,842</u> |
| Increase in net assets from operating activities | <u>7,987</u> | — | — | <u>7,987</u> |
| Nonoperating: | | | | |
| Capital contributions | — | 4,037 | 1,425 | 5,462 |
| Net assets released from restrictions (note 12) | 260 | (2,237) | — | (1,977) |
| Net unrealized and realized loss on long-term investments, less amount used in operations (note 3) | (7,710) | (926) | — | (8,636) |
| Change in fair value of interest rate swaps (note 9) | (7,371) | — | — | (7,371) |
| Other | 164 | (41) | (2) | 121 |
| Capital campaign expenses | <u>(68)</u> | — | — | <u>(68)</u> |
| Change in net assets from nonoperating activities | <u>(14,725)</u> | 833 | 1,423 | <u>(12,469)</u> |
| Change in net assets | <u>(6,738)</u> | 833 | 1,423 | <u>(4,482)</u> |
| Net assets: | | | | |
| Beginning of year | <u>212,044</u> | <u>8,607</u> | <u>12,166</u> | <u>232,817</u> |
| End of year | <u>\$ 205,306</u> | <u>9,440</u> | <u>13,589</u> | <u>228,335</u> |

See accompanying notes to consolidated financial statements.

BRYANT UNIVERSITY

Consolidated Statement of Activities

Year ended June 30, 2011

(Dollars in thousands)

| | <u>Unrestricted</u> | <u>Temporarily restricted</u> | <u>Permanently restricted</u> | <u>Total 2011</u> |
|--|---------------------|-----------------------------------|-----------------------------------|-----------------------|
| Operating: | | | | |
| Revenues: | | | | |
| Tuition and fees | \$ 114,287 | — | — | 114,287 |
| Residence and dining | 32,409 | — | — | 32,409 |
| Less scholarships and grants | <u>(40,367)</u> | — | — | <u>(40,367)</u> |
| Net student revenue | 106,329 | — | — | 106,329 |
| Contributions | 1,300 | — | — | 1,300 |
| Net assets released from restrictions (note 12) | 1,187 | — | — | 1,187 |
| Government grants | 1,502 | — | — | 1,502 |
| Long-term investment income used in operations (note 3) | 7,566 | — | — | 7,566 |
| Short-term investment income | 321 | — | — | 321 |
| Public service | 140 | — | — | 140 |
| Auxiliary and other sources | <u>5,866</u> | — | — | <u>5,866</u> |
| Total operating revenues | <u>124,211</u> | — | — | <u>124,211</u> |
| Expenses (note 14): | | | | |
| Instruction | 29,855 | — | — | 29,855 |
| Academic support | 10,927 | — | — | 10,927 |
| Research | 4,904 | — | — | 4,904 |
| Student services | 24,027 | — | — | 24,027 |
| Institutional support | 19,402 | — | — | 19,402 |
| Public service | 1,934 | — | — | 1,934 |
| Auxiliary services | <u>27,077</u> | — | — | <u>27,077</u> |
| Total operating expenses | <u>118,126</u> | — | — | <u>118,126</u> |
| Increase in net assets from operating activities | <u>6,085</u> | — | — | <u>6,085</u> |
| Nonoperating: | | | | |
| Capital contributions | — | 2,156 | 373 | 2,529 |
| Net assets released from restrictions (note 12) | 494 | (1,681) | — | (1,187) |
| Net unrealized and realized gain on long-term investments, less amount used in operations (note 3) | 19,359 | 2,604 | — | 21,963 |
| Change in fair value of interest rate swaps (note 9) | 1,745 | — | — | 1,745 |
| Other | <u>(970)</u> | <u>(31)</u> | <u>(27)</u> | <u>(1,028)</u> |
| Change in net assets from nonoperating activities | <u>20,628</u> | <u>3,048</u> | <u>346</u> | <u>24,022</u> |
| Change in net assets | 26,713 | 3,048 | 346 | 30,107 |
| Net assets: | | | | |
| Beginning of year | <u>185,331</u> | <u>5,559</u> | <u>11,820</u> | <u>202,710</u> |
| End of year | <u>\$ 212,044</u> | <u>8,607</u> | <u>12,166</u> | <u>232,817</u> |

See accompanying notes to consolidated financial statements.

