Rhode Island School of Design

Consolidated Financial Statements

June 30, 2018 and 2017

Rhode Island School of Design
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June 30, 2018 and 2017

Report of Independent Auditors

To the Board of Trustees of
Rhode Island School of Design

We have audited the accompanying consolidated financial statements of Rhode Island School of Design and subsidiaries ("School"), which comprise the consolidated balance sheets as of June 30, 2018 and June 30, 2017, and the related consolidated statements of activities and of cash flows for the years then ended.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Rhode Island School of Design and subsidiaries as of June 30, 2018 and June 30, 2017, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

PricewaterhouseCoopers LLP

October 9, 2018

Rhode Island School of Design
Consolidated Statements of Financial Position
June 30, 2018 and 2017
(Dollars in thousands)

	2018	2017
Assets		
Cash and cash equivalents (Note 2)	$ 49,478	$ 35,570
Accounts receivable, net (Note 4)	2,387	3,310
Student loans receivable, net (Note 5)	2,725	3,027
Pledges receivable, net (Notes 2, 6)	6,017	3,035
Funds held in trust by others (Note 2)	1,825	19,253
Inventories (Note 7)	1,558	1,488
Prepaid expenses (Note 8)	1,010	861
Other investments (Note 2)	798	913
Long-term investments (Note 2)	344,551	324,417
Property, plant and equipment, net (Note 10)	217,377	207,541
Total assets	$ 627,726	$ 599,415
Liabilities		
Accounts payable and accrued liabilities (Note 11)	$ 9,373	$ 8,269
Deferred income (Note 12)	8,096	8,222
Obligations under long-term agreements (Note 13)	10,007	9,971
U.S. Government loan funds (Note 14)	1,917	2,347
Liability for interest rate swap (Notes 2, 15)	2,058	4,678
Bonds payable, net (Note 15)	148,767	153,079
Total liabilities	180,218	186,566
Net Assets		
Unrestricted net assets (Notes 16, 17)	310,021	293,780
Temporarily restricted net assets (Note 17)	78,945	68,573
Permanently restricted net assets (Note 17)	58,542	50,496
Total net assets	447,508	412,849
Total liabilities and net assets	$ 627,726	$ 599,415

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

Rhode Island School of Design
Consolidated Statements of Activities
Year Ended June 30, 2018
(With Summarized Financial Information for the Year Ended June 30, 2017)
(Dollars in thousands)

	Unrestricted	Temporarily Restricted	Permanently Restricted	2018 Total	2017 Total
Operating revenues					
Tuition and fees	$ 124,532	$ -	$ -	$ 124,532	$ 121,695
Less:					
School sponsored financial aid	(20,604)	-	-	(20,604)	(19,613)
Donor sponsored financial aid	(1,726)	-	-	(1,726)	(2,016)
Net tuition	102,202	-	-	102,202	100,066
Gifts and pledges	2,456	7,793	-	10,249	5,492
Grants	496	2,770	-	3,266	2,135
Auxiliary enterprises	26,616	-	-	26,616	25,883
Museum services	1,159	8	-	1,167	1,024
Investment income	10,849	3,558	-	14,407	16,979
Other income	2,982	3	-	2,985	2,979
Net assets released from restrictions	7,483	(7,483)	-	-	-
Total revenues	154,243	6,649	-	160,892	154,558
Operating expenses					
Instruction	51,215	-	-	51,215	49,706
Research	351	-	-	351	247
Academic support	7,564	-	-	7,564	7,256
Student services	8,765	-	-	8,765	8,669
Institutional support	26,433	-	-	26,433	22,879
Operation and maintenance	29,915	-	-	29,915	29,545
Auxiliary services	14,679	-	-	14,679	14,653
Museum	9,000	-	-	9,000	8,214
Total expenses	147,922	-	-	147,922	141,169
Increase in net assets from operating activities	6,321	6,649	-	12,970	13,389
Nonoperating					
Realized and unrealized gain on interest rate swap	1,426	-	-	1,426	755
Realized and unrealized gain on investments, net	8,494	6,333	-	14,827	19,306
Gifts and pledges	-	-	5,436	5,436	5,467
Transfer of net assets	-	(2,610)	2,610	-	-
Increase in net assets from nonoperating activities	9,920	3,723	8,046	21,689	25,528
Increase in net assets	16,241	10,372	8,046	34,659	38,917
Total net assets					
Beginning of year	293,780	68,573	50,496	412,849	373,932
End of year	$ 310,021	$ 78,945	$ 58,542	$ 447,508	$ 412,849

