PRATT INSTITUTE

Financial Statements

June 30, 2013
(with summarized comparative financial information
as of and for the year ended June 30, 2012)

(With Independent Auditors' Report Thereon)

KPMG LLP
345 Park Avenue
New York, NY 10154-0102

Independent Auditors' Report

The Board of Trustees
Pratt Institute:

We have audited the accompanying financial statements of Pratt Institute (the Institute), which comprise the balance sheet as of June 30, 2013, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these 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 financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the organization's preparation and fair presentation of the 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 organization'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 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 financial statements referred to above present fairly, in all material respects, the financial position of Pratt Institute as of June 30, 2013, and the changes in its net assets and its cash flows for the year then ended, in accordance with U.S. generally accepted accounting principles.

Report on Summarized Comparative Information

We have previously audited the Institute's 2012 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated December 6, 2012. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2012 is consistent, in all material respects, with the audited financial statements from which it has been derived.

KPMG LLP

December 3, 2013

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Balance Sheet

June 30, 2013
(with comparative financial information as of June 30, 2012)

Assets		2013	2012
Cash and cash equivalents	$	95,440,240	74,767,086
Receivables:			
Student accounts (net of allowance for doubtful accounts of $1,819,480 and $1,935,957 in 2013 and 2012, respectively)		174,536	147,767
Grants and other (net of allowance for doubtful accounts of $422,036 in 2013 and 2012)		1,647,688	4,217,547
Contributions, net (note 5)		3,000,507	1,380,491
Student loans and accrued interest (net of allowance for doubtful loans of $3,675,973 and $3,407,421 in 2013 and 2012, respectively)		11,862,970	12,126,366
Investments (note 3)		135,091,785	118,332,925
Prepaid expenses and other assets (note 7)		4,363,597	4,164,151
Funds held by bond trustee (note 7)		9,071,697	9,005,723
Plant assets, net (note 6)		246,898,522	248,929,998
Total assets	$	507,551,542	473,072,054
Liabilities and Net Assets			
Liabilities:			
Accounts payable and accrued expenses	$	22,251,010	17,190,993
Deferred revenue		6,051,913	6,176,527
Note payable (note 8)		8,500,000	9,000,000
Bonds payable (note 7)		93,836,614	96,593,600
Swap liability (note 7)		3,192,810	5,151,588
Accrued postretirement benefit obligation (note 11)		66,465,334	65,758,266
U.S. government grants refundable		7,063,208	6,901,918
Conditional asset retirement obligations (note 9)		3,215,388	3,024,733
Total liabilities		210,576,277	209,797,625
Net assets (notes 4 and 10):			
Unrestricted		229,105,004	205,705,012
Temporarily restricted		25,055,811	18,185,292
Permanently restricted		42,814,450	39,384,125
Total net assets		296,975,265	263,274,429
Total liabilities and net assets	$	507,551,542	473,072,054

See accompanying notes to financial statements.

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Statement of Activities

Year ended June 30, 2013
(with summarized comparative financial information for the year ended June 30, 2012)

	Unrestricted	Temporarily restricted	Permanently restricted	2013 Total	2012 Total
Operating activities:					
Revenue:					
Tuition and fees (note 7)	$ 173,301,515	—	—	173,301,515	165,726,598
Scholarship allowance	(40,401,495)	—	—	(40,401,495)	(36,952,069)
Net tuition and fees	132,900,020	—	—	132,900,020	128,774,529
State of New York appropriations	277,327	—	—	277,327	314,254
Contributions	4,801,962	236,841	3,416,361	8,455,164	3,927,717
Private grants and contracts	1,059,337	2,204,896	—	3,264,233	1,532,036
Government grants and contracts:					
Federal	1,607,961	396,585	—	2,004,546	2,147,217
State of New York	879,897	—	—	879,897	818,916
Local	327,493	—	—	327,493	390,500
Investment income	454,203	1,025,949	13,964	1,494,116	1,514,215
Interest and late charges on loans receivable	295,344	—	—	295,344	267,484
Sales and services of auxiliary enterprises	16,522,192	96,642	—	16,618,834	17,049,448
Other revenues	4,153,871	271,672	—	4,425,543	4,127,077
Net assets released from restrictions	3,116,862	(3,116,862)	—	—	—
Total operating revenue	166,396,469	1,115,723	3,430,325	170,942,517	160,863,393
Expenses (note 14):					
Instruction	63,726,111	—	—	63,726,111	61,890,247
Public service	2,706,773	—	—	2,706,773	3,087,488
Academic support	20,530,084	—	—	20,530,084	17,888,780
Student services	17,668,691	—	—	17,668,691	17,464,578
Institutional support	31,034,619	—	—	31,034,619	28,329,507
Auxiliary enterprises	22,569,324	—	—	22,569,324	23,494,188
Total expenses	158,235,602	—	—	158,235,602	152,154,788
Excess of operating revenue over expenses	8,160,867	1,115,723	3,430,325	12,706,915	8,708,605
Nonoperating activities:					
Net appreciation (depreciation) in fair value of investments	6,819,463	5,754,796	—	12,574,259	(1,795,375)
Unrealized appreciation (depreciation) in fair value of derivative instruments (note 7)	1,958,778	—	—	1,958,778	(1,787,382)
Postretirement-related changes other than net periodic postretirement benefit cost (note 11)	6,460,884	—	—	6,460,884	(7,738,667)
Increase (decrease) in net assets	23,399,992	6,870,519	3,430,325	33,700,836	(2,612,819)
Net assets, beginning of year	205,705,012	18,185,292	39,384,125	263,274,429	265,887,248
Net assets, end of year	$ 229,105,004	25,055,811	42,814,450	296,975,265	263,274,429

See accompanying notes to financial statements.

