# BRYANT UNIVERSITY

Consolidated Financial Statements

June 30, 2014 and 2013

(With Independent Auditors' Report Thereon)

**BRYANT UNIVERSITY**

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**KPMG LLP**
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# Independent Auditors' Report

The Board of Trustees
Bryant University:

We have audited the accompanying consolidated financial statements of Bryant University, which comprise the consolidated statements of financial position as of June 30, 2014 and 2013, the related consolidated statements of activities and cash flows for the years then ended, and the related notes to the consolidated financial statements.

### *Management's Responsibility for the Financial Statements*

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

### *Auditor's Responsibility*

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 from material misstatement.

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

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### *Opinion*

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Bryant University as of June 30, 2014 and 2013, and the changes in its net assets and its cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

KPMG LLP

November 6, 2014

**BRYANT UNIVERSITY**

Consolidated Statements of Financial Position

June 30, 2014 and 2013

(Dollars in thousands)

| **Assets** | | **2014** | **2013** |
|---|---|---|---|
| Cash and short-term investments (note 3) | $ | 55,560 | 50,739 |
| Accounts receivable, net of allowance of $1,509 and $1,292 at June 30, 2014 and 2013, respectively | | 2,541 | 1,921 |
| Contributions receivable, net (note 5) | | 6,472 | 5,789 |
| Prepaid expenses and other assets | | 2,301 | 1,917 |
| Notes receivable, net of allowance of $225 and $225 at June 30, 2014 and 2013, respectively (note 6) | | 6,120 | 5,415 |
| Long-term investments (notes 3 and 4) | | 178,347 | 158,352 |
| Deposits held by trustees (note 3) | | 49,155 | 112 |
| Land, buildings, and equipment, net (note 7) | | 157,449 | 151,197 |
| Total assets | $ | 457,945 | 375,442 |
| **Liabilities and Net Assets** | | | |
| Liabilities: | | | |
| Accounts payable and accrued liabilities | $ | 21,734 | 18,192 |
| Deferred revenues and advance payments | | 6,579 | 6,922 |
| Asset retirement obligation | | 2,246 | 2,884 |
| Interest rate swaps (note 9) | | 9,410 | 9,201 |
| Notes and bonds payable, net (note 8) | | 125,735 | 78,859 |
| Refundable advances – U.S. government grants (note 6) | | 6,358 | 6,228 |
| Total liabilities | | 172,062 | 122,286 |
| Net assets: | | | |
| Unrestricted: | | | |
| Available for operations | | 28,461 | 30,628 |
| Designated for long-term investment | | 149,576 | 133,423 |
| Net investment in plant | | 69,713 | 60,742 |
| Total unrestricted net assets | | 247,750 | 224,793 |
| Temporarily restricted (notes 4 and 10): | | | |
| Designated for long-term investment | | 9,074 | 6,548 |
| Other temporarily restricted programs | | 14,271 | 7,577 |
| Total temporarily restricted | | 23,345 | 14,125 |
| Permanently restricted (notes 4 and 11) | | 14,788 | 14,238 |
| Total net assets | | 285,883 | 253,156 |
| Total liabilities and net assets | $ | 457,945 | 375,442 |

See accompanying notes to consolidated financial statements.

**BRYANT UNIVERSITY**

Consolidated Statement of Activities

Year ended June 30, 2014

(Dollars in thousands)