BRYANT UNIVERSITY
Consolidated Statements of Cash Flows
Years ended June 30, 2012 and 2011
(Dollars in thousands)

| | 2012 | 2011 |
|--|-------------|-------------|
| Cash flows from operating activities: | | |
| Change in net assets | \$ (4,482) | 30,107 |
| Adjustment to reconcile change in net assets to cash provided by operating activities: | | |
| Depreciation | 16,157 | 16,393 |
| Amortization of bond issuance cost and premium | (19) | 102 |
| Net unrealized and realized loss (gain) on long-term investments | 2,813 | (28,543) |
| Net (gain) loss on disposal of assets | (208) | 74 |
| Contributions of furniture, equipment, and other assets | (13) | — |
| Contributions received for long-term investment | (742) | (377) |
| Change in fair value of interest rate swaps | 7,371 | (1,745) |
| Net change in working capital | (839) | (26) |
| Net cash provided by operating activities | 20,038 | 15,985 |
| Cash flows from investing activities: | | |
| Additions to land, buildings, and equipment | (15,189) | (11,839) |
| Proceeds from sale of equipment | 409 | 217 |
| Proceeds from maturities and sales of investments | 205,410 | 154,486 |
| Cost of purchases of investments | (208,013) | (159,364) |
| Change in deposits held by bond trustees | (9) | — |
| Change in notes receivable, net | 81 | 165 |
| Net cash used in investing activities | (17,311) | (16,335) |
| Cash flows from financing activities: | | |
| Contributions received for long-term investment | 742 | 377 |
| Repayment of principal on notes and bonds payable | (25,770) | (1,900) |
| Proceeds from debt issuance, plus premium | 24,160 | — |
| Payment of bond issuance costs | (254) | — |
| Increase in refundable advances – U.S. government grants | 119 | 110 |
| Net cash used in financing activities | (1,003) | (1,413) |
| Change in cash | 1,724 | (1,763) |
| Cash (overdraft), beginning of year (note 3) | (575) | 1,188 |
| Cash (overdraft), end of year (note 3) | \$ 1,149 | (575) |

See accompanying notes to consolidated financial statements.

BRYANT UNIVERSITY

Notes to Consolidated Financial Statements

June 30, 2012 and 2011

(Dollars in thousands)

(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 programs leading to bachelor's degrees in business administration, information technology and international business, each with various concentrations and minors, as well as a bachelor's of arts and a bachelor's of science, each with various majors and minors. 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.

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Notes to Consolidated Financial Statements

June 30, 2012 and 2011

(Dollars in thousands)

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 \$2,154 and \$2,074 for the years ended June 30, 2012 and 2011, respectively.

(b) Short-Term Investments

Short-term investments include cash equivalents having maturities at date of purchase of three months or less.

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Notes to Consolidated Financial Statements

June 30, 2012 and 2011

(Dollars in thousands)

(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 partnership, 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.

(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. BRU LLC, a wholly owned subsidiary, is a disregarded entity for tax purposes. Accordingly, any tax liability of BRU LLC would be reported by the University. The University believes it has taken no significant uncertain tax positions.

(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

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Notes to Consolidated Financial Statements

June 30, 2012 and 2011

(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 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 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, 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 \$2,611 and \$2,573 as of June 30, 2012 and 2011, respectively.

(j) *Fair Value of Financial Instruments*

The carrying value of the University's cash and short-term investments, accounts receivable, other assets, accounts payable and accrued liabilities, deferred revenues and advance payments, and notes and bonds payable approximated their fair value at June 30, 2012 and 2011.