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Statement of Cash Flows

Year ended June 30, 2013
(with comparative financial information for the year ended June 30, 2012)

	2013	2012
Cash flows from operating activities:		
Increase (decrease) in net assets	$ 33,700,836	(2,612,819)
Adjustments to reconcile increase (decrease) in net assets to net cash provided by operating activities:		
Depreciation of plant assets	11,967,618	10,858,630
Amortization and accretion expense	198,669	182,908
Amortization of deferred bond issuance costs	142,458	142,457
Loss on disposal of fixed assets	—	7,071
Net (appreciation) depreciation in fair value of investments	(12,574,259)	1,795,375
Net (appreciation) depreciation in fair value of derivative instruments	(1,958,778)	1,787,382
Provision for uncollectible loans and receivables	268,552	303,424
Permanently restricted contributions	(3,416,361)	(484,376)
Changes in assets and liabilities:		
Student accounts receivable	(26,769)	110,650
Grants and other receivable	2,569,859	871,735
Contributions receivable, excluding portions donor-restricted for endowments	665,984	1,392,025
Accrued interest receivable on student loans receivable	(274,697)	(258,909)
Prepaid expenses and other assets	(341,904)	509,967
Accounts payable and accrued expenses	3,617,879	(1,451,941)
Deferred revenue	(124,614)	979,404
Accrued postretirement benefit obligation	707,068	12,519,511
Net cash provided by operating activities	35,121,541	26,652,494
Cash flows from investing activities:		
Principal payments received on student loans	1,330,330	1,319,751
Disbursements of student loans, net of cancellations	(1,060,789)	(1,134,675)
Change in receivable from liquidation of investments	—	3,156,275
Proceeds from sales of investments	30,087,533	20,731,043
Purchases of investments	(34,272,134)	(24,857,763)
Purchases of plant assets	(9,936,142)	(21,899,577)
Change in accounts payable for capital expenditures	1,442,138	692,941
Net cash used in investing activities	(12,409,064)	(21,992,005)
Cash flows from financing activities:		
(Increase) decrease in funds held by bond trustee, net	(65,974)	1,242,842
Principal payments on note and bonds payable	(3,265,000)	(3,175,000)
Increase in U.S. government grants refundable	161,290	147,808
Proceeds from permanently restricted contributions	1,130,361	484,376
Net cash used in financing activities	(2,039,323)	(1,299,974)
Net increase in cash and cash equivalents	20,673,154	3,360,515
Cash and cash equivalents, beginning of year	74,767,086	71,406,571
Cash and cash equivalents, end of year	$ 95,440,240	74,767,086
Supplemental disclosure of cash flow information:		
Cash paid for interest	$ 3,765,953	3,892,470

See accompanying notes to financial statements.

(1) Organization and Tax Status

(a) Organization

Pratt Institute (the Institute), with its principal offices and programs located in Brooklyn, New York, is a coeducational institution chartered and empowered to confer academic degrees by the Board of Regents of the State of New York. The Institute offers degrees at both the undergraduate and graduate levels in art, design, and architecture, and at the graduate level in information and library science.

(b) Tax Status

The Institute is exempt from federal income taxes under the provisions of Section 501(c)(3) of the Internal Revenue Code. Accordingly, the Institute is not subject to income taxes except to the extent it has taxable income from activities that are not related to its exempt purposes. The Institute utilizes a threshold of more likely than not for recognition and derecognition of tax positions taken or expected to be taken in a tax return. No provision for income taxes was required for fiscal year 2013 or 2012.

(2) Summary of Significant Accounting Policies

The significant accounting policies followed by the Institute are described below:

(a) Basis of Accounting

The accompanying financial statements have been prepared on the accrual basis of accounting.

(b) Basis of Presentation

The Institute's net assets and revenues, gains, and losses are classified based on the existence or absence of donor-imposed restrictions in accordance with standards established by the Financial Accounting Standards Board (FASB) for external financial reporting by not-for-profit organizations. Accordingly, net assets and changes therein are classified and reported as follows:

Unrestricted net assets – Net assets that are not subject to donor-imposed stipulations.

Temporarily restricted net assets – Net assets subject to donor-imposed stipulations that will be met either by actions of the Institute and/or the passage of time.

Permanently restricted net assets – Net assets subject to donor-imposed stipulations that they be maintained permanently by the Institute. Generally, the donors of these assets permit the Institute to use all or part of the income and gains derived therefrom for general or specific purposes.

Revenue is reported as an increase 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 stipulation or by law.

(Continued)

When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the accompanying statement of activities as net assets released from restrictions.

(c) Contributions and Grants

Contributions, which include unconditional promises to give or pledges, grants, and contracts, are recognized as revenues in the period received at fair value. Conditional promises to give are not recognized until they become unconditional, that is, when the condition on which they depend are substantially met. Unconditional pledges to be paid in the future are discounted using a risk-adjusted discount rate. Amortization of the discount is recorded as additional contribution revenue with the donor-imposed restrictions, if any, on the contribution. Any decreases in the quantity or nature of assets expected to be received subsequent to the initial recognition of the pledge are reported as a loss in the applicable net asset class.

(d) Cash and Cash Equivalents

Cash and cash equivalents consist principally of money market funds and temporarily uninvested cash except for those cash equivalents that are maintained for long-term investment purposes. The carrying amounts of cash and cash equivalents approximate fair value because of the short maturities of those instruments.

