



RHODE ISLAND COLLEGE
(A Component Unit of the State of Rhode Island and Providence Plantations)

Financial Statements

June 30, 2008 and 2007

(With Independent Auditors' Report Thereon)

RHODE ISLAND COLLEGE
(A Component Unit of the State of Rhode Island and Providence Plantations)

Financial Statements
June 30, 2008 and 2007

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KPMG LLP
50 Kennedy Plaza
Providence, RI 02903

Independent Auditors' Report

The Board of Governors for Higher Education
State of Rhode Island and Providence Plantations:

We have audited the accompanying financial statements of the business-type activities and the discretely presented component unit of Rhode Island College (the College) (a component unit of the State of Rhode Island and Providence Plantations) as of and for the years ended June 30, 2008 and 2007, which collectively comprise the College's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the College's management. Our responsibility is to express opinions on these financial statements based on our audits. We did not audit the financial statements of the discretely presented component unit. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the discretely presented component unit, is based on the report of the other auditors.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the College's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinions.

In our opinion, based on our audits and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and the discretely presented component unit of the College as of June 30, 2008 and 2007, and the respective changes in financial position and, where applicable, cash flows thereof for the years then ended in conformity with U.S. generally accepted accounting principles.

As described in note 15, the College, in 2008, implemented Governmental Accounting Standards Board (GASB) Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 26, 2008 on our consideration of the College's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance



with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The Management's Discussion and Analysis (MD&A) and schedule of funding progress are not a required part of the basic financial statements but are supplementary information required by U.S. generally accepted accounting principles. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

KPMG LLP

November 26, 2008

RHODE ISLAND COLLEGE

(A Component Unit of the State of Rhode Island and Providence Plantations)

Management's Discussion and Analysis

June 30, 2008 and 2007

(Unaudited)

Introduction

The following management discussion and analysis (MD&A) provides management's view of the financial position of Rhode Island College (the College) as of June 30, 2008 and the results of operations for the year then ended, with selected comparative information for the years ended June 30, 2007 and 2006. The purpose of the MD&A is to assist readers in understanding the accompanying financial statements by providing an objective and understandable analysis of the College's financial activities based on currently known facts, decisions, and conditions. This analysis has been prepared by management, which is responsible for the completeness and fairness of this information, consists of highly summarized information, and should be read in conjunction with the College's financial statements and notes thereto that follow this section.

The College, founded in 1854, is the oldest of the three public institutions of higher education that operate under the aegis of the Board of Governors for Higher Education. Its primary mission is to make its academic programs available to any qualified resident of Rhode Island who can benefit from its educational services. Out-of-state residents are also eligible for admission. The College fulfills its educational mission by offering undergraduate programs in the liberal arts and sciences and in a variety of professional and pre-professional fields. It also offers a range of selected graduate programs in the arts and sciences, education, and in areas of social, public and community service. The College offers its academic programs to undergraduates of traditional age as well as to older students who often study and or work part-time while earning undergraduate or advanced degrees. The majority of students are from Rhode Island. It also contributes directly to the cultural life of the State through ongoing theatre and concert performances, art exhibits, lectures, and films, which are all open to the public.

The College was established in 1854 as the Rhode Island Normal School, focusing on teacher education. Due to diminished state support, the College was closed for a period between 1865 and 1869, when it reopened as the Rhode Island State Normal School. In 1920, the Normal School became the Rhode Island College of Education, offering a four-year program leading to the degree of Bachelor of Education. The graduate program originated in the early 1920s. During the 1958-59 academic year, the College was relocated from the downtown location to its current 170-acre campus on the border of Providence and North Providence. In 1959, the mission of the College was expanded to that of a general, comprehensive college. In 1960, the name of the institution was changed to Rhode Island College to reflect its expanded mission. It now serves almost 9,000 students in a variety of courses and programs both on and off campus.

The College is part of the Rhode Island system of public higher education that includes the Community College of Rhode Island and the University of Rhode Island, with which articulation agreements exist for student transfers within the system. The Board of Governors for Higher Education became the governing body for the College in 1981.