| | Unrestricted | Temporarily restricted | Permanently restricted | Total 2014 |
|---|---|---|---|---|
| Operating: | | | | |
| Revenues: | | | | |
| Tuition and fees | $ 125,574 | — | — | 125,574 |
| Residence and dining | 34,883 | — | — | 34,883 |
| Less scholarships and grants | (45,562) | — | — | (45,562) |
| Net student revenue | 114,895 | — | — | 114,895 |
| Contributions | 1,260 | — | — | 1,260 |
| Net assets released from restrictions (note 12) | 2,239 | — | — | 2,239 |
| Government grants | 1,305 | — | — | 1,305 |
| Long-term investment income used in operations (note 3) | 7,065 | — | — | 7,065 |
| Short-term investment income | 439 | — | — | 439 |
| Public service | 259 | — | — | 259 |
| Auxiliary and other sources | 7,446 | — | — | 7,446 |
| Total operating revenues | 134,908 | — | — | 134,908 |
| Expenses (note 14): | | | | |
| Instruction | 30,897 | — | — | 30,897 |
| Academic support | 12,577 | — | — | 12,577 |
| Research | 6,194 | — | — | 6,194 |
| Student services | 26,927 | — | — | 26,927 |
| Institutional support | 21,136 | — | — | 21,136 |
| Public service | 2,286 | — | — | 2,286 |
| Auxiliary services | 26,867 | — | — | 26,867 |
| Total operating expenses | 126,884 | — | — | 126,884 |
| Increase in net assets from operating activities | 8,024 | — | — | 8,024 |
| Nonoperating: | | | | |
| Capital contributions | — | 9,085 | 594 | 9,679 |
| Net assets released from restrictions (note 12) | 402 | (2,641) | — | (2,239) |
| Net unrealized and realized gain on long-term investments, less amount used in operations (note 3) | 16,773 | 2,682 | — | 19,455 |
| Change in fair value of interest rate swaps (note 9) | (209) | — | — | (209) |
| Other | (1,351) | 94 | (44) | (1,301) |
| Capital campaign expenses | (682) | — | — | (682) |
| Change in net assets from nonoperating activities | 14,933 | 9,220 | 550 | 24,703 |
| Change in net assets | 22,957 | 9,220 | 550 | 32,727 |
| Net assets: | | | | |
| Beginning of year | 224,793 | 14,125 | 14,238 | 253,156 |
| End of year | $ 247,750 | 23,345 | 14,788 | 285,883 |

See accompanying notes to consolidated financial statements.

**BRYANT UNIVERSITY**

Consolidated Statement of Activities

Year ended June 30, 2013

(Dollars in thousands)

| | Unrestricted | Temporarily restricted | Permanently restricted | Total 2013 |
|---|---|---|---|---|
| Operating: | | | | |
| Revenues: | | | | |
| Tuition and fees | $ 118,333 | — | — | 118,333 |
| Residence and dining | 32,170 | — | — | 32,170 |
| Less scholarships and grants | (41,977) | — | — | (41,977) |
| Net student revenue | 108,526 | — | — | 108,526 |
| Contributions | 1,599 | — | — | 1,599 |
| Net assets released from restrictions (note 12) | 1,871 | — | — | 1,871 |
| Government grants | 1,782 | — | — | 1,782 |
| Long-term investment income used in operations (note 3) | 6,746 | — | — | 6,746 |
| Short-term investment income | 227 | — | — | 227 |
| Public service | 274 | — | — | 274 |
| Auxiliary and other sources | 7,102 | — | — | 7,102 |
| Total operating revenues | 128,127 | — | — | 128,127 |
| Expenses (note 14): | | | | |
| Instruction | 30,659 | — | — | 30,659 |
| Academic support | 11,493 | — | — | 11,493 |
| Research | 5,329 | — | — | 5,329 |
| Student services | 25,306 | — | — | 25,306 |
| Institutional support | 19,554 | — | — | 19,554 |
| Public service | 2,487 | — | — | 2,487 |
| Auxiliary services | 26,541 | — | — | 26,541 |
| Total operating expenses | 121,369 | — | — | 121,369 |
| Increase in net assets from operating activities | 6,758 | — | — | 6,758 |
| Nonoperating: | | | | |
| Capital contributions | — | 5,298 | 699 | 5,997 |
| Net assets released from restrictions (note 12) | 374 | (2,245) | — | (1,871) |
| Net unrealized and realized gain on long-term investments, less amount used in operations (note 3) | 9,040 | 1,480 | — | 10,520 |
| Change in fair value of interest rate swaps (note 9) | 5,040 | — | — | 5,040 |
| Other | (1,459) | 152 | (50) | (1,357) |
| Capital campaign expenses | (266) | — | — | (266) |
| Change in net assets from nonoperating activities | 12,729 | 4,685 | 649 | 18,063 |
| Change in net assets | 19,487 | 4,685 | 649 | 24,821 |
| Net assets: | | | | |
| Beginning of year | 205,306 | 9,440 | 13,589 | 228,335 |
| End of year | $ 224,793 | 14,125 | 14,238 | 253,156 |