(k) *Reclassifications*

Certain reclassifications were made to the fiscal year 2011 financial statements to conform to the fiscal year 2012 presentation.

(3) *Investments*

The investment objective of the University is to invest its assets in a prudent manner to achieve a long-term rate of return sufficient to fund a portion of its spending and to increase investment value after inflation. The University diversifies its investments among asset classes by incorporating several strategies and managers. Major investment decisions are authorized by the University's Trustees Investment Committee that oversees the University's investments.

In addition to equity and fixed income investments, the University may also hold shares or units in institutional funds and alternative investment funds involving hedged, private partnership, and natural resource strategies. Hedged strategies involve funds whose managers have the authority to invest in various asset classes at their discretion, including the ability to invest long and short. Funds with hedged strategies generally hold securities or other financial instruments for which a ready market exists, and may include

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Notes to Consolidated Financial Statements

June 30, 2012 and 2011

(Dollars in thousands)

stocks, bonds, put or call options, swaps, currency hedges and other instruments. Private partnership and natural resource funds generally employ buyout, venture capital, and debt related strategies and often require the estimation of fair values by the fund managers in the absence of readily determinable market values.

Fair values for shares in mutual funds are based on share prices reported by the funds as of the last business day of the fiscal year. The University's interests in alternative investment funds are generally reported at the net asset value (NAV) reported by the fund managers. NAV is used as a practical expedient to estimate the fair value of the University's interest therein, unless it is probable that all or a portion of the investment will be sold by an amount different from NAV. As of June 30, 2012, and June 30, 2011, the University had no specific plans or intentions to sell investments at amounts different than NAV.

The three levels of the fair value hierarchy are:

- *Level 1* – inputs are quoted prices in active markets for identical assets or liabilities that the University has the ability to access at measurement date.
- *Level 2* – inputs are other than quoted prices included in Level 1 that are either directly or indirectly observable for the assets or liabilities.
- *Level 3* – inputs are derived from valuation methodologies, including pricing models, discounted cash flow models and similar techniques, and are not based on market, exchange, dealer, or broker-traded transactions. In addition, Level 3 valuations incorporate assumptions and projections that are not observable in the market, and significant professional judgment in determining the fair value assigned to such assets or liabilities.

The level in the fair value hierarchy within which a fair measurement in its entirety falls is based on the lowest level input that is significant to the fair value measurement in its entirety.

Classification in Level 2 or 3 is based on the University's ability to redeem its interest at or near the date of the statement of financial position, and if the interest can be redeemed in the near term, the investment is classified in Level 2.

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Notes to Consolidated Financial Statements
June 30, 2012 and 2011
(Dollars in thousands)

The University's assets at June 30, 2012 that are reported at fair value are summarized in the following table by their fair value hierarchy classification:

| | <u>Level 1</u> | <u>Level 2</u> | <u>Level 3</u> | <u>Total</u> | <u>Redemption or liquidation</u> | <u>Days notice</u> |
|--------------------------------|------------------|----------------|----------------|----------------|--------------------------------------|------------------------|
| Short-term investments: | | | | | | |
| Cash and equivalents | \$ 22,007 | — | — | 22,007 | Daily | 1 |
| U.S. equities | 694 | 1,127 | — | 1,821 | Daily | 1 |
| Hedge fund-Long/Short | — | 1,020 | — | 1,020 | Monthly | 30 |
| Fixed income | 20,954 | — | — | 20,954 | Daily | 1 |
| Total short-term investments | <u>43,655</u> | <u>2,147</u> | <u>—</u> | <u>45,802</u> | | |
| Deposits held by bond trustees | <u>9</u> | <u>—</u> | <u>—</u> | <u>9</u> | Daily | 1 |
| Long-term investments: | | | | | | |
| U.S. equities | 17,433 | 4,695 | — | 22,128 | Daily/Monthly | 1-3 / 8-25 |
| Non-U.S. equities | 6,888 | 20,216 | — | 27,104 | Daily/Monthly | 1 / 6-10 |
| Fixed income | 1,556 | 17,764 | — | 19,320 | Daily/Monthly | 1-20 / 10 |
| Inflation hedging | 3,600 | — | — | 3,600 | Daily/Monthly | 1 |
| Hedge funds: | | | | | | |
| Long/short | — | 20,968 | 11,731 | 32,699 | Qtrly/Annually | 60-65 / 45-95 |
| Multi-strategy | — | 8,132 | 1,811 | 9,943 | Qtrly/Annually | 65 / 45-95 |
| Private partnerships: | | | | | | |
| Buyout | — | — | 8,712 | 8,712 | Illiquid | NA |
| Venture capital | — | — | 9,181 | 9,181 | Illiquid | NA |
| Debt related | — | — | 3,470 | 3,470 | Illiquid | NA |
| Natural resource funds | — | — | 8,520 | 8,520 | Illiquid | NA |
| Cash and equivalents | 1,390 | — | — | 1,390 | Daily | 1 |
| Total long-term investments | <u>30,867</u> | <u>71,775</u> | <u>43,425</u> | <u>146,067</u> | | |
| Total investments | <u>\$ 74,531</u> | <u>73,922</u> | <u>43,425</u> | <u>191,878</u> | | |

BRYANT UNIVERSITY

Notes to Consolidated Financial Statements

June 30, 2012 and 2011

(Dollars in thousands)

The University's assets at June 30, 2011 that are reported at fair value are summarized in the following table by their fair value hierarchy classification:

| | <u>Level 1</u> | <u>Level 2</u> | <u>Level 3</u> | <u>Total</u> | <u>Redemption or liquidation</u> | <u>Days notice</u> |
|------------------------------|------------------|----------------|----------------|----------------|--------------------------------------|------------------------|
| Short-term investments: | | | | | | |
| Cash and equivalents | \$ 14,501 | — | — | 14,501 | Daily | 1 |
| U.S. equities | 783 | 1,042 | — | 1,825 | Daily | 1 |
| Non-US equities | 16 | — | — | 16 | Daily | 1 |
| Fixed income | 20,943 | — | — | 20,943 | Daily | 1 |
| Total short-term investments | <u>36,243</u> | <u>1,042</u> | <u>—</u> | <u>37,285</u> | | |
| Long-term investments: | | | | | | |
| U.S. equities | 20,236 | 4,910 | — | 25,146 | Daily/Monthly | 1-3 / 8-25 |
| Non-U.S. equities | 7,715 | 23,143 | — | 30,858 | Daily/Monthly | 1-2 / 10 |
| Fixed income | 1,572 | 17,260 | — | 18,832 | Daily/Monthly | 1-20 / 10 |
| Inflation hedging | 4,213 | — | — | 4,213 | Daily/Monthly | 1 / 8-25 |
| Hedge funds: | | | | | | |
| Long/short | — | 19,475 | 15,007 | 34,482 | Qtrly/Annually | 60-65 / 60-95 |
| Multi-strategy | — | 6,714 | 1,769 | 8,483 | Qtrly/Annually | 65 / 95 |
| Private partnerships: | | | | | | |
| Buyout | — | — | 9,343 | 9,343 | Illiquid | NA |
| Venture capital | — | — | 8,781 | 8,781 | Illiquid | NA |
| Debt related | — | — | 3,680 | 3,680 | Illiquid | NA |
| Natural resource funds | — | — | 8,702 | 8,702 | Illiquid | NA |
| Cash and equivalents | 548 | — | — | 548 | Daily | 1 |
| Total long-term investments | <u>34,284</u> | <u>71,502</u> | <u>47,282</u> | <u>153,068</u> | | |
| Total investments | <u>\$ 70,527</u> | <u>72,544</u> | <u>47,282</u> | <u>190,353</u> | | |