RHODE ISLAND COLLEGE

(A Component Unit of the State of Rhode Island and Providence Plantations)

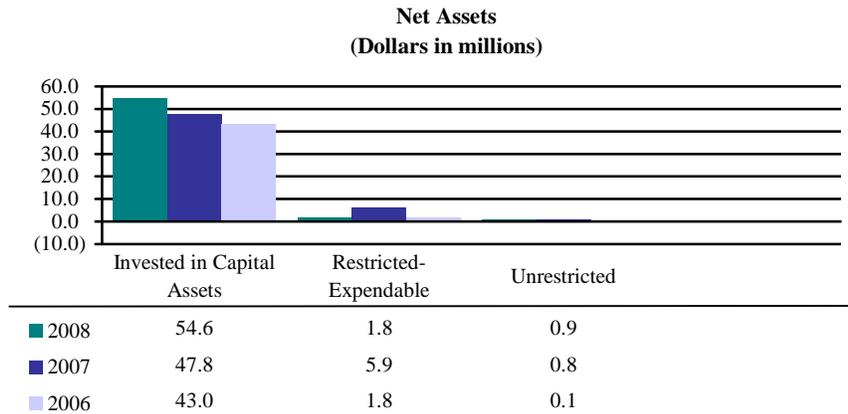
Management’s Discussion and Analysis

June 30, 2008 and 2007

(Unaudited)

Financial Highlights

The College’s financial position remained strong as of June 30, 2008. At June 30, 2008, the College’s assets of \$113.9 million exceeded its liabilities of \$56.6 million by \$57.3 million, an increase over the prior year of \$2.8 million. At June 30, 2007, the College’s assets of \$110.2 million exceeded its liabilities of \$55.6 million by \$54.5 million, an increase over the prior year of \$9.6 million. The resulting net assets are summarized into the following categories (in millions) for the fiscal years ended June 30, 2008, 2007, and 2006:



Restricted expendable net assets may be expended only for the purposes authorized by the creditor, grantor, or enabling legislator. Unrestricted net assets represent all other funds that do not meet the definition of Invested in Net Capital Assets or Restricted funds.

Fiscal year 2008 operating revenues increased by 6.9%, or \$4.7 million. Expenses increased by 3.4%, or \$3.9 million. Fiscal year 2007 operating revenues increased by 7.8%, or \$4.9 million. Expenses increased by 2.3%, or \$2.6 million.

RHODE ISLAND COLLEGE

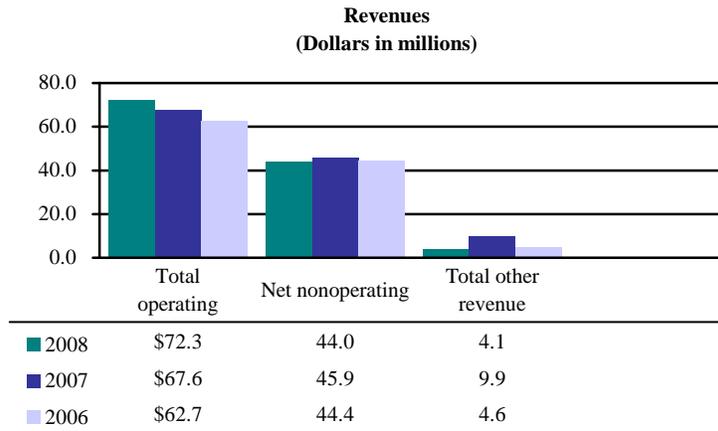
(A Component Unit of the State of Rhode Island and Providence Plantations)

Management’s Discussion and Analysis

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(Unaudited)

The following chart provides a graphical breakdown of total revenues by category for the fiscal years ending June 30, 2008, 2007 and 2006:



Cash flow continued to be adequate for operations with a cash balance of \$17.4 million at June 30, 2008, and \$19.0 million at June 30, 2007 a decrease of \$0.2 million from the previous year.

Overview of the Financial Statements

The financial statements focus on the College as a whole, rather than upon individual funds or activities, and have two primary components: 1) the financial statements and 2) the notes to the financial statements.

Rhode Island College Foundation (Foundation) is a legally separate tax-exempt component unit of Rhode Island College. The Foundation acts primarily as a fund-raising organization to supplement the resources that are available to the College in support of its programs. The Board of the Foundation is self-perpetuating and primarily consists of graduates and friends of the College. Although the College does not control the timing or the amount of receipts from the Foundation, the majority of resources received or held by the Foundation are restricted to the activities of the College by the donors. Because these resources held by the Foundation can only be used by or are for the benefit of the College, the Foundation is considered a component unit of the College and is discretely presented in the College’s financial statements.

Management’s Discussion and Analysis is required to focus on the College, not its component unit.

The Financial Statements

The financial statements are designed to provide readers with a broad overview of the College’s finances and are comprised of three basic statements. These statements present financial information in a form similar to that used by private institutions of higher education and corporations.