See accompanying notes to consolidated financial statements.

**BRYANT UNIVERSITY**

Consolidated Statements of Cash Flows

Years ended June 30, 2014 and 2013

(Dollars in thousands)

| | | 2014 | 2013 |
|---|---|---|---|
| Cash flows from operating activities: | | | |
| Change in net assets | $ | 32,727 | 24,821 |
| Adjustment to reconcile change in net assets to cash provided by operating activities: | | | |
| Depreciation | | 15,128 | 15,667 |
| Amortization of bond issuance cost and premium | | (200) | (5) |
| Net unrealized and realized gain on long-term investments | | (25,101) | (16,136) |
| Net loss on disposal of assets | | 619 | 663 |
| Contributions for property, plant, and equipment investing activities | | (5,218) | (59) |
| Contributions for property, plant, and equipment financing activities | | (336) | (371) |
| Contributions received for long-term investment | | (690) | (883) |
| Increase (decrease) in value of interest rate swaps | | 209 | (5,040) |
| (Decrease) increase in asset remediation obligation | | (638) | 273 |
| Change in working capital | | 3,246 | (1,163) |
| Net cash provided by operating activities | | 19,746 | 17,767 |
| Cash flows from investing activities: | | | |
| Purchase of land, buildings, and equipment | | (23,519) | (16,088) |
| Contributions for property plant and equipment | | 5,218 | 59 |
| Sale of land, buildings and equipment | | 242 | 216 |
| Capitalization of interest | | (167) | — |
| Proceeds from maturities and sales of investments | | 201,561 | 156,468 |
| Cost of purchases of investments | | (184,746) | (158,367) |
| Change in deposits held by bond trustees | | (49,043) | (103) |
| Change in notes receivable, net | | (705) | 61 |
| Net cash used in investing activities | | (51,159) | (17,754) |
| Cash flows from financing activities: | | | |
| Contributions received for long-term investment | | 690 | 883 |
| Contributions for property plant and equipment | | 336 | 371 |
| Repayment of principal on notes and bonds payable | | (2,260) | (9,910) |
| Proceeds from debt issuance, plus premium | | 49,463 | 7,825 |
| Payment of bond issuance costs | | (416) | (121) |
| Increase in refundable advances – U.S. government grants | | 130 | 126 |
| Net cash provided by (used in) financing activities | | 47,943 | (826) |
| Change in cash | | 16,530 | (813) |
| Cash, beginning of year (note 3) | | 336 | 1,149 |
| Cash, end of year (note 3) | $ | 16,866 | 336 |
| Supplemental disclosure: | | | |
| Change in accounts payable from property, plant, and equipment | $ | 1,447 | 704 |

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 435 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 degree and a bachelor's of science degree, each with various majors and minors. Additionally, the University offers graduate programs leading to master's degrees in accounting, business administration, taxation, teaching, communications and global environmental studies.

The University has a wholly owned consolidated single-member LLC, BRU LLC. The purpose of the single-member LLC 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.

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 $2,846 and $2,313 for the years ended June 30, 2014 and 2013, respectively.

***(b) Short-Term Investments***

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

***(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 single-member LLC, 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


(Continued)

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 $2,246 and $2,884 as of June 30, 2014 and 2013, respectively.