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

Rhode Island School of Design
Consolidated Statements of Activities
Year Ended June 30, 2017
(Dollars in thousands)

	Unrestricted	Temporarily Restricted	Permanently Restricted	2017 Total
Operating revenues				
Tuition and fees	$ 121,695	$ -	$ -	$ 121,695
Less:				
School sponsored financial aid	(19,613)	-	-	(19,613)
Donor sponsored financial aid	(2,016)	-	-	(2,016)
Net tuition	100,066	-	-	100,066
Gifts and pledges	2,805	2,687	-	5,492
Grants	427	1,708	-	2,135
Auxiliary enterprises	25,883	-	-	25,883
Museum services	1,024	-	-	1,024
Investment income	12,623	4,356	-	16,979
Other income	2,988	(9)	-	2,979
Net assets released from restrictions	7,852	(7,852)	-	-
Total revenues	153,668	890	-	154,558
Operating expenses				
Instruction	49,706	-	-	49,706
Research	247	-	-	247
Academic support	7,256	-	-	7,256
Student services	8,669	-	-	8,669
Institutional support	22,879	-	-	22,879
Operation and maintenance	29,545	-	-	29,545
Auxiliary services	14,653	-	-	14,653
Museum	8,214	-	-	8,214
Total expenses	141,169	-	-	141,169
Increase in net assets from operating activities	12,499	890	-	13,389
Nonoperating				
Realized and unrealized gain on interest rate swap	755	-	-	755
Realized and unrealized gain on investments, net	12,395	6,911	-	19,306
Gifts and pledges	-	-	5,467	5,467
Transfer to restore underwater endowments	175	(175)	-	-
Increase in net assets from nonoperating activities	13,325	6,736	5,467	25,528
Increase in net assets	25,824	7,626	5,467	38,917
Total net assets				
Beginning of year	267,956	60,947	45,029	373,932
End of year	$ 293,780	$ 68,573	$ 50,496	$ 412,849

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

Rhode Island School of Design
Consolidated Statements of Cash Flows
Year Ended June 30, 2018 and 2017
(Dollars in thousands)

	2018	2017
Cash flows from operating activities		
Change in net assets	$ 34,659	$ 38,917
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Loss (gain) on investments	(2,873)	(29,961)
Unrealized gain on interest rate swap	(2,620)	(2,675)
Change in funds held in trust by others	17,428	(2,289)
Depreciation and amortization	10,904	10,471
Contributions restricted for long-term purposes	(214)	(1,024)
Change in asset retirement obligation	252	198
Change in U.S. Government loan funds	(430)	(434)
Amortization of long-term agreements	182	191
Changes in operating assets and liabilities that provide (use) cash		
Accounts receivable	923	(252)
Pledges receivable	(2,982)	(816)
Inventories	(70)	(9)
Prepaid expenses	(149)	(687)
Accounts payable and accrued liabilities	1,421	594
Deferred income	(126)	1,311
Net cash provided by operating activities	56,305	13,535
Cash flows from investing activities		
Purchases of buildings and equipment	(21,243)	(12,872)
Student loans issued	(364)	(213)
Student loans repaid	666	673
Purchases of investments	(368,293)	(209,632)
Sales of investments	351,147	213,472
Net cash used in investing activities	(38,087)	(8,572)
Cash flows from financing activities		
Payments on long-term debt	(4,125)	(3,950)
Payments on obligations under long-term agreements	(399)	(1,624)
Contributions restricted for long-term purposes	214	1,024
Net cash used in financing activities	(4,310)	(4,550)
Net increase in cash and cash equivalents	13,908	413
Cash and cash equivalents		
Beginning of year	35,570	35,157
End of year	$ 49,478	$ 35,570
Noncash activity		
Costs accrued for capital expenditures	$ 261	$ 575
Cash paid for interest	5,120	5,620

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

1. Summary of Significant Accounting Policies

The consolidated financial statements of the Rhode Island School of Design (the "School") have been prepared in accordance with generally accepted accounting principles in the United States of America ("US GAAP") and with the reporting principles of not-for-profit accounting. The School includes RISD Holdings, Inc. ("RH") and Washington Place Holdings, LP ("Washington Place"), wholly owned subsidiaries. RH was founded in 1999, and was organized for the exclusive purposes of acquiring, holding title to, and collecting income from, real property. Washington Place was formed in 2017, for the purpose of endowment investment management.