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Management's Discussion and Analysis

June 30, 2008 and 2007

(Unaudited)

The *Statement of Net Assets* presents information on all of the College's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the College is improving or deteriorating. Other factors are also relevant to assessing the College's overall financial health. These include: the trend, quality, and retention and size of student enrollments; diversification of revenue streams; management of costs; and condition of facilities.

The *Statement of Revenues, Expenses and Changes in Net Assets* shows how the College's net assets changed during the most recent fiscal year. This statement reports total operating revenues and expenses, nonoperating revenues and expenses, and capital additions and deletions. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will result in cash flows only in future fiscal periods (e.g. the payment for accrued compensated absences, or the receipt of amounts due from students and others for services rendered).

The *Statement of Cash Flows* is reported on the direct method. The direct method of cash flow reporting portrays net cash flows from operations as major classes of operating receipts (e.g. tuition and fees) and disbursements (e.g. cash paid to employees for services).

The financial statements can be found on pages 15 to 17 of this report.

The College reports its operations as a business-type activity using the economic measurement focus and full accrual basis of accounting. The College is a component unit of the State of Rhode Island and Providence Plantations. Therefore, the results of the College's operations, its net assets and its cash flows are also summarized in the State's Comprehensive Annual Financial Report in its government-wide financial statements.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the financial statements. They also provide information regarding both the accounting policies and procedures the College has adopted as well as additional detail of certain amounts contained in the financial statements. The notes to the financial statements can be found on pages 18 to 40 of this report.

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Management's Discussion and Analysis

June 30, 2008 and 2007

(Unaudited)

Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of the College's financial position. In the case of the College, assets exceeded liabilities by \$57.3 million at the close of fiscal year 2008, an increase of \$2.8 million over fiscal year 2007, and assets exceeded liabilities by \$54.5 million at the close of fiscal year 2007, an increase of \$9.6 million over fiscal year 2006, as shown in the chart below:

Condensed Net Assets

(Dollars in millions)

	<u>2008</u>	<u>2007</u>	<u>2006</u>
Assets:			
Current assets	\$ 20.8	22.5	23.8
Noncurrent assets	93.1	87.6	63.9
Total assets	<u>\$ 113.9</u>	<u>110.1</u>	<u>87.7</u>
Liabilities:			
Current liabilities	\$ 18.7	16.5	13.0
Noncurrent liabilities	37.9	39.1	29.8
Total liabilities	<u>\$ 56.6</u>	<u>55.6</u>	<u>42.8</u>
Net assets (deficit):			
Invested in capital assets, net of related debt	\$ 54.6	47.8	43.0
Restricted:			
Expendable	1.8	5.9	1.8
Unrestricted	0.9	0.8	0.1
Total net assets	<u>\$ 57.3</u>	<u>54.5</u>	<u>44.9</u>

The largest change in total assets is due to the construction of a new residence hall which is discussed in more detail on page 12.

The largest portion of the College's net assets, \$54.6 million in fiscal year 2008 (\$47.8 million in fiscal year 2007), reflects its investment in capital assets (such as land, buildings, machinery, and equipment), less any related outstanding debt, including capital leases, used to acquire those assets. The College uses these capital assets to provide services to students, faculty, and administration; consequently, these assets are not available for future spending.

Although the College's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. Also, in addition to the debt noted above, which is reflected in the College's financial statements, the State of Rhode Island regularly provides financing for certain capital projects through the issuance of general obligation bonds and appropriations from the Rhode Island Capital Fund.

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Additional financing for certain capital projects is provided by the issuance of revenue bonds by the Rhode Island Health and Educational Building Corporation, a quasi-public state agency.

The liabilities-to-assets ratio was 50% in fiscal year 2008 and 50% in fiscal year 2007. Bonds, notes and leases payable at June 30, 2008 of \$13.3 million, accounts payable of \$7.6 million, compensated absences of \$5.8 million and due to State of Rhode Island of \$19.3 million are the College's largest liabilities (\$13.9 million, \$6.6 million, \$5.9 million, and \$20.0 million, respectively, in fiscal year 2007).