(e) Investments

Readily marketable investments are stated at fair value based upon quoted market prices. Contributions of investment securities are recorded at their fair value at the date of gift. Alternative investments, which are not readily marketable, are carried at estimated fair values (net asset value) as provided by the investment managers. The Institute reviews and evaluates the values provided by the investment managers and agrees with the valuation methods and assumptions used in determining the fair value of the alternative investments. These estimated fair values may differ significantly from the values that would have been used had a ready market for the securities existed.

(f) Plant Assets

Plant assets are stated based upon the following valuations:

Land – assessed valuation at 1962 plus subsequent additions at cost

Buildings – cost, except certain buildings, which are stated at insurable values for 1962

Building and leasehold improvements – cost

Equipment and furniture – cost, or at fair value, at the date of gift when acquired as gift

Library books – nominal value of $1.00 per volume

(Continued)

Depreciation of buildings, building improvements, equipment, and furniture is provided on a straight-line basis over their estimated useful lives, ranging from 5 to 50 years. Amortization of leasehold improvements is provided on a straight-line basis over their expected useful lives, not to exceed the remaining life of the respective lease.

(g) Release of Restrictions on Net Assets Held for Acquisition of Property and Equipment

Contributions of property and equipment without donor stipulations concerning the use of such long-lived assets are reported as revenues of the unrestricted net asset class. Contributions of cash or other assets received with donor stipulations that they be used to acquire property and equipment are reported as revenues of the temporarily restricted net asset class; the restrictions are considered to be released at the time the long-lived asset is placed into service.

(h) Deferred Revenue

Amounts received in advance for tuition and fees are recognized as deferred revenue in the accompanying financial statements.

(i) Split-Interest Agreements

The Institute's split-interest agreements with donors consist primarily of charitable gift annuities, as well as a charitable gift remainder trust, for which the Institute is trustee. Assets associated with these split-interest agreements are included in investments. Contribution revenue is recognized at the date the trusts are established. The liabilities are adjusted annually for changes in the value of the assets, accretion of the discount, and other changes in the estimates of future benefits.

(j) Fair Value Hierarchy

Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. The fair value hierarchy requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The following three levels of inputs are used to measure fair value:

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

Level 2: Observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities, as well as certain alternative investments (measured at net asset value) that are redeemable on or near (within 90 days) the balance sheet date.

Level 3: Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation, as well as certain alternative investments (measured at net asset value) that are not redeemable on or near the balance sheet date.

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

(k) Fair Value Disclosures

The carrying value of substantially all long-term debt is not materially different from fair value based on the discounted future cash payments to be made using observable interest rates and maturity dates that fall within Level 2 of the fair value hierarchy due to these financial instruments bearing interest at rates that approximate the current market rates for loans with similar maturities and credit quality. A reasonable estimate of the fair value of loans receivable from students under government loan programs could not be made because the notes cannot be sold and can only be assigned to the U.S. government or its designees. The carrying amounts of the Institute's remaining financial instruments not reported at fair value approximate fair value because of their short maturities. The fair values of such financial instruments involve unobservable inputs considered to be Level 3 in the fair value hierarchy.

(l) U.S. Government Grants Refundable

Funds provided by the U.S. government under the Federal Perkins Loan Program are loaned to qualified students and may be reloaned after collection. These funds are ultimately refundable to the U.S. government and are presented in the accompanying balance sheet as liabilities.

(m) Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles 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 financial statements and the reported amounts of revenues and expenses during the reporting period. Significant estimates made in the preparation of these financial statements include valuation of investments at fair value, valuation of interest rate swap agreements at fair value, actuarial valuation of postretirement benefits obligation, allocation of expenses among functional categories, plant assets' useful lives, and estimated net realizable value of receivables. Actual results could differ from those estimates.

(n) Operating and Nonoperating Activities

The accompanying statement of activities distinguishes between operating and nonoperating activities. Nonoperating activities consist of net appreciation (depreciation) in fair value of investments and derivative instruments and postretirement-related changes other than net periodic postretirement cost.

(o) Prior Year Summarized Financial Information

The accompanying statement of activities includes certain prior year summarized comparative financial information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with U.S. generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Institute's financial statements as of and for the year ended June 30, 2012, from which the summarized information was derived.

(p) Prior Year Reclassifications

Certain prior year amounts have been reclassified to conform to the 2013 presentation.

(3) Investments

Investments, at fair value, consist of the following at June 30, 2013 and 2012:

		2013	2012
Cash equivalents	$	12,921,091	14,212,443
Mutual funds		27,355,149	16,898,375
Corporate stocks:			
Domestic equities		24,457,611	19,502,645
International equities		1,973,962	1,995,052
Alternative investments		68,383,972	65,724,410
	$	135,091,785	118,332,925

The Institute invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the balance sheet.

Alternative investments include domestic and international hedge funds, limited partnerships, and limited liability corporations. Approximately 9.8% of the alternative investments invest principally in multistrategy bond funds, 14.1% in multistrategy equity funds, and 76.1% in limited partnerships, limited liability corporations, and other funds.

Certain types of financial instruments, including, among others, futures and forward contracts, options, and securities sold not yet purchased are also included in alternative investments, and are intended to hedge against changes in the market value of investments. These financial instruments, which involve varying degrees of off-balance-sheet risk, may result in loss due to changes in the market (market risk).