***(j) Fair Value of Financial Instruments***

The University discloses fair value information about all financial instruments for which it is practicable to estimate fair value. The University's financial instruments not carried at fair value are carried at net realizable value, which approximates fair value. Such financial instruments consist of cash and short-term investments, accounts receivable, other assets, accounts payable and accrued liabilities, deferred revenues and advance payments, which would be classified in Level 1 of the fair value hierarchy. The University determined that the estimated fair value of its total indebtedness was $127,271 and $79,434 as of June 30, 2014 and 2013, respectively. The fair value of long-term debt is based on significant observable inputs and is categorized as Level 2 for purposes of valuation disclosure. The University further determined that the differences between the carrying values and estimated fair values of its other financial assets and liabilities at June 30, 2014 and 2013 were not material.

***(k) Reclassifications***

Certain reclassifications were made to the fiscal year 2013 financial statements to conform to the fiscal year 2014 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 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, 2014 and June 30, 2013, 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 in which each fund's fair value measurement is classified is based primarily on the University's ability to redeem its interest in the fund at or near the date of the consolidated statement of financial position. The University is required to consider such investments as Level 2 or 3 even though the underlying securities may not be difficult to value or may be readily marketable. Accordingly, the inputs or methodology used for valuing or classifying investments for financial reporting purposes are not necessarily an indication of the risk associated with investing in those investments for financial reporting purposes or a reflection on the liquidity of each fund's underlying assets and liabilities.

(Dollars in thousands)

The University's assets at June 30, 2014 that are reported at fair value are summarized in the following table by their fair value hierarchy classification:

| | Level 1 | Level 2 | Level 3 | Total | Redemption or liquidation | Days notice |
|---|---|---|---|---|---|---|
| Cash and short-term investments: | | | | | | |
| Cash and equivalents | $ 45,086 | — | — | 45,086 | Daily | 1 |
| U.S. equities | 1,113 | 1,699 | — | 2,812 | Daily | 1 |
| Fixed income | 7,662 | — | — | 7,662 | Daily | 1 |
| Total cash and short-term investments | 53,861 | 1,699 | — | 55,560 | | |
| Deposits held by bond trustees | 49,155 | — | — | 49,155 | Daily | 1 |
| Long-term investments: | | | | | | |
| U.S. equities | 19,721 | 3,382 | — | 23,103 | Daily/Monthly | 1-3/8-25 |
| Non-U.S. equities | 8,112 | 31,711 | — | 39,823 | Daily/Monthly/Quarterly | 1/6-30/90 |
| Fixed income | 7,444 | 12,827 | — | 20,271 | Daily/Monthly | 1/5-20 |
| Inflation hedging | 11,051 | — | — | 11,051 | Daily | 1 |
| Hedge funds: | | | | | | |
| Long/short | — | 30,364 | 7,382 | 37,746 | Quarterly/Annually | 60-65/45-95 |
| Multi-strategy | — | 11,587 | 2,466 | 14,053 | Quarterly/Annually | 65/45-95 |
| Private partnerships: | | | | | | |
| Buyout | — | — | 7,610 | 7,610 | Illiquid | NA |
| Venture capital | — | — | 9,991 | 9,991 | Illiquid | NA |
| Debt related | — | — | 2,947 | 2,947 | Illiquid | NA |
| Natural resource funds | — | — | 8,010 | 8,010 | Illiquid | NA |
| Cash and equivalents | 3,742 | — | — | 3,742 | Daily | 1 |
| Total long-term investments | 50,070 | 89,871 | 38,406 | 178,347 | | |
| Total cash and investments | $ 153,086 | 91,570 | 38,406 | 283,062 | | |

(Dollars in thousands)