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

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

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

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

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

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

Unconditional promises to contribute to the School in the future (pledges) are recorded as receivables at the present value of their expected cash flows less an allowance for uncollectibles.

The related revenue is assigned to temporarily restricted net assets until collected and any other restrictions are met, or permanently restricted net assets, if so restricted by the donor.

Investments
The fair values of publicly traded investments are determined based upon quoted market prices. The School's alternative investment funds are carried at estimated fair value determined by management, based upon valuations provided by management of the privately held investment funds as of June 30, 2018 and 2017. Alternative investments include limited partnerships, limited liability corporations, real estate, and offshore investment funds. Because investments in alternative investment funds are not marketable, the estimated value is subject to uncertainty and therefore, may differ significantly from the value that would have been used had a market for such investments existed and such differences could be material.

During the fiscal year ended June 30, 2018, the School began the transition from using multiple fund managers to using a single multi-strategy limited partnership fund (the "Fund"). The Fund's investment strategy focuses on varied traditional and nontraditional investment opportunities to provide a diversified single portfolio for investors. The Fund invests in the following asset classes: Equity (public and private), Hedge Funds, Real Assets (public and private), Fixed Income and Cash.

Cash and Cash Equivalents
Cash and cash equivalents include highly liquid investments with maturities of three-months or less at the time of purchase. Cash equivalents are stated at cost, which approximates fair value. Cash restricted for the Perkins loans totaled $693 and $1,149 at June 30, 2018 and 2017, respectively.

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

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

Buildings and major improvements	15–45 years
Machinery and equipment	5 years
Furniture and fixtures	5 years

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

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

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

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

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

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

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

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

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

Level 1 Quoted prices in active markets for identical assets or liabilities.

Level 2 Inputs other than Level 1 that are observable, either directly or indirectly, such as quoted prices for similar assets or liabilities in active markets; quoted prices for identical assets or liabilities in markets that are not active; or inputs other than quoted prices that are observable or can be corroborated by observable market data by correlation or other means.

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

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

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

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

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

New Accounting Pronouncements
In May 2014, the FASB issued ASU 2014-09, “Revenue from Contracts with Customers”, along with subsequent amendments, updates and an extension of the effective date (collectively, the “New Revenue Standard”), which supersedes most existing revenue recognition guidance, including industry-specific higher education guidance. The New Revenue Standards provides for a single comprehensive principles based standard for the recognition of revenue across all industries through the application of the following five-step process:

Step 1: Identify the contract(s) with a customer.

Step 2: Identify the performance obligations in the contract.

Step 3: Determine the transaction price.

Step 4: Allocate the transaction price to the performance obligation in the contract.

Step 5: Recognize revenue when (or as) the entity satisfies a performance obligation.

This five-step process will require significant management judgment in addition to changing the way many companies recognize revenue in their financial statements. Additionally, and among other provisions, the New Revenue Standard requires expanded quantitative and qualitative disclosures, including disclosure about the nature, amount, timing and uncertainty of revenue. The provisions of the New Revenue Standard are effective for the School on July 1, 2018 by applying either the full retrospective method or the cumulative catch-up transition method. The full retrospective method requires application of the provisions of the New Revenue Standard for all periods presented while the modified prospective method requires the application of the provisions of the New Revenue Standard as of the date of adoption with the cumulative effect of the retrospective application of the provisions as an adjustment through retained earnings. Currently, the School anticipates adopting the provisions of the New Revenue Standard using the modified prospective transition method.

In June 2018, The FASB issued guidance clarifying the New Revenue Standard for the accounting of grants and contributions. The new guidance provides a framework for evaluating whether grants and contributions should be accounted for as exchange transactions or nonexchange transactions. The guidance is effective for the School beginning on July 1, 2018.

In July 2015, the FASB issued Accounting Standards Update (ASU) 2015-11, *Simplifying the Measurement of Inventory*, that simplifies the subsequent measurement of inventories by replacing the current lower of cost or market test with the lower of cost or net realizable value test. During 2018, the School adopted this standard, which had no impact on the School’s consolidated financial statements and related disclosures.

In February 2016, the FASB issued ASU 2016-02, *Leases*, which requires a lessee, in most leases, to initially recognize a lease liability for the obligation to make lease payments and a right-of-use asset for the right to use the underlying asset for the lease term. The guidance is effective for the School on July 1, 2019. The School is evaluating the effects the adoption of this standard will have on its financial statements and financial statement disclosures.