The following table presents the University's activity for the fiscal year ended June 30, 2012 and 2011 for investments measured at fair value on a recurring basis using unobservable inputs (Level 3):

| | <u>Private partnerships</u> | <u>Hedge funds</u> | <u>Total</u> |
|---------------------------------------|---------------------------------|------------------------|---------------|
| Fair value as of July 1, 2011 | \$ 30,506 | 16,776 | 47,282 |
| Acquisitions | 2,866 | 7 | 2,873 |
| Dispositions | (5,307) | (2,083) | (7,390) |
| Investment return | 1,173 | 515 | 1,688 |
| Unrealized gain (loss) on investments | 645 | (1,673) | (1,028) |
| Fair value at June 30, 2012 | <u>\$ 29,883</u> | <u>13,542</u> | <u>43,425</u> |

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Notes to Consolidated Financial Statements

June 30, 2012 and 2011

(Dollars in thousands)

| | <u>Private partnerships</u> | <u>Hedge funds</u> | <u>Total</u> |
|--------------------------------|---------------------------------|------------------------|---------------|
| Fair value as of July 1, 2010 | \$ 26,482 | 9,225 | 35,707 |
| Transfers in | — | 2,589 | 2,589 |
| Acquisitions | 3,409 | 9,088 | 12,497 |
| Dispositions | (4,673) | (6,193) | (10,866) |
| Investment return | 1,563 | — | 1,563 |
| Unrealized gain on investments | 3,725 | 2,067 | 5,792 |
| Fair value at June 30, 2011 | \$ <u>30,506</u> | <u>16,776</u> | <u>47,282</u> |

During the year ended June 30, 2011, the University transferred \$2,589 of hedge funds from Level 2 to Level 3. This transfer occurred because shares in two of the University's investments were converted to a different share class that has a longer lock-up period, thereby resulting in them now being classified as Level 3 investments.

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 \$5,110 as of June 30, 2012.

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.

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

The expirations of the private partnerships and natural resource funds redemption lock up periods are summarized in the table below:

| | <u>Amount</u> |
|--------------|------------------|
| Fiscal year: | |
| 2013 | \$ 4,944 |
| 2014 | 4,076 |
| 2015 | 2,773 |
| 2016 | — |
| 2017 | 6,327 |
| Thereafter | <u>11,763</u> |
| Total | \$ <u>29,883</u> |

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(Dollars in thousands)

Long-term investment activity consisted of the following for the years ended June 30, 2012 and 2011:

| | <u>2012</u> | <u>2011</u> |
|--|-------------------|----------------|
| Long-term investments at beginning of year | \$ 153,068 | 129,854 |
| Interest and dividends | 3,417 | 3,182 |
| Net realized and unrealized (loss) gain | (2,813) | 28,543 |
| Management fees | <u>(2,328)</u> | <u>(2,196)</u> |
| Total investment (loss) gain | (1,724) | 29,529 |
| Contributions | 742 | 377 |
| Amount appropriated for operating activities | (6,912) | (7,566) |
| Interfund transfers, additions and payments | <u>893</u> | <u>874</u> |
| Long-term investments at end of year | <u>\$ 146,067</u> | <u>153,068</u> |

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, 2012 and 2011, respectively, include a cash (overdraft) balance of \$1,149 and \$(575), respectively.

(4) Endowment

The University's endowment consists of approximately 43 individual funds established for a variety of purposes, including both donor-restricted endowment funds (true endowment) 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) *Relevant Law*

The Uniform Prudent Management of Institutional Funds Act enacted by the State of Rhode Island (the Act) requires the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. The University classifies as permanently restricted net assets (a) the original value if the 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 University in a manner consistent with the standard of prudence prescribed by the Act. In accordance with the Act, the University considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: 1) The duration and preservation of the fund; 2) The purpose of the University and the donor-restricted

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endowment fund; 3) General economic conditions; 4) The possible effect of inflation and deflation; 5) The expected total return from income and the appreciation of investments; 6) Other resources of the University; 7) The investment policies of the University.