The University's assets at June 30, 2013 that are reported at fair value are summarized in the following table by their fair value hierarchy classification:

| | Level 1 | Level 2 | Level 3 | Total | Redemption or liquidation | Days notice |
|---|---|---|---|---|---|---|
| Cash and short-term investments: | | | | | | |
| Cash and equivalents | $ 21,099 | — | — | 21,099 | Daily | 1 |
| U.S. equities | 815 | 1,353 | — | 2,168 | Daily | 1 |
| Hedge fund-long/short | — | 971 | — | 971 | Monthly | 30 |
| Fixed income | 26,501 | — | — | 26,501 | Daily | 1 |
| Total cash and short-term investments | 48,415 | 2,324 | — | 50,739 | | |
| Deposits held by bond trustees | 112 | — | — | 112 | Daily | 1 |
| Long-term investments: | | | | | | |
| U.S. equities | 18,170 | 4,868 | — | 23,038 | Daily/Monthly | 1-3/8-25 |
| Non-U.S. equities | 8,950 | 23,494 | — | 32,444 | Daily/Monthly | 1/6-10 |
| Fixed income | 6,265 | 12,134 | — | 18,399 | Daily/Monthly | 1/5-20 |
| Inflation hedging | 3,972 | — | — | 3,972 | Daily/Monthly | 1 |
| Hedge funds: | | | | | | |
| Long/short | — | 27,510 | 9,561 | 37,071 | Quarterly/Annually | 60-65/45-95 |
| Multi-strategy | — | 9,676 | 2,253 | 11,929 | Quarterly/Annually | 65/45-95 |
| Private partnerships: | | | | | | |
| Buyout | — | — | 7,710 | 7,710 | Illiquid | NA |
| Venture capital | — | — | 8,970 | 8,970 | Illiquid | NA |
| Debt related | — | — | 3,150 | 3,150 | Illiquid | NA |
| Natural resource funds | — | — | 8,018 | 8,018 | Illiquid | NA |
| Cash and equivalents | 3,651 | — | — | 3,651 | Daily | 1 |
| Total long-term investments | 41,008 | 77,682 | 39,662 | 158,352 | | |
| Total cash and investments | $ 89,535 | 80,006 | 39,662 | 209,203 | | |

The following table presents the University's activity for the fiscal year ended June 30, 2014 and 2013 for the Level 3 investments measured at fair value on a recurring basis using NAV:

| | Private partnerships | Hedge funds | Total |
|---|---|---|---|
| Fair value at June 30, 2013 | $ 27,848 | 11,814 | 39,662 |
| Transfer to Level 2 | — | (3,039) | (3,039) |
| Acquisitions | 1,468 | — | 1,468 |
| Dispositions | (6,153) | (126) | (6,279) |
| Investment return | 2,265 | — | 2,265 |
| Unrealized gain on investments | 3,130 | 1,199 | 4,329 |
| Fair value at June 30, 2014 | $ 28,558 | 9,848 | 38,406 |


(Continued)

(Dollars in thousands)

| | | Private partnerships | Hedge funds | Total |
|---|---|---|---|---|
| Fair value at June 30, 2012 | $ | 29,883 | 15,509 | 45,392 |
| Transfer to Level 2 | | — | (2,796) | (2,796) |
| Acquisitions | | 1,388 | — | 1,388 |
| Dispositions | | (5,955) | (2,186) | (8,141) |
| Investment return | | 647 | 613 | 1,260 |
| Unrealized gain on investments | | 1,885 | 674 | 2,559 |
| Fair value at June 30, 2013 | $ | 27,848 | 11,814 | 39,662 |

During the year ended June 30, 2014, the University transferred $3,039 of hedge funds from Level 3 to Level 2. This transfer occurred because shares in two of the University's investments were no longer under a lock-up provision, thereby resulting in them now being classified as Level 2 investments. The University recognizes transfers between levels at the beginning of the reporting period.

During the year ended June 30, 2013, the University transferred $2,796 of hedge funds from Level 3 to Level 2. This transfer occurred because shares in one of the University's investments were converted to a different share class that has quarterly liquidity, thereby resulting in them now being classified as Level 2 investments. The University recognizes transfers between levels at the beginning of the reporting period.