In August 2016, the FASB issued ASU 2016-14, *Presentation of Financial Statements for Not-for-Profit Entities.* The new pronouncement amends certain financial reporting requirements for not-for-profit entities, including revisions to the classification of net assets and expanded disclosure requirements concerning expenses and liquidity. The ASU is effective for the School for the year ending June 30, 2019.

In August 2016, the FASB issued ASU 2016-15, *Classification of Certain Cash Receipts and Cash Payments*. The standard addresses the classification of certain transactions within the statement of cash flows, including cash payments for debt prepayment or debt extinguishment costs, contingent consideration payments made after a business combination, and distributions received from equity method investments. The ASU is effective for the School on July 1, 2019. Early adoption is permitted. The School is evaluating the effects the adoption of this standard will have on its financial statements and financial statement disclosures.

In January 2017, the FASB issued ASU 2017-02, *Clarifying When a Not-for-Profit Entity That Is a General Partner or a Limited Partner Should Consolidate a For-Profit Limited Partnership or Similar entity*, which amends the consolidation guidance for not-for-profit (NFP) entities in ASC 958-810. The issued final guidance clarifies the model used by NFP entities to evaluate the consolidation of investments in limited partnerships (and limited liability companies that are similar to limited partnerships). Under the new guidance, NFP investors in a limited partnership or similar entity will continue to apply a presumption that the general partner has control and should consolidate the investment unless substantive kick-out or participating rights held by any limited partners overcome that presumption. If the general partner does not have control, the limited partners have to evaluate whether they have control. If a limited partner has control, consolidation is required unless the investment is part of a portfolio for which the NFP “portfolio-wide” fair value option has been elected. In that situation, the limited partner can instead report its interest at fair value, mirroring an exception that already exists for NFP general partners. The new standard also affirms the FASB’s intent to retain the NFP “portfolio-wide” fair value option under its new investment recognition and measurement rules. The School has adopted the ASU effective June 30, 2018.

Tax Reform
The Tax Cuts and Jobs Act (the “Act”) was enacted on December 22, 2017. The Act impacts the School in several ways, including, increases to unrelated business taxable income (“UBTI”) by the amount of certain fringe benefits for which a deduction is not allowed, changes to the net operating loss rules, repeal of the alternative minimum tax (“AMT”), and the computation of UBTI separately for each unrelated trade or business. Further, the Act reduces the US federal corporate tax rate and federal corporate unrelated business income tax rate from 35% to 21%. The overall impact of the Act remains uncertain and the full impact of the Act will not be known until further regulatory guidance is provided to assist the School with calculating income liability.

2. Fair Value of Financial Instruments

In accordance with accounting guidance for Fair Value Measurements, the tables below summarize the financial instruments carried at fair value on a recurring basis as of June 30, 2018 and 2017, aggregated by the level in the fair value hierarchy within which those measurements fall. However, certain investments that are measured at fair value using the net asset value per share (or its equivalent) practical expedient have not been classified in the fair value hierarchy and instead are included in the following tables as “investments valued using the NAV practical expedient”. The fair value amounts presented in the following tables are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the Consolidated Statements of Financial Position:

(Dollars in thousands)

	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Investments Valued Using the NAV Practical Expedient	Total Fair Value 2018
Assets					
Cash and cash equivalents	$ 9,134	$ -	$ -	$ -	$ 9,134
Investments					
Cash and cash equivalents	1,762	-	-	-	1,762
Multi-strategy limited partnership investment fund	-	-	-	228,846	228,846
Hedge funds					
Multi-strategy hedge fund of funds	-	-	-	43,911	43,911
Equity long hedge fund of funds	-	-	-	34,838	34,838
Fixed income	-	-	-	16,161	16,161
Private equity	-	-	-	19,033	19,033
Total investments	1,762	-	-	342,789	344,551
Beneficial interests held by third parties	-	-	1,535	-	1,535
Total assets at fair value	$ 10,896	$ -	$ 1,535	$ 342,789	$ 355,220
Liabilities					
Interest rate swap	$ -	$ (2,058)	$ -	$ -	$ (2,058)
Total liabilities at fair value	$ -	$ (2,058)	$ -	$ -	$ (2,058)

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

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

(Dollars in thousands)

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

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

The following table is a rollforward of the Consolidated Statements of Financial Position amounts for financial instruments classified by the School within Level 3 of the fair value hierarchy defined above. Transfers out represent the $19,929 distribution from the Rayon Trust that was received in June 2018.