The Institute's investments at June 30, 2013 and 2012 are summarized in the following tables by their fair value hierarchy:

	2013			
	Level 1	**Level 2**	**Level 3**	**Total**
Cash equivalents	$ 12,921,091	—	—	12,921,091
Mutual funds	27,355,149	—	—	27,355,149
Corporate stocks	26,431,573	—	—	26,431,573
Alternative investments:				
Multistrategy equities	—	9,617,279	—	9,617,279
Multistrategy bonds	—	6,734,098	—	6,734,098
Limited partnerships	—	38,854,195	—	38,854,195
Other funds	—	—	13,178,400	13,178,400
Total investments	$ 66,707,813	55,205,572	13,178,400	135,091,785

	2012			
	Level 1	**Level 2**	**Level 3**	**Total**
Cash equivalents	$ 14,212,443	—	—	14,212,443
Mutual funds	16,898,375	—	—	16,898,375
Corporate stocks	21,497,697	—	—	21,497,697
Alternative investments:				
Multistrategy equities	—	8,069,826	—	8,069,826
Multistrategy bonds	—	11,999,102	—	11,999,102
Limited partnerships	—	33,865,301	—	33,865,301
Other funds	—	—	11,790,181	11,790,181
Total investments	$ 52,608,515	53,934,229	11,790,181	118,332,925

There were no transfers between Level 1 and Level 2 securities for the year ended June 30, 2013.

(Continued)

The following table presents a reconciliation for all Level 3 financial instruments in 2013:

	Beginning balance	Purchases	Settlements	Total net realized and unrealized gains	Ending balance
Alternative investments:					
Equity long/short hedge funds	$ 6,018,689	—	—	724,668	6,743,357
Equity market neutral hedge funds	5,771,492	—	—	663,551	6,435,043
	$ 11,790,181	—	—	1,388,219	13,178,400

The following table presents a reconciliation for all Level 3 financial instruments in 2012:

	Beginning balance	Purchases	Settlements	Total net realized and unrealized gains	Ending balance
Alternative investments:					
Equity long/short hedge funds	$ 5,864,010	—	—	154,679	6,018,689
Equity market neutral hedge funds	5,712,805	—	—	58,687	5,771,492
	$ 11,576,815	—	—	213,366	11,790,181

The conditions upon which the Institute may redeem its alternative investments at June 30, 2013 are summarized as follows:

Alternative investment strategy	Redemption/liquidity	Total
Multistrategy bonds – fixed income	Monthly with 5 days' notice	$ 6,734,098
Multistrategy domestic equity funds	Monthly with 5 days' notice	9,617,279
International equities and fixed income	Monthly with 10 days' notice	6,378,872
Global equities and commodities	Monthly	3,377,825
Fixed income funds, high yield corporate bonds, bank loans, and securitized market bonds	30 days' written notification	3,303,027
Private equity (securities, stocks, and call option contracts)	Annual liquidity on 45 days' prior notice*	6,435,043
Energy and natural resources	Quarterly with 60 days' notice	3,492,423
Event driven investment, financial distress companies, merger, spin-offs	Quarterly with 65 days' written notice	7,378,410
Foreign equities and securities	Monthly with 30 days' written notice	3,161,466
Commingled funds, stocks	Daily with 5 days' notice	3,947,067
Long/short-term equity hedge funds	45 days' written notice prior to December 31 and June 30	7,815,105
Securities: stocks; call option contract; bank debts, govt and corp; convertible bonds; and warrants	Annual liquidity on 45 days' notice*	6,743,357
		$ 68,383,972

* Indicates Level 3 investment.

(4) Endowment Funds

The Institute's endowment consists of approximately 200 individual funds, including both donor-restricted endowment funds (permanent endowment) and amounts designated by the Board of Trustees (the Board) to function as endowments.

In accordance with the accounting guidance associated with the New York Prudent Management of Institutional Funds Act (NYPMIFA), the Institute classifies as permanently restricted net assets (a) the original value of gifts to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations of investment returns 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 Institute in a manner consistent with the standard of prudence prescribed by NYPMIFA.

Pursuant to the investment policy approved by the Board, the Institute has interpreted NYPMIFA as allowing the Institute to appropriate for expenditure or accumulate so much of a donor-restricted endowment fund as the Institute deems prudent for the uses, benefits, purposes, and duration for which the endowment fund is established, subject to the intent of the donor as expressed in the gift instrument.

The following table represents the net asset classes of the Institute's endowment funds (excluding institutional loan funds of approximately $1,583,000) as of June 30, 2013 and 2012:

	June 30, 2013			
	Unrestricted	**Temporarily restricted**	**Permanently restricted**	**Total**
Donor-restricted endowment	$ (77,951)	17,750,324	41,231,493	58,903,866
Board-designated fund	64,467,919	—	—	64,467,919
Total endowment	$ 64,389,968	17,750,324	41,231,493	123,371,785

	June 30, 2012			
	Unrestricted	**Temporarily restricted**	**Permanently restricted**	**Total**
Donor-restricted endowment	$ (134,705)	10,245,024	37,801,168	47,911,487
Board-designated fund	49,688,287	—	—	49,688,287
Total endowment	$ 49,553,582	10,245,024	37,801,168	97,599,774

The following tables present changes in endowment funds for the fiscal years ended June 30, 2013 and 2012:

	June 30, 2013			
	Unrestricted	**Temporarily restricted**	**Permanently restricted**	**Total**
Endowment net assets, June 30, 2012	$ 49,553,582	10,245,024	37,801,168	97,599,774
Net asset released from restrictions	1,256,409	(1,256,409)	—	—
Interest and dividends	—	988,602	13,964	1,002,566
Net appreciation in fair value of investments	6,553,637	5,773,107	—	12,326,744
Contributions	2,541,306	—	3,416,361	5,957,667
Private grants	—	2,000,000	—	2,000,000
Allocated from operating surplus	5,758,652	—	—	5,758,652
Scholarship awards and other distributions	(1,273,618)	—	—	(1,273,618)
Endowment net assets, June 30, 2013	$ 64,389,968	17,750,324	41,231,493	123,371,785

	June 30, 2012			
	Unrestricted	**Temporarily restricted**	**Permanently restricted**	**Total**
Endowment net assets, June 30, 2011	$ 50,049,346	11,648,161	37,316,792	99,014,299
Net asset released from restrictions	1,403,137	(1,403,137)	—	—
Interest and dividends	1,119,497	—	—	1,119,497
Net depreciation in fair value of investments	(2,013,945)	—	—	(2,013,945)
Contributions	240,749	—	484,376	725,125
Scholarship awards and other distributions	(1,245,202)	—	—	(1,245,202)
Endowment net assets, June 30, 2012	$ 49,553,582	10,245,024	37,801,168	97,599,774

(a) Funds with Deficiencies

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the historic dollar level. The donor-restricted endowment deficiencies as of June 30, 2013 and 2012 were $77,951 and $134,705, respectively, and were included in unrestricted net assets.

(b) Return Objectives and Risk Parameters

The long-term objective of the fund is to preserve the real purchasing power of its assets, while maximizing program-related funding, covering expenses, and allowing for inflation.

The investment objective of the fund is to achieve a compound annualized rate of return over a market cycle, including current interest and dividends and capital appreciation, in excess of 5% after inflation, in a manner consistent with prudent risk taking.

(c) Spending Policy

The Institute has a policy of appropriating 3% of the average total market value of endowment investment funds for spending, which includes 5% of the three-year average market value of scholarship investment funds for endowment scholarship awards unless otherwise explicitly stipulated by the donor or by the Board. Distributions from the endowment funds, for scholarships, totaling $1,212,793 and $1,227,992 were made in fiscal year 2013 and 2012, respectively.

(5) Contributions Receivable

Contributions are scheduled to be collected as follows at June 30, 2013 and 2012:

		2013	2012
Less than one year	$	1,267,821	753,534
One to five years		950,000	860,680
Five to ten years		1,250,000	—
		3,467,821	1,614,214
Discount to present value of future cash flows (at 4%)		(264,777)	(38,870)
Allowance for doubtful accounts		(202,537)	(194,853)
	$	3,000,507	1,380,491

As of June 30, 2013 and 2012, 65% and 62%, respectively, of gross contributions receivable was due from one donor.

(6) Plant Assets

Plant assets consist of the following at June 30, 2013 and 2012:

		2013	2012
Land	$	21,098,556	21,098,556
Buildings, improvements, and equipment		320,097,581	318,352,297
Library books		230,898	227,478
		341,427,035	339,678,331
Accumulated depreciation and amortization		(94,528,513)	(90,748,333)
	$	246,898,522	248,929,998

(7) Bonds Payable

On July 1, 2012, a remarketing agreement was entered into by Pratt Institute, Janney Montgomery Scott, LLC (remarketing agent), and the Dormitory Authority of the State of New York (DASNY) in connection with the re-offering and sale from time to time in the secondary market of all or part of the $52,195,000 original aggregate principal amount of Pratt Institute Revenue Bonds, Series 2009A and Series 2009B bonds issued by DASNY under and pursuant to DASNY's Pratt Institute Revenue Bond Resolution adopted September 24, 2008, including the applicable Series 2009 Resolutions authorizing up to $110,000,000 Pratt Institute Revenue Bonds (collectively, the Bonds), adopted by DASNY on September 24, 2008 and the Bond Certificates relating to the Bonds dated as of March 18, 2009. This remarketing agreement shall continue in full force and effect while the Bonds are outstanding subject to the right of the remarketing agent to resign as remarketing agent and the right of the Institute to remove the remarketing agent.

On August 13, 2009, DASNY issued $50,325,000 Insured Revenue Bonds Series 2009C on behalf of the Institute to finance the costs of the acquisition, construction, and equipping of an educational condominium building located at 526-542 Myrtle Avenue, Brooklyn, New York, establish the debt service reserve fund, and pay certain costs of issuance of the Series 2009C Bonds. With the issuance of the bonds and undertaking of the Myrtle Ave project, the Institute funded 23.83% of the property and building costs.

The Series 2009C Bonds are the third series of bonds issued under DASNY's Pratt Institute Revenue Bond Resolution adopted September 24, 2008 and established under the Series Resolution authorizing up to $110,000,000. They are issued as fully registered bonds and bear interest from date of delivery, payable semiannually on July 1 and January 1 starting January 1, 2010. Interest due is one-sixth of the interest coming due on the immediately succeeding interest payment date. Principal and interest payments are made on the tenth day of each month directly to the bond trustee. Monthly principal payments are one-twelfth of the principal and sinking fund installment on the annual principal payment due on July 1.

The scheduled payment of the principal and sinking fund installments and interest on the Series 2009C Bonds are included in the bond documents and are guaranteed under a financial guaranty insurance policy issued on delivery date. The Series 2009C Bonds are subject to optional, special, and mandatory redemption and to purchase in lieu of redemption as described in the bond documents.