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 $4,821 as of June 30, 2014.

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 and may provide for extensions of one to three years. Some of the partnership agreements allow for multiple extensions.

(Dollars in thousands)

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

| | | Amount |
|---|---|---|
| Fiscal year: | | |
| 2015 | $ | 7,082 |
| 2016 | | 2,102 |
| 2017 | | 6,631 |
| 2018 | | — |
| 2019 | | 5,197 |
| Thereafter | | 7,546 |
| Total | $ | 28,558 |

Long-term investment activity consisted of the following for the years ended June 30, 2014 and 2013:

| | | 2014 | 2013 |
|---|---|---|---|
| Long-term investments at beginning of year | $ | 158,352 | 146,067 |
| Interest and dividends | | 3,814 | 3,570 |
| Net realized and unrealized gain | | 25,101 | 16,136 |
| Management fees | | (2,395) | (2,440) |
| Total investment gain | | 26,520 | 17,266 |
| Contributions | | 593 | 784 |
| Amount appropriated for operating activities | | (7,065) | (6,746) |
| Interfund transfers, additions and payments | | (53) | 981 |
| Long-term investments at end of year | $ | 178,347 | 158,352 |

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, 2014 and 2013, respectively, include a cash balance of $16,866 and $336, respectively.



(Continued)

(Dollars in thousands)

## (4) Endowment

The University's endowment consists of approximately 47 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 of 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 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, 2014:

| | | Unrestricted | Temporarily restricted | Permanently restricted | Total |
|---|---|---|---|---|---|
| Donor-restricted endowment funds | $ | (1) | 9,074 | 14,159 | 23,232 |
| Board-designated endowment funds | | 149,577 | — | — | 149,577 |
| Total endowed net assets | $ | 149,576 | 9,074 | 14,159 | 172,809 |

(Dollars in thousands)

Changes in endowment net assets for the year ended June 30, 2014 are as follows:

| | Unrestricted | Temporarily restricted | Permanently restricted | Total |
|---|---|---|---|---|
| Endowment net assets, June 30, 2013 | $ 133,423 | 6,548 | 13,566 | 153,537 |
| Investment return: | | | | |
| Investment income, net | 1,215 | 132 | — | 1,347 |
| Net gains | 22,003 | 2,394 | — | 24,397 |
| Total investment return | 23,218 | 2,526 | — | 25,744 |
| Contributions | — | — | 593 | 593 |
| Appropriation of endowment assets for expenditure | (7,065) | — | — | (7,065) |
| Endowment net assets June 30, 2014 | $ 149,576 | 9,074 | 14,159 | 172,809 |

Endowment net asset composition by type of fund consists of the following at June 30, 2013:

| | Unrestricted | Temporarily restricted | Permanently restricted | Total |
|---|---|---|---|---|
| Donor-restricted endowment funds | $ (35) | 6,548 | 13,566 | 20,079 |
| Board-designated endowment funds | 133,458 | — | — | 133,458 |
| Total endowed net assets | $ 133,423 | 6,548 | 13,566 | 153,537 |

(Dollars in thousands)

Changes in endowment net assets for the year ended June 30, 2013 are as follows:

| | | Unrestricted | Temporarily restricted | Permanently restricted | Total |
|---|---|---|---|---|---|
| Endowment net assets, July 1, 2012 | $ | 123,851 | 5,170 | 12,782 | 141,803 |
| Investment return: | | | | | |
| Investment income, net | | 970 | 87 | — | 1,057 |
| Net gains | | 14,348 | 1,291 | — | 15,639 |
| Total investment return | | 15,318 | 1,378 | — | 16,696 |
| Contributions | | — | — | 784 | 784 |
| Transfers from operations | | 1,000 | — | — | 1,000 |
| Appropriation of endowment assets for expenditure | | (6,746) | — | — | (6,746) |
| Endowment net assets June 30, 2013 | $ | 133,423 | 6,548 | 13,566 | 153,537 |

Long-term investments as of June 30, 2014 and 2013 include $5,538 and $4,815, 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 $1 and $35 as of June 30, 2014 and 2013. 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


(Continued)

(Dollars in thousands)

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.