	Fair Value 6/30/17	Realized Gains (Losses)	Unrealized Gains (Losses)	Purchases	Sales	Tranfers In (Out)	Fair Value 6/30/18
Beneficial interests held by third parties	$ 18,918	$ 2,470	$ 76	$ -	$ -	$ (19,929)	$ 1,535

	Fair Value 6/30/16	Realized Gains (Losses)	Unrealized Gains (Losses)	Purchases	Sales	Tranfers In (Out)	Fair Value 6/30/17
Beneficial interests held by third parties	$ 16,732	$ -	$ 2,211	$ -	$ (25)	$ -	$ 18,918

All net realized and unrealized gains in the tables above are reflected in the accompanying Consolidated Statements of Activities and relate to those financial instruments held by the School at June 30, 2018 and 2017.

There were no transfers between levels for the year ended June 30, 2018 and 2017.

(Dollars in thousands)

The following tables present liquidity information for the investments carried at fair value at June 30, 2018 and 2017, respectively.

	Investments Asset Value as of June 30, 2018					
		Fair Value		Unfunded Commitments	Redemption Frequency	Notice Period
Investment type						
Cash and cash equivalents	$	1,762	$	-	Liquid	N/A
Multi-strategy limited partnership investment fund		228,846		703	Semiannually	120 Days
Hedge funds						
Multi-Strategy Hedge Fund of Funds		43,911		-	Quarterly	7 Days
Equity Long Hedge Fund of Funds		34,838		-	Quarterly	7 Days
Fixed Income		16,161		-	Quarterly	7 Days
Private equity		19,033		8,988	At Manager's Discretion	
Total	$	344,551	$	9,691		

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

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

(Dollars in thousands)

3. Investment Income

Investment income for the year ended June 30, 2018 and 2017, was as follows:

	2018			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Interest and dividend income	$ 375	$ 3,558	$ -	$ 3,933
Realized gains	16,899	22,998	-	39,897
Net unrealized loss	2,069	(16,665)	-	(14,596)
Total investment return	$ 19,343	$ 9,891	$ -	$ 29,234

Reconciliation from Consolidated Statement of Activities

Investment income	$ 14,407
Realized and unrealized gain on investments, net	14,827
Total investment return	$ 29,234

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

Reconciliation from Consolidated Statement of Activities

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

Investment management fees and other expenses (netted from interest and dividend income) totaled $868 and $536 for the year ended June 30, 2018 and 2017, respectively.

(Dollars in thousands)

Certain net assets are pooled for investment income purposes. Units in the pool are assigned on the basis of fair value at the time net assets to be invested are received, and income is distributed monthly thereafter on a per-unit basis. The market value of long-term investments, as stated in the Consolidated Statements of Financial Position, represents the value of pooled endowment plus other nonpooled investments at June 30, 2018 and 2017.

4. Accounts Receivable

Accounts receivable consisted of the following at June 30, 2018 and 2017:

	2018	2017
Student tuition and fees	$ 1,714	$ 2,027
Computer loan programs	131	136
Government grants	580	859
Other	312	645
	2,737	3,667
Less: Allowance for uncollectible accounts	(350)	(357)
Accounts receivable, net	$ 2,387	$ 3,310

5. Student Loans Receivable

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

Student loans receivable consisted of the following at June 30, 2018 and 2017:

	2018	2017
Student loan funds	$ 3,137	$ 3,437
Less: Allowance for uncollectible accounts	(412)	(410)
Student loans receivable, net	$ 2,725	$ 3,027

(Dollars in thousands)

6. Pledges Receivable

Pledges receivable at June 30, 2018 and 2017, are expected to be realized in the following periods:

	2018	2017
In one year or less	$ 1,733	$ 902
Between one year and five years, net of discount	3,996	1,497
Five years and over, net of discount	862	881
	6,591	3,280
Less: Allowance for uncollectible pledges	(574)	(245)
Pledges receivable, net	$ 6,017	$ 3,035

Pledges receivable expected to be collected within one year are recorded at their net realizable value. Those expected to be collected in future years are recorded at the present value of estimated future cash flows. The present value of estimated future cash flows has been measured at the time of the pledge using rates indicative of the market and credit risk associated with the pledge, which resulted in a discount of $203 and $63 for the years ended June 30, 2018 and 2017, respectively.