On March 19, 2009, DASNY issued $33,775,000 of Insured Revenue Bonds Series 2009A on behalf of the Institute to advance refund the Series 1999 Bonds. The Institute used the Series 1999 bond proceeds to pay the construction costs for the completion of the 240-bed student residence hall building, Vincent A. Stabile Hall located at the Brooklyn campus, refinance a $13,228,103 mortgage note payable due December 31, 1999, and pay for the acquisition, renovation, and furnishing of a condominium unit used for classrooms and exhibit space. The Series 2009A Bonds are due through July 1, 2028 with annual principal installments and semiannual interest payments.

On the same date, DASNY also issued $18,420,000 Insured Revenue Bonds Series 2009B on behalf of the Institute to refund the Series 2005 Bonds. The Institute used the Series 2005 bond proceeds to complete the construction of Pratt Art Supply store and the Higgins Hall projects. The Series 2009B Bonds are due through July 1, 2034 with annual principal payment and semiannual interest payments.

The Series 2009 Bonds proceeds were also used to establish the applicable reserve funds and to pay costs of issuance. These bonds were issued as Variable Interest Rate Bonds and Option Bonds in the Weekly Rate Mode as set forth in the respective Bond Series Certificate delivered and bear interest at Weekly Rates for Weekly Rate Periods unless and until converted to a different Rate Mode. The Weekly Rate Mode is paid on the first business day of each month. At the election of the Institute, with the consent of DASNY, the Series 2009 Bonds may be converted to bear interest at a different Rate Mode.

The Series 2009 Bonds are subject to tender for purchase at the option of the holders on any business day upon seven days' notice to the Remarketing Agent and the Trustee during a Weekly Rate Period. These bonds are subject to mandatory tender upon conversion to a different Rate Mode, or upon the occurrence of certain events, including the expiration or termination of any Letter of Credit then in effect, the delivery of Substitute Letter of Credit and upon an event of default under the applicable Reimbursement Agreement (and the election by the Bank to effect a mandatory tender in connection therewith). The Series 2009A and Series 2009B Bonds are backed by letters of credit (LOCs) from a financial institution. The LOCs expire in March 2014.

The bond agreements require the Institute to maintain a debt service fund and a debt service reserve fund on deposit with the bond trustee. The balances in the debt service reserve funds were $5,041,246 and $5,041,575 and debt service funds were $4,030,451 and $3,964,148 at June 30, 2013 and 2012, respectively, and are invested in marketable securities (U.S. Treasury notes) and, as such, are considered Level 1 in the fair value hierarchy.

In order to hedge the Institute's interest rate exposure on the Series 2009A and Series 2009B Bonds, the Institute has entered into swap agreements with TD Bank, N.A. and Societe Generale, New York Branch. The outstanding notional principal amounts of the swaps and other related information as of June 30, 2013 are as follows:

Effective date		Notional amount	Termination date
January 6, 2005	$	8,315,000	2034
March 1, 2006		8,245,000	2034
March 19, 2009		29,895,000	2028

Under the terms of the 2005 Swap Agreements, the Institute pays interest at predetermined fixed rates (3.600% and 3.582% for the swap agreements effective January 6, 2005 and March 1, 2006, respectively) and receives variable rates, which for both swap agreements, are calculated as 67% of the one-month LIBOR. The 2009 Swap Agreement provides that the Institute will pay the Series 2009A counterparty interest on a notional amount at a fixed rate of 2.19% and the Series 2009A counterparty will pay the Institute a variable rate of interest on such notional amount equal to the Securities Industry and Financial Markets Association index. The fair value of the derivative instruments of $(3,192,810) and $(5,151,588) is reflected as a swap liability as of June 30, 2013 and 2012, respectively, and is based on Level 2 inputs. The fair value of the interest rate swaps was determined using pricing models developed based on the LIBOR swap rate and other market data. Unrealized appreciation (depreciation) in the fair value of the derivative instruments during 2013 and 2012 totaled $1,958,778 and $(1,787,382), respectively, and is reflected on the accompanying statement of activities as a nonoperating activity.

The minimum annual payments for principal and interest are as follows:

	Principal	Interest	Total debt service
Fiscal year ending June 30:			
2014	$ 2,855,000	3,481,532	6,336,532
2015	2,955,000	3,429,262	6,384,262
2016	3,055,000	3,402,910	6,457,910
2017	3,170,000	3,331,712	6,501,712
2018	3,305,000	3,224,298	6,529,298
Thereafter	78,705,000	35,995,295	114,700,295
	94,045,000	52,865,009	146,910,009
Unamortized bond discount	208,386	—	208,386
	$ 93,836,614	52,865,009	146,701,623

Costs incurred in connection with the issuance of the bonds were deferred and are being amortized using the straight-line method over the term of the bonds. At June 30, 2013 and 2012, unamortized deferred bond issuance costs were $3,032,117 and $3,174,575, respectively, and are included in prepaid expenses and other assets in the accompanying balance sheet.

Interest expense on the Series 2009 Bonds was $3,524,472 and $3,634,250 for the years ended June 30, 2013 and 2012, respectively.

The bond agreements contain certain financial covenants. The Institute is in compliance with these financial covenants at June 30, 2013.