## (5) Contributions Receivable

Contributions receivable consisted of the following as of June 30, 2014 and 2013:

| | | 2014 | 2013 |
|---|---|---|---|
| Amounts due in: | | | |
| Less than one year | $ | 2,381 | 1,839 |
| One to five years | | 4,897 | 4,425 |
| Over five years | | 674 | 755 |
| Less discount and allowance for uncollectible contributions | | (1,480) | (1,230) |
| Contributions receivable, net | $ | 6,472 | 5,789 |

The risk adjusted discount rate, which ranged from 0.13% to 2.41%, 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.

(Dollars in thousands)

## (7) Land, Buildings, and Equipment

The University's land, buildings and equipment are composed of the following as of June 30, 2014 and 2013:

| | | 2014 | 2013 |
|---|---|---|---|
| Buildings | $ | 249,377 | 232,213 |
| Furniture, equipment, and other assets | | 56,614 | 54,242 |
| Land and improvements | | 22,069 | 21,383 |
| Construction in progress | | 7,350 | 8,291 |
| | | 335,410 | 316,129 |
| Less accumulated depreciation | | (177,961) | (164,932) |
| Land, buildings, and equipment, net | $ | 157,449 | 151,197 |

Depreciation expense was $15,128 and $15,667 for the years ended June 30, 2014 and 2013, respectively.

## (8) Notes and Bonds Payable

Notes and bonds payable outstanding as of June 30, 2014 and 2013 are as follows:

| | | 2014 | 2013 |
|---|---|---|---|
| Variable rate, RIHEBC, 2008 Series, due in varying amounts to 2035 | $ | 48,530 | 48,895 |
| 2.000%-5.000%, RIHEBC, 2011 Series, due in varying amounts to 2032 | | 21,660 | 22,470 |
| 1.6125%, RIHEBC, 2013 Series, due in varying amounts to 2019 | | 5,685 | 6,770 |
| 3.000%-5.000%, RIHEBC, 2014 Series, due in varying amounts to 2044 | | 47,095 | — |
| Add unamortized bond premium | | 2,765 | 724 |
| Notes and bonds payable, net | $ | 125,735 | 78,859 |

Cash paid for interest was $3,226 and $3,624 for the years ended June 30, 2014 and 2013, respectively.

The amount of interest capitalized was $167 and $0 for the years ended June 30, 2014 and 2013, respectively.



(Continued)

(Dollars in thousands)

Scheduled annual principal repayments of bonds payable are as follows:

| | | |
|---|---|---|
| Fiscal year: | | |
| 2015 | $ | 3,175 |
| 2016 | | 3,225 |
| 2017 | | 3,295 |
| 2018 | | 3,375 |
| 2019 | | 3,525 |
| Thereafter | | 106,375 |
| Total principal payments | $ | 122,970 |

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 $49,651 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, 2014 was 0.06%.

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 purpose of issuing the 2011 debt was to refund the 2001 bonds.

In February 2013, the University entered into an agreement with RIHEBC, which provided for the issuance of $7,825 Higher Education Facility Revenue Refunding Bonds, Series 2013 Bonds, due in varying principal payments or sinking fund payments to June 30, 2019. These bonds are a general obligation of the University, requiring a pledge of tuition and admission fees received in each fiscal year. The bond is a private placement bond with TD Bank. The purpose of issuing the 2014 debt was to refund the 2002 bonds.

In June 2014, the University entered into an agreement with RIHEBC, which provided for the issuance of $47,095 Higher Education Facility Revenue Bonds, Series 2014 Bonds, due in varying principal payments or sinking fund payments to June 1, 2044. These bonds are a general obligation of the University, requiring a pledge of tuition and admission fees received in each fiscal year. The proceeds are being utilized to finance several construction projects.