7. Inventories

Inventories are stated at the lower of cost or net realizable value. The School uses the first-in, first-out method of accounting for inventory. Inventory consists primarily of items held for resale by the School's stores. Inventories consisted of the following at June 30, 2018 and 2017:

	2018	2017
RISD Store	$ 1,040	$ 932
RISD Store 3D	315	315
RISD Works	170	190
Dining	51	54
Postage and other	27	42
	1,603	1,533
Less: Obsolescence reserve	(45)	(45)
Inventories, net	$ 1,558	$ 1,488

(Dollars in thousands)

8. Prepaid Expenses

Prepaid expenses consisted of the following at June 30, 2018 and 2017:

	2018	2017
Miscellaneous prepaid expenses	$ 1,010	$ 861

9. Related Parties

Management and the Board of Trustees report and monitor related party transactions in accordance with the School's conflict of interest policy. There were no related party transactions during the year ended June 30, 2018 and 2017, respectively.

10. Property, Plant and Equipment

	2018	2017
Land and buildings		
Educational plant	$ 196,610	$ 190,947
Dormitories and refectory	94,634	92,962
Administrative and other	35,308	33,543
Residences	1,693	1,680
Construction in progress	15,025	5,159
Land	11,554	11,124
	354,824	335,415
Furniture, fixtures and equipment	62,192	60,672
	417,016	396,087
Less: Accumulated depreciation	(199,639)	(188,546)
Property, plant and equipment, net	$ 217,377	$ 207,541

Depreciation expense for the year ended June 30, 2018 and 2017 was $11,093 and $10,616, respectively.

(Dollars in thousands)

11. Accounts Payable and Accrued Liabilities

Accounts payable and accrued liabilities consisted of the following at June 30, 2018 and 2017:

	2018	2017
Trade accounts payable	$ 4,540	$ 3,580
Accrued interest	842	890
Annuities payable	360	548
Accrued payroll	410	364
Accrued vacation	538	536
Payroll-related liabilities	67	(129)
Management fees	-	91
Deposits	592	555
Other	2,024	1,834
Accounts payable and accrued liabilities	$ 9,373	$ 8,269

12. Deferred Income

Deferred income represents tuition payments that were received in advance of the start of the academic semester and grant revenue that has not yet been earned. Deferred income at June 30, 2018 and 2017 was $8,096 and $8,222, respectively.

13. Obligations Under Long-Term Agreements

During fiscal year 2004, the School entered into a long-term agreement with a third party in order to purchase the Center for Integrative Technology building. The amount outstanding on the capital lease was $4,969 and $5,186 at June 30, 2018 and 2017, respectively. Based on a variety of assumptions, the current estimation is that the lease term will end on or about 2031.

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

2019	$ 439
2020	439
2021	439
2022	439
2023	439
2024-2031	4,012
Total minimum lease payments	6,207
Interest expense	(1,238)
Total obligation	$ 4,969

(Dollars in thousands)

The School presents an asset retirement obligation on its Consolidated Statements of Financial Position that represents the probability and projected cost to remedy certain environmental hazards in relation to its buildings and boiler systems. The asset retirement obligation was $5,038 and $4,785 at June 30, 2018 and 2017, respectively.

14. U.S. Government Loan Funds

Federal fund balance is shown as a liability in the event that the Perkins Loan program ceases. This number represents the federal capital contribution and federal percentage of revenues and expenses for the current year's Perkins Loan program. At June 30, 2018 and 2017, the liability was $1,917 and $2,347, respectively.

Allowance for Credit Losses
Management regularly assesses the adequacy of the allowance for credit losses by performing evaluations on the student loan portfolio, current economic environment, and level of delinquent loans. The allowance is adjusted based on the results of these evaluations. Loans disbursed under the Federal Perkins Loan Program are able to be assigned to the Federal government in certain non-repayment situations. Management believes that this allowance at June 30, 2018 is adequate to absorb credit losses inherent in the portfolio as of that date. There were no changes in the allowance for credit losses for the year ended June 30, 2018.

15. Bonds Payable and Other Debt

Name	Original Issue	Rate	Maturity	2018	2017
Rhode Island Health and Education Building Corporation					
Series 2008A	$61,930	1.25% - 2.60%	2035	$ 45,400	$ 47,110
Series 2008B	$31,850	1.25% - 2.60%	2037	31,850	31,850
Series 2012	$28,340	2.50% - 5.00%	2031	24,245	24,950
Series 2012B	$51,815	2.50% - 5.00%	2036	43,940	45,650
Bonds payable, net				145,435	149,560
Add: Unamortized Premium on Bonds				4,254	4,499
Less: Bond Issuance Costs				(922)	(980)
Bonds payable, net				$ 148,767	$ 153,079

As of June 30, 2018 and 2017, the unaccreted premium on the 2012 Bonds amounted to $301 and $325, and for the 2012B Bonds the unaccreted premium amounted to $3,954 and $4,174, respectively, both of which are being accreted over the lives of the bonds using the effective interest basis.