Condensed Revenues, Expenses and Changes in Net Assets

Years ended June 30, 2008, 2007, and 2006

(Dollars in millions)

	<u>2008</u>	<u>2007</u>	<u>2006</u>
Operating revenues:			
Tuition and fees	\$ 45.9	42.9	40.2
Auxiliary enterprises	16.3	13.3	12.9
Less scholarship allowances	(10.1)	(8.5)	(7.6)
Grants, contracts, and other	20.2	19.9	17.2
Total operating revenues	<u>72.3</u>	<u>67.6</u>	<u>62.7</u>
Operating expenses:			
Salaries and benefits	87.7	84.9	81.7
Scholarships, grants, and contracts	4.7	4.4	4.5
Utilities	3.2	3.3	3.4
Other expenses	17.4	16.9	17.6
Depreciation and amortization	4.7	4.3	4.0
Total operating expenses	<u>117.7</u>	<u>113.8</u>	<u>111.2</u>
Net operating loss	<u>(45.4)</u>	<u>(46.2)</u>	<u>(48.5)</u>
Nonoperating revenues (expenses):			
State appropriations	44.3	45.0	44.1
Other nonoperating revenues, net	(0.3)	0.9	0.3
Net nonoperating revenues	<u>44.0</u>	<u>45.9</u>	<u>44.4</u>
Loss before other revenues, expenses, gains, or losses	<u>(1.4)</u>	<u>(0.3)</u>	<u>(4.1)</u>
Capital appropriations	3.8	9.6	4.0
Capital gifts and grants	0.3	0.3	0.6
Total other revenues	<u>4.1</u>	<u>9.9</u>	<u>4.6</u>
Increase in net assets	<u>\$ 2.7</u>	<u>9.6</u>	<u>0.5</u>

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Operating Revenues

Total operating revenues for fiscal year 2008 were \$72.3 million, an increase of \$4.7 million from the prior year. Total operating revenues for fiscal year 2007 were \$67.6 million, an increase of \$4.9 million from the prior year. The most significant sources of operating revenue for the College are tuition and fees, grants and contracts, and auxiliary services. Significant changes in operating revenue resulted from:

- The Board of Governors raising student tuition and fees in fiscal year 2008 by an average of 6.0% for in-state and 6.0% for out-of-state, along with an increased enrollment of 0.7%, resulted in an increase of \$3.0 million. Student tuition and fees were raised by an average of 6.0% for in-state and 7.5% for out-of-state, along with an increased enrollment of 0.8%, resulted in an increase of \$2.7 million in fiscal year 2007.

The following summary shows major grant and contract expenses, including indirect cost charges, for the fiscal years ending June 30, 2008, 2007 and 2006 (\$in thousands):

<u>Agency</u>	<u>Grant</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>
RI Department of Education	RI Technical Assistance Project	\$ 864	1,059	899
RI Department of Children, Families	RI Child Welfare Institute	802	820	680
US Department of Education	Upward Bound	595	571	609
US Department of Education	Student Support Services	358	363	378
US Department of Health	University Center on Developmental Disabilities	505	468	439
RI Department of Education	Vision Services	1,149	1,138	893
RI Department of Education	Surrogate Parent	436	412	422
RI Department of Education	RI Statewide Improvement Grant	271	770	794
University of Rhode Island	INBRE	479	639	331
RI Department of Human Services	Early Intervention	371	320	115
RI Department of Children, Families	Positive Education Partnership	565	610	74

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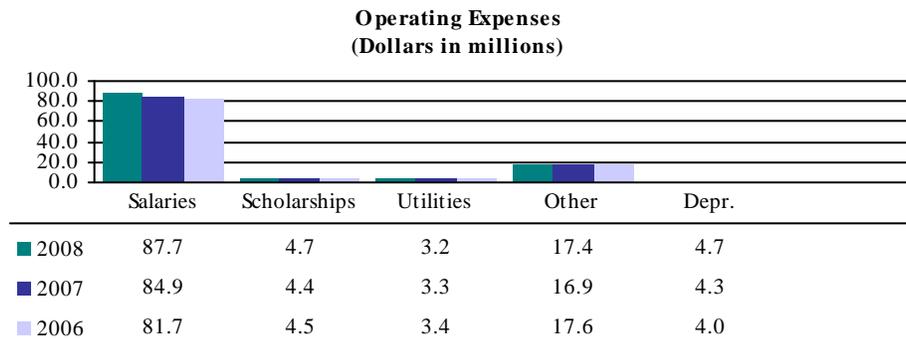
(Unaudited)

Operating Expenses

Fiscal year 2008 operating expenses totaled \$117.7 million, an increase of \$3.9 million from the prior year. Fiscal year 2007 operating expenses totaled \$113.8 million, an increase of \$2.6 million from the prior year. Of this total, \$59.7 million or 51% (\$58.9 million or 52% in 2007) was used for instruction, academic support, student support and scholarships. Depreciation and amortization expense totaled \$4.7 million in fiscal year 2008 and \$4.3 million in fiscal year 2007. Significant changes in operating expenses resulted from:

- Depreciation and amortization expenses of \$4.7 million and \$4.3 million were \$0.4 higher and \$0.3 million higher in fiscal years 2008 and 2007, respectively, than the previous years. This is due to the addition of the new residence hall at the College.
- Personnel related expenses increased \$2.8 million due to contractual increases.