Endowment net asset composition by type of fund consists of the following at June 30, 2012:

| | <u>Unrestricted</u> | <u>Temporarily restricted</u> | <u>Permanently restricted</u> | <u>Total</u> |
|-------------------------------------|--------------------------|-----------------------------------|-----------------------------------|-----------------------|
| Donor-restricted endowment funds | \$ (99) | 5,170 | 12,782 | 17,853 |
| Board-designated endowment funds | <u>123,950</u> | <u>—</u> | <u>—</u> | <u>123,950</u> |
| Total endowed net assets | \$ <u><u>123,851</u></u> | <u><u>5,170</u></u> | <u><u>12,782</u></u> | <u><u>141,803</u></u> |

Changes in endowment net assets for the year ended June 30, 2012 are as follows:

| | <u>Unrestricted</u> | <u>Temporarily restricted</u> | <u>Permanently restricted</u> | <u>Total</u> |
|--|--------------------------|-----------------------------------|-----------------------------------|-----------------------|
| Endowment net assets, July 1, 2011 | \$ 130,581 | 6,094 | 12,040 | 148,715 |
| Investment return: | | | | |
| Investment income, net | 482 | 545 | — | 1,027 |
| Net loss | <u>(1,300)</u> | <u>(1,469)</u> | <u>—</u> | <u>(2,769)</u> |
| Total investment return | (818) | (924) | — | (1,742) |
| Contributions | — | — | 742 | 742 |
| Transfers from operating | 1,000 | — | — | 1,000 |
| Appropriation of endowment assets for expenditure | <u>(6,912)</u> | <u>—</u> | <u>—</u> | <u>(6,912)</u> |
| Endowment net assets, June 30, 2012 | \$ <u><u>123,851</u></u> | <u><u>5,170</u></u> | <u><u>12,782</u></u> | <u><u>141,803</u></u> |

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Endowment net asset composition by type of fund consists of the following at June 30, 2011:

| | <u>Unrestricted</u> | <u>Temporarily restricted</u> | <u>Permanently restricted</u> | <u>Total</u> |
|-------------------------------------|--------------------------|-----------------------------------|-----------------------------------|-----------------------|
| Donor-restricted endowment funds | \$ (42) | 6,094 | 12,040 | 18,092 |
| Board-designated endowment funds | <u>130,623</u> | <u>—</u> | <u>—</u> | <u>130,623</u> |
| Total endowed net assets | \$ <u><u>130,581</u></u> | <u><u>6,094</u></u> | <u><u>12,040</u></u> | <u><u>148,715</u></u> |

Changes in endowment net assets for the year ended June 30, 2011 are as follows:

| | <u>Unrestricted</u> | <u>Temporarily restricted</u> | <u>Permanently restricted</u> | <u>Total</u> |
|--|--------------------------|-----------------------------------|-----------------------------------|-----------------------|
| Endowment net assets, July 1, 2010 | \$ 110,757 | 3,706 | 11,655 | 126,118 |
| Investment return: | | | | |
| Investment income, net | 840 | 76 | — | 916 |
| Net gain | <u>25,550</u> | <u>2,312</u> | <u>—</u> | <u>27,862</u> |
| Total investment return | 26,390 | 2,388 | — | 28,778 |
| Contributions | — | — | 377 | 377 |
| Transfers from operating | 1,000 | — | 8 | 1,008 |
| Appropriation of endowment assets for expenditure | <u>(7,566)</u> | <u>—</u> | <u>—</u> | <u>(7,566)</u> |
| Endowment net assets, June 30, 2011 | \$ <u><u>130,581</u></u> | <u><u>6,094</u></u> | <u><u>12,040</u></u> | <u><u>148,715</u></u> |

Long-term investments as of June 30, 2012 and 2011 include \$4,264 and \$4,353, 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 \$99 and \$42 as of June 30, 2012 and 2011. 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.