(Dollars in thousands)

Rhode Island Health and Education Building Corporation (RIHEBC)

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

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

On June 1, 2011, the School secured a $31,850 letter of credit to cover an amount up to the outstanding balance of the 2008B bonds at the time of redemption. Any payout was to be repaid immediately or accrue interest. If payout was not made in 90 days, the payout would convert to a term loan, due in five semi-annual installments beginning six months after the conversion date. This letter of credit was to expire November 2, 2018. On June 26, 2018 the expiration date was extended to November 2, 2021.

On December 4, 2012, the School secured a $53,180 letter of credit which covered an amount up to the outstanding balance of the 2008A bonds at the time of redemption. This letter of credit for the 2008A bonds was to expire December 4, 2015. On November 2, 2015, the School secured a new $48,740 letter of credit to cover an amount up to the outstanding balance of the 2008A bonds at the time of redemption plus 45 days' interest at the maximum rate of 12%. This letter of credit was to expire November 2, 2018. On June 26, 2018 the expiration date was extended to November 2, 2021.

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

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

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

	RIHEBC
2019	$ 4,305
2020	4,505
2021	4,705
2022	4,915
2023	5,120
2023–2038	121,885
Annual principal payments	$ 145,435

(Dollars in thousands)

Cash paid for interest on long-term debt for the year ended June 30, 2018 and 2017, was $3,744 and $3,509, respectively. Total interest expense for the year ended June 30, 2018 and 2017, was $4,261 and $4,034, respectively.

The School has entered into various interest rate swap agreements to manage the interest cost and variable rate risk associated with its outstanding debt. The interest rate swap agreements were not entered into for trading or speculative purposes. The risks associated with interest rate swaps are primarily market risk. Under the terms of these agreements, the School pays a fixed rate, determined at inception, to a third party who in turn pays the School a variable rate on these respective notional principal amounts. During the year ended June 30, 2018 and 2017, the School incurred realized losses of $1,194 and $1,920, respectively.

The School records interest rate swaps at the estimated value at which the swaps could be settled as of June 30, 2018 and 2017. The estimated fair value of the swap instruments represents the estimated cost to the School to cancel the agreements at the reporting date, which is based on option pricing models that consider risks and market factors. Unrealized appreciation of $2,620 and $2,675 was recorded for the swaps for the year ended June 30, 2018 and 2017, respectively. The interest rate swap balances are classified as liabilities on the Consolidated Statements of Financial Position. Net payments or receipts under the swap agreements, along with the change in fair value of the swaps, are included in nonoperating revenues on the Consolidated Statements of Activities and in the cash flows from operating activities on the Consolidated Statements of Cash Flows.

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

The following schedule presents the notional principal amounts of the School’s interest rate swaps at June 30, 2018 and 2017.

Maturity	**Original Notional**	**Fair Value 2018**	**Fair Value 2017**
February 1, 2020	$ 18,000	$ (240)	$ (670)
August 15, 2025	24,300	(1,103)	(1,815)
August 15, 2034	28,500	(988)	(2,095)
August 15, 2036	17,995	273	(98)
Liability for interest rate swap		$ (2,058)	$ (4,678)

(Dollars in thousands)

16. Net Assets

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

	2018	2017
Unrestricted net assets		
Designated funds	$ 11,888	$ 11,548
Designated for endowment	251,995	242,867
Operating funds	46,138	39,365
Total unrestricted net assets	310,021	293,780
Temporarily restricted net assets	78,945	68,573
Permanently restricted net assets	58,542	50,496
Total net assets	$ 447,508	$ 412,849

17. Endowment Funds

The School's endowment consists of approximately 273 individual donor-restricted endowment funds and 35 board-designated endowment funds for a variety of purposes plus the following where the assets have been designated for endowment: pledges receivable, split interest agreements, and other net assets. The endowment includes both donor-restricted endowment funds and funds designated by the Board of Trustees to function as endowments. The net assets associated with endowment funds, including funds designated by the Board of Trustees to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

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

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

(Dollars in thousands)

Endowment net asset composition by type of fund as of June 30, 2018 and 2017, were as follows:

	2018			
	Unrestricted	**Temporarily Restricted**	**Permanently Restricted**	**Total**
Board-designated				
For scholarships	$ 12,400	$ -	$ -	$ 12,400
For academic and institutional purposes	237,103	-	-	237,103
For museum support	2,492	-	-	2,492
Total board designated	251,995	-	-	251,995
Donor-restricted				
For scholarships	-	15,972	24,609	40,581
For academic and institutional purposes	-	6,720	18,561	25,281
For museum support	-	18,220	15,372	33,592
Total donor restricted	-	40,912	58,542	99,454
Total endowment funds	$ 251,995	$ 40,912	$ 58,542	$ 351,449

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

(Dollars in thousands)

Changes in endowment net assets for the year ended June 30, 2018 and 2017, were as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets at June 30, 2017	$ 242,867	$ 36,860	$ 50,496	$ 330,223
Investment return				
Investment income	(15)	(5)	-	(20)
Net appreciation (realized and unrealized)	20,228	7,406	-	27,634
Total investment return	20,213	7,401	-	27,614
Gifts	40	-	5,436	5,476
Endowment return allocated for spending	(11,125)	(3,349)	-	(14,474)
Transfer of net assets	-	-	2,610	2,610
Endowment net assets at June 30, 2018	251,995	40,912	58,542	351,449
Nonendowment net assets	58,026	38,033	-	96,059
Total net assets at June 30, 2018	$ 310,021	$ 78,945	$ 58,542	$ 447,508

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

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

Endowment Funds with Deficits

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the value of the initial and subsequent donor gift amounts (“underwater”). When donor endowment deficits exist, they are classified as a reduction of unrestricted net assets. There were no endowment funds underwater as of June 30, 2018 and 2017, respectively. When the restricted endowment funds were recovered, the School recorded income for the amounts originally transferred to restore the underwater endowments. Nonoperating income of $0 and $175, respectively, were recorded in unrestricted net assets as of June 30, 2018 and 2017, respectively. These results are directly driven by market fluctuations.

(Dollars in thousands)

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

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

Endowment Spending Allocation and Relationship of Spending Policy to Investment Objectives
The Board of Trustees of the School determines the method to be used to appropriate endowment funds for expenditure. In 2018 and 2017, the spending policy was to spend 4.75% of a rolling twenty-quarter average.

18. Museum

Museum revenues for the year ended June 30, 2018 and 2017, are described below:

	2018	2017
Service revenue per Consolidated Statements of Activities	$ 1,167	$ 1,024
Investment income	1,331	1,519
Gifts and grants	614	1,196
Total museum revenues	$ 3,112	$ 3,739

Collections
The majority of the School's collections resides in the Museum and consists of artifacts of historical significance, art objects and books that are held for educational, research, and curatorial purposes. Each of the items are cataloged, preserved, and cared for and activities verifying their existence and assessing their condition are performed periodically. The collections are subject to a policy that requires proceeds from their sales to be used to acquire other items for collections. The School expended $396 and $599 for acquisitions during the year ended June 30, 2018 and 2017, respectively. The School sold collections in the amount of $6 and $26 during the year ended June 30, 2018 and 2017, respectively. The sales proceeds were subsequently reinvested in the collection.

(Dollars in thousands)

19. Operating Expenses

Operating Expenses, as presented in natural classification, consisted of the following for the year ended June 30, 2018 and 2017:

	2018 Total	2017 Total
Operating expenses		
Salaries and wages	$ 72,145	$ 69,475
Benefits	20,229	19,239
Contractual services	15,863	15,709
Depreciation	11,343	11,025
Supplies and general	6,737	6,708
Utilities, plant and equipment	5,637	5,438
Interest and amortization	4,491	4,258
Food services	3,499	3,078
Travel	3,121	3,114
Other	4,857	3,125
Total expenses	$ 147,922	$ 141,169

20. Retirement and Pension Plans

The School participates in the Teachers Insurance and Annuity Association (TIAA) for eligible faculty, administrative and staff employees. The School made contributions to the TIAA retirement plan which totaled approximately $4,442 and $4,262 for the year ended June 30, 2018 and 2017, respectively.

21. Commitments and Contingencies

On November 2, 2015, the School secured a line of credit with TD Bank, N.A. of $10,000. On June 15, 2018, the line of credit was amended to extend the maturity date to June 15, 2019. The School had no outstanding borrowings against the line of credit as of June 30, 2018 and 2017.

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

22. Subsequent Events

On September 13, 2018, the School sold $54,950 par value, 30 year, 5% coupon tax exempt bonds, resulting in $60,081 proceeds for use by RISD, net of issuance costs. The School plans to utilize the bond proceeds to construct a new residential facility and address deferred maintenance in several buildings.