(8) Note Payable

On July 8, 2010, the Institute entered into an agreement with RBS Citizens Bank for a note payable in the amount of $10,000,000 for financing the construction of the commercial space of the Myrtle Hall Building (the Note). The Note is subject to a floating interest rate based on 30-day LIBOR plus 2.5% (2.7% at June 30, 2013) and the principal is payable at a fixed rate of $41,668 per month based on 20-year amortization commencing on August 1, 2010. The maturity date of the Note is July 8, 2017 with a balloon payment of $6,500,000 due on this date. On June 30, 2013 and 2012, the balance of the principal outstanding was $8,500,000 and $9,000,000, respectively. Total interest paid during the years ended June 30, 2013 and 2012 was $241,481 and $258,220, respectively.

(Continued)

(9) Conditional Asset Retirement Obligations

The Institute has identified asbestos abatement as a conditional asset retirement obligation for certain of its properties. Accretion expense associated with obligations was $190,655 and $174,892 in 2013 and 2012, respectively.

(10) Net Assets

Unrestricted net assets at June 30, 2013 and 2012 consist of the following:

	2013	2012
Designated for sponsored programs	$ 2,652,280	1,712,500
Accumulated deficit – Pratt Center operating activities	(1,879,012)	(1,695,289)
Designated for investment – quasi-endowment	44,179,133	38,420,481
Cumulative investment gains from quasi-endowment investments	13,266,933	6,730,505
Cumulative investment gains from other investments	3,832,191	3,579,136
Designated for student loans	3,771,741	3,771,852
Designated for scholarships – quasi-endowment	6,943,902	4,402,596
Designated for capital improvements	25,732,653	21,844,982
Net investment in plant assets	130,605,183	126,938,249
	$ 229,105,004	205,705,012

Temporarily restricted net assets at June 30, 2013 and 2012 are available for the following purpose:

	2013	2012
Sponsored programs	$ 4,394,405	5,687,656
Accumulated appreciation on donor-restricted endowment	15,750,324	10,245,024
Time restriction	4,911,082	2,252,612
	$ 25,055,811	18,185,292

Permanently restricted net assets at June 30, 2013 and 2012 are restricted to investments in perpetuity, the income from which is expendable to support:

	2013	2012
General operations	$ 7,007,963	7,007,963
Scholarships	34,223,530	30,793,205
Other	1,582,957	1,582,957
	$ 42,814,450	39,384,125

(Continued)

(11) Postretirement Plan

The Institute sponsors a postretirement healthcare plan that covers all full-time employees. The cost of postretirement benefits other than pensions is recognized on an accrual basis as employees perform services to earn benefits.

The postretirement healthcare plan is contributory for some retirees, with retiree contributions adjusted annually. The Institute's funding policy for the plan is pay as you go. Information with respect to the plan is as follows:

		2013	2012
Change in projected benefit obligation:			
Benefit obligation at beginning of year	$	65,758,266	53,238,755
Service cost		3,696,594	2,381,579
Interest cost		2,644,539	2,700,805
Actuarial gain		(4,857,768)	(3,640,034)
Assumption change		333,354	12,197,860
Benefits paid		(1,109,651)	(1,120,699)
Benefit obligation at end of year		66,465,334	65,758,266
Change in plan assets:			
Fair value of plan assets at beginning of year		—	—
Employer contributions		1,109,651	1,120,699
Benefits paid		(1,109,651)	(1,120,699)
Fair value of plan assets at end of year		—	—
Accrued postretirement benefit obligation	$	(66,465,334)	(65,758,266)

The net periodic postretirement benefit cost for 2013 and 2012 includes the following components:

		2013	2012
Service cost	$	3,696,594	2,381,579
Interest cost		2,644,539	2,700,805
Amortization of transition obligation		181,048	181,048
Recognized actuarial loss		1,755,422	638,111
Net periodic benefit cost	$	8,277,603	5,901,543

Weighted average assumptions used to determine benefit obligations and net periodic postretirement benefit costs for 2013 and 2012 were as follows:

	2013	2012
Benefit obligation weighted average assumptions at June 30, 2013 and 2012:		
Discount rate	4.50%	4.00%
Expected return on plan assets	N/A	N/A
Periodic benefit cost weighted average assumptions for the years ended June 30, 2013 and 2012:		
Discount rate	4.00%	5.50%
Expected return on plan assets	N/A	N/A

For measurement purposes, a 5% annual rate of increase in the per capita cost of covered healthcare and prescription drug benefits was assumed as of June 30, 2013. The rates were assumed to decrease 1% per year to an ultimate rate of 3.75% in 2016 and remain at that level thereafter. Assumed healthcare cost trend rates have a significant effect on the amounts reported for the healthcare plans. It is estimated, based on actuarial calculations, that a one-percentage-point change in the healthcare trend rate would have the following effects:

	One percentage increase	One percentage decrease
Effect on total service and interest cost	$ 1,468,692	(1,132,960)
Effect on postretirement benefit obligation	12,127,539	(9,624,382)

The Institute has not identified any provisions of healthcare reform that would be expected to have a significant impact on the measured obligation.

Projected benefit payments through 2022 are as follows:

		Amount
Year ending June 30:		
2014	$	2,006,633
2015		2,187,093
2016		2,406,546
2017		2,574,181
2018		2,797,278
Thereafter through 2022		17,532,471
	$	29,504,202

In addition to service and interest costs, the components of projected net periodic postretirement benefit cost for fiscal year 2013 are amortization of the net transition obligation of $181,048 and amortization of the net actuarial losses of $1,755,422.

At June 30, 2013, $15,463,723 was not yet recognized as a component of net periodic postretirement benefit cost. The components are as follows:

		Amount
Net actuarial losses	$	15,071,451
Net transition obligation		392,272
	$	15,463,723

(12) Pension Plans

The Institute sponsors a defined contribution plan, which covers substantially all full-time, nonmaintenance employees. The plan is fully funded by the purchase of annuity contracts. Total pension expense under this plan for the years ended June 30, 2013 and 2012 was $1,848,046 and $1,953,179, respectively.