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, 2014 or June 30, 2013.

The University's bond and letter of credit agreements contain certain covenants, which the University was in compliance with as of June 30, 2014.

(Dollars in thousands)

## (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, 2014 and 2013 in the amount of $9,410 and $9,201, 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) 2014 | Fair value at June 30 asset (liability) 2013 |
|---|---|---|---|---|---|---|---|
| Wells Fargo Bank, N.A. | 11/24/08 | 11/24/08 | 06/01/35 | $ 29,550 | 3.793% | $ (5,837) | (5,681) |
| Barclays Bank, PLC | 11/24/08 | 11/24/08 | 06/01/35 | 10,000 | 3.790 | (1,999) | (1,938) |
| Barclays Bank, PLC | 11/24/08 | 11/24/08 | 06/01/35 | 8,650 | 3.856 | (1,574) | (1,582) |
| Totals | | | | | | $ (9,410) | (9,201) |

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.

(Dollars in thousands)

## (10) Temporarily Restricted Net Assets

Temporarily restricted net assets consisted of the following as of June 30, 2014 and 2013:

| | | 2014 | 2013 |
|---|---|---|---|
| Contributions receivable, net | $ | 5,932 | 5,198 |
| Purpose restrictions: | | | |
| Scholarships | | 714 | 556 |
| Instruction | | 723 | 214 |
| Academic support | | 99 | 139 |
| Student services | | 120 | 131 |
| Public service | | 204 | 318 |
| Buildings and facilities | | 5,246 | 69 |
| Other capital campaign | | 1,233 | 952 |
| Cumulative endowment appreciation (note 4) | | 9,074 | 6,548 |
| Total purpose restrictions | | 17,413 | 8,927 |
| Total temporarily restricted net assets | $ | 23,345 | 14,125 |

## (11) Permanently Restricted Net Assets

Permanently restricted net assets consisted of the following as of June 30, 2014 and 2013:

| | | 2014 | 2013 |
|---|---|---|---|
| Contributions receivable, net | $ | 540 | 591 |
| Assets for which income is restricted for the following purposes: | | | |
| Scholarships | | 12,630 | 12,028 |
| Instruction and other programs | | 1,618 | 1,619 |
| Total income restricted as to purpose | | 14,248 | 13,647 |
| Total permanently restricted net assets | $ | 14,788 | 14,238 |

(Dollars in thousands)

## (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:

| | | 2014 | 2013 |
|---|---|---|---|
| Buildings and facilities | $ | 402 | 400 |
| Scholarships and other programs | | 2,239 | 1,845 |
| Total net assets released from restrictions | $ | 2,641 | 2,245 |

## (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 $4,173 and $3,874 for the years ended June 30, 2014 and 2013, respectively.

## (14) Natural Classification of Operating Expenses

Operating expenses by their natural classification were as follows for the years ended June 30, 2014 and 2013:

| | | 2014 | 2013 |
|---|---|---|---|
| Salaries and wages | $ | 54,965 | 52,552 |
| Depreciation and amortization of bond issuance cost | | 15,255 | 15,752 |
| Fringe benefits | | 17,106 | 15,497 |
| Purchased services | | 8,634 | 7,969 |
| Food service | | 7,684 | 7,284 |
| Interest | | 2,897 | 3,364 |
| Utilities and communications | | 3,447 | 2,871 |
| Advertising and publications | | 2,028 | 1,912 |
| Supplies and postage | | 1,863 | 1,837 |
| Facility renovations | | 1,450 | 1,690 |
| Other | | 11,555 | 10,641 |
| Total operating expenses | $ | 126,884 | 121,369 |



(Continued)

## (15) Subsequent Events

For purposes of determining the effects of subsequent events on these financial statements, management has evaluated events subsequent to June 30, 2014 and through November 6, 2014, the date on which the consolidated financial statements were issued. The University concluded that no material subsequent events have occurred.