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(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' trailing twelve-quarter average market value is appropriated for expenditure.

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(5) Contributions Receivable

Contributions receivable consisted of the following as of June 30, 2012 and 2011:

| | <u>2012</u> | <u>2011</u> |
|---|-----------------|--------------|
| Amounts due in: | | |
| Less than one year | \$ 1,227 | 334 |
| One to five years | 2,051 | 465 |
| Over five years | 468 | 3 |
| Less discount and allowance for uncollectible contributions | <u>(638)</u> | <u>(135)</u> |
| Contributions receivable, net | <u>\$ 3,108</u> | <u>667</u> |

The risk adjusted discount rate, which ranged from 0.107% to 2.39%, 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, 2012 and 2011:

| | <u>2012</u> | <u>2011</u> |
|--|-------------------|------------------|
| Buildings | \$ 225,312 | 218,736 |
| Furniture, equipment, and other assets | 54,061 | 50,916 |
| Land and improvements | 21,180 | 19,137 |
| Construction in progress | <u>3,582</u> | <u>2,853</u> |
| | 304,135 | 291,642 |
| Less accumulated depreciation | <u>(151,776)</u> | <u>(137,574)</u> |
| Land, buildings, and equipment, net | <u>\$ 152,359</u> | <u>154,068</u> |

Depreciation expense was \$16,157 and \$16,393 for the years ended June 30, 2012 and 2011, respectively.

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(8) Notes and Bonds Payable

Notes and bonds payable outstanding as of June 30, 2012 and 2011 are as follows:

| | <u>2012</u> | <u>2011</u> |
|--|------------------|---------------|
| 4.250%–5.000%, RIHEBC, 2001 Series, due in varying amounts to 2032 | \$ — | 24,495 |
| 4.500%–5.125%, RIHEBC, 2002 Series, due in varying amounts to 2019 | 7,705 | 8,615 |
| Variable rate, RIHEBC, 2008 Series, due in varying amounts to 2035 | 49,260 | 49,625 |
| 2.000%–5.000%, RIHEBC, 2011 Series, due in varying amounts to 2032 | 23,255 | — |
| Add unamortized bond premium | 815 | — |
| Less unamortized bond discount | — | (1) |
| Notes and bonds payable, net | <u>\$ 81,035</u> | <u>82,734</u> |

Cash paid for interest was \$3,697 and \$3,775 for the years ended June 30, 2012 and 2011, 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, 2012 and 2011.

Scheduled annual principal repayments of bonds payable are as follows:

| | |
|--------------------------|------------------|
| Fiscal year: | |
| 2013 | \$ 2,100 |
| 2014 | 2,170 |
| 2015 | 2,340 |
| 2016 | 2,420 |
| 2017 | 2,500 |
| Thereafter | <u>68,690</u> |
| Total principal payments | <u>\$ 80,220</u> |

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 were a general obligation of the University, requiring a pledge of tuition and admission fees received in each fiscal year. These bonds were refunded in December 2011.

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

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(Dollars in thousands)

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 \$50,021 direct-pay Letter of Credit agreement with a bank, which expires on April 24, 2016. 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. The interest rate at June 30, 2012 was 0.17%.

In November 2011, the University entered into an agreement with RIHEBC, which provided for the issuance of \$23,255 Higher Education Facility Revenue Refunding Bonds, Series 2011 Bonds, 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.

The University has obtained an uncommitted/unsecured line of credit with a bank for a maximum of \$10,000. There is no balance outstanding under the line of credit at June 30, 2012.

The University's bond and letter of credit agreements contain certain covenants, which the University was in compliance with as of June 30, 2012.