The Institute also participates in three multiemployer union pension plans covering three of the five employee bargaining units, representing building trades and maintenance and security employees. The Institute makes contributions based on employee wages. The Institute's contributions to these multi-employer plans for the years ended June 30, 2013 and 2012 totaled $480,691 and $464,931, respectively.

The risks of participating in a multiemployer plan are different from single-employer plans in the following aspects:

- Assets contributed to the multiemployer plan by one employer may be used to provide benefits to employees of participating employers.

- If a participating employer stops contributing to the multiemployer plan, the unfunded obligations of the plan may be borne by the remaining participating entities.
- If a participating employer petitions to stop participating in the multiemployer plan, the employer may be required to pay the plan a withdrawal liability based on the funded status of the plan.

The following provides summarized information for each of the multiemployer plans in which the Institute participates as of the two most recent years available:

Plan legal name	Actuarial valuation date	EIN/ Pension plan number	Actuarial present value of accumulated plan benefits	Plan assets	Zone status
National Conference of Firemen and Oilers National Pension Fund	January 1, 2012	52-6085445 – 003	$ 49,444,765	$ 35,953,824	Yellow
Building Service 32BJ Pension Fund	July 1, 2012	13-1879376 – 001	3,061,159,029	1,784,859,895	Red
Local 153 Pension Fund	January 1, 2012	13-2864289 – 001	347,128,054	219,767,600	Red

Plan legal name	Actuarial valuation date	EIN/ Pension plan number	Actuarial present value of accumulated plan benefits	Plan assets	Zone status
National Conference of Firemen and Oilers National Pension Fund	January 1, 2011	52-6085445 – 003	$ 48,354,177	$ 35,993,982	Yellow
Building Service 32BJ Pension Fund	July 1, 2011	13-1879376 – 001	2,967,794,491	1,716,300,109	Red
Local 153 Pension Fund	January 1, 2011	13-2864289 – 001	343,935,813	236,865,826	Red

The zone status is based on information that the Institute received from the plan sponsors and, as required by the Pension Protection Act (PPA), is certified by each plan's actuary. Among other factors, plans in the red zone are generally less than 65% funded, plans in the yellow zone are less than 80% funded, and plans in the green zone are at least 80% funded.

A financial improvement plan or a rehabilitation plan, as required by the PPA, has been implemented by the plan sponsor in each instance. The expiration dates of the collective bargaining agreements requiring contributions to the plans are as follows: National Conference of Firemen and Oilers National Pension Fund: March 15, 2015; Building Service 32BJ Pension Fund: April 20, 2014; and Local 153 Pension Fund: October 31, 2013.

(13) Insurance Benefits for Employees

The Institute sponsors an insurance plan for employee medical benefits, exclusive of those benefits provided by health maintenance organizations. Under the provisions of this plan, an insurance carrier provides claims processing and administrative functions, as well as stop-loss coverage for annual claims (on a calendar-year basis). The expenses for this program for the years ended June 30, 2013 and 2012 totaled $1,043,628 and $1,080,487, respectively, of which approximately $100,000 was payable at June 30, 2013 and 2012.

(14) Expenses

Expenses are reported in the statement of activities in categories recommended by the National Association of College and University Business Officers. Operation and maintenance of plant, including depreciation and amortization expense and interest expense, are allocated among the functional expense categories based on management's best estimate of each function's proportionate share of the total expense. The Institute's primary program services are instruction, public service, academic support, student services, and auxiliary enterprises. Institutional support includes fund-raising expenses of $3,346,073 and $2,903,378 for the years ended June 30, 2013 and 2012, respectively.

(15) Operating Leases

The Institute is committed under certain operating lease agreements, including equipment leases, which expire at various dates through July 31, 2023. Such leases require approximate minimum annual rental payments as follows:

		Amount
Fiscal year ending June 30:		
2014	$	1,639,847
2015		1,633,292
2016		1,369,505
2017		1,104,934
2018		710,122
Thereafter		3,487,907
	$	9,945,607

Certain leases contain escalation clauses that require payments of additional rent to the extent of increases in the related operating costs. Rent expense, including escalations, for the years ended June 30, 2013 and 2012 was approximately $1,784,005 and $1,675,298, respectively.

(16) Commitments and Contingencies

Amounts received and expended by the Institute under various federal and state programs are subject to audit by governmental agencies. In the opinion of management, audit adjustments, if any, will not have a material effect on the Institute's financial statements.

(17) Pratt Center

The Pratt Center for Community Development (the Center) is legally a part of the Institute and was established in 1963 as a university-based advocacy planning center that works for social, economic, and environmental justice by empowering communities to realize their future. All financial activities of the Center are included in the Institute's balance sheet and statement of activities. For the fiscal year ended June 30, 2013, the Center's unrestricted net operating deficit was $183,724 and the accumulated deficit at June 30, 2013 was $1,879,013. The Center owes the Institute $2,020,038, which represents the Center's expenditures advanced and paid by the Institute to be covered by future receivable collections and revenues. At June 30, 2013, gross receivables included in the accompanying balance sheet totaled $457,917.

(18) Subsequent Events

The Institute evaluated subsequent events after the balance sheet date of June 30, 2013 through December 3, 2013, which was the date the financial statements were issued and concluded that no additional disclosures were necessary.