(9) Interest Rate Swaps

The University has three interest rate swaps, the purpose of which is 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 negative fair 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, 2012 and 2011 in the amount of \$14,241 and \$6,870, 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. 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.

| Counterparty | Issue date | Effective date | Expiration/termination date | Remaining notional amount | Swap fixed rate | Fair value at June 30 asset (liability) | |
|------------------------|------------|----------------|-----------------------------|---------------------------|-----------------|---|---------|
| | | | | | | 2012 | 2011 |
| Wells Fargo Bank, N.A. | 11/24/08 | 11/24/08 | 06/01/35 | \$ 29,750 | 3.793% | \$ (8,827) | (4,181) |
| Barclays Bank, PLC | 11/24/08 | 11/24/08 | 06/01/35 | 10,000 | 3.790 | (3,017) | (1,410) |
| Barclays Bank, PLC | 11/24/08 | 11/24/08 | 06/01/35 | 9,150 | 3.856 | (2,397) | (1,279) |
| Totals | | | | | | \$ (14,241) | (6,870) |

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(Dollars in thousands)

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.

(10) Temporarily Restricted Net Assets

Temporarily restricted net assets consisted of the following as of June 30, 2012 and 2011:

| | <u>2012</u> | <u>2011</u> |
|--|-----------------|--------------|
| Contributions receivable, net | \$ 2,386 | 628 |
| Purpose restrictions: | | |
| Scholarships | 485 | 429 |
| Instruction | 495 | 568 |
| Academic support | 32 | 28 |
| Student services | 74 | 73 |
| Public service | 8 | 78 |
| Buildings and facilities | 17 | 79 |
| Other capital campaign | 773 | 630 |
| Cumulative endowment appreciation (note 4) | 5,170 | 6,094 |
| Total purpose restrictions | <u>7,054</u> | <u>7,979</u> |
| Total temporarily restricted net assets | <u>\$ 9,440</u> | <u>8,607</u> |

(11) Permanently Restricted Net Assets

Permanently restricted net assets consisted of the following as of June 30, 2012 and 2011:

| | <u>2012</u> | <u>2011</u> |
|---|------------------|---------------|
| Contributions receivable, net | \$ 722 | 39 |
| Assets for which income is restricted for the following purposes: | | |
| Scholarships | 11,249 | 10,509 |
| Instruction and other programs | 1,618 | 1,618 |
| Total income restricted as to purpose | <u>12,867</u> | <u>12,127</u> |
| Total permanently restricted net assets | <u>\$ 13,589</u> | <u>12,166</u> |

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(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:

| | <u>2012</u> | <u>2011</u> |
|---|-----------------|--------------|
| Buildings and facilities | \$ 280 | 510 |
| Scholarships and other programs | 1,957 | 1,171 |
| Total net assets released from restrictions | <u>\$ 2,237</u> | <u>1,681</u> |

(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 \$3,905 and \$3,703 for the years ended June 30, 2012 and 2011, respectively.

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(Dollars in thousands)

(14) Natural Classification of Operating Expenses

Operating expenses by their natural classification were as follows for the years ended June 30, 2012 and 2011:

| | <u>2012</u> | <u>2011</u> |
|---|-------------------|----------------|
| Salaries and wages | \$ 51,428 | 48,998 |
| Fringe benefits | 16,374 | 15,456 |
| Depreciation and amortization of bond issuance cost | 16,229 | 16,495 |
| Purchased services | 7,841 | 7,943 |
| Food service | 6,990 | 6,894 |
| Interest | 3,671 | 3,915 |
| Utilities and communications | 2,953 | 3,154 |
| Advertising and publications | 2,000 | 2,231 |
| Supplies and postage | 1,839 | 1,811 |
| Facility renovations | 1,796 | 1,736 |
| Other | 10,721 | 9,493 |
| Total operating expenses | <u>\$ 121,842</u> | <u>118,126</u> |

(15) Subsequent Events

For purposes of determining the effects of subsequent events on these financial statements, management has evaluated events subsequent to June 30, 2012 and through October 22, 2012, the date on which the consolidated financial statements were issued. The University concluded that no material subsequent events have occurred.