The following chart provides a graphical breakdown of significant operating categories of expenses:



Nonoperating Revenues and Expenses

Net nonoperating revenues for fiscal years 2008 and 2007 are \$44.0 million and \$45.9 million, respectively, consisting of the state appropriations, gifts, and net investment earnings. This represents a decrease of \$1.9 million and an increase of \$1.5 million over the prior years, respectively.

Other

Capital appropriations of \$3.8 million and \$9.6 million in fiscal years 2008 and 2007, respectively, represent funds to construct a new residence hall as well as Rhode Island Capital Plan Funds utilized by the College to construct or acquire capital assets.

Due to the nature of public higher education, institutions incur a loss from operations. State appropriations to the College, reported as nonoperating revenue, are the primary resource for offsetting the loss from operations.

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(Unaudited)

Capital Asset and Debt Administration

Capital Plan

The Rhode Island Board of Governors for Higher Education submits a running five year capital improvement plan to the General Assembly and State Executive each year. The plan includes proposed capital asset protection projects for the College. The fiscal year 2010-2014 plan for the College totals \$82.8 million and includes all projects underway and planned, whether funded or not. This plan forms the basis for discussions on funding the various projects from all available funding sources. During fiscal year 2008, the College expended \$9.5 million on plant related projects. The College generally has funded its capital plans through a combination of funds received from College operations, State of Rhode Island Capital appropriations, and general obligation bonds. The execution of the College's capital improvement plan is contingent upon approval and sufficient funding from the State.

In fiscal year 2006 the College began construction of a new residence hall which was completed in 2008, the new residence hall is the largest structure on campus, encompassing 125,000 square feet of floor space. The new residence hall is planned to house 367 students in a mix of suite and apartment-style units, increasing the College's on-campus housing capacity to 1,195. The cost of this facility was \$31.8 million. The Funding for this project was financed by a \$30 million general obligation bond; the balance was funded through College funds. The College will re-pay the State of Rhode Island \$20 million of the \$30 million of bond proceeds over 19 years; the remaining \$10 million was recognized as a capital appropriation by the College in 2007 and 2006.

In October 2006, the College, URI, and CCRI in collaboration with the Governor's Office and the Board of Governors for Higher Education submitted a proposal for supporting the creative use of technology in higher education in Rhode Island. This proposed plan seeks to integrate technology and education to improve the education of pre-service and in-service teachers in science, technology, engineering and mathematics (STEM). The proposal was approved on October 6, 2006 and provided for \$11,750,000 in funding to be spent over a three-year period for the system: \$5,750,000 for URI; \$1,500,000 for CCRI; and \$4,500,000 for Rhode Island College. The STEM Center and four electronic classrooms in the Henry Barnard School are expected to be completed by the end of the fall semester 2008. The STEM Center will facilitate a resource network for in-service and pre-service teachers in Rhode Island. The remaining phases of the project are expected to be completed in 2009 and will renovate and furnish additional electronic instructional venues. The College received \$228,633 in fiscal year 2008.

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Capital Assets

At June 30, 2008, the College had \$157.0 million invested in capital assets, \$87.2 million net of accumulated depreciation. Included in the College's capital assets is \$2.7 million in construction in progress. Depreciation charges totaled \$4.7 million for the current fiscal year, an increase of \$0.5 million over the prior year. Legal title to all land and real estate assets is vested in the Rhode Island Board of Governors for Higher Education or the State of Rhode Island. A summary of the capital asset balances is displayed below:

Summary of Schedule of Net Capital Assets

(Dollars in millions)

	2008	2007	2006
Land and improvements	\$ 6.4	5.5	4.4
Construction in progress	2.6	28.0	3.0
Buildings and improvements	74.0	44.8	45.8
Furniture, fixtures, and equipment	4.2	4.1	4.3
Total	\$ 87.2	82.4	57.5

Major capital additions this year included:

- New Residence Hall \$31.8 million
- Parking Lot "K" improvements \$0.88 million
- Security Cameras – Parking Lots \$0.01 million
- Replacement of Transformers \$0.2 million
- Extension of underground utilities to East Campus \$0.05 million
- Improvements to Softball Field of \$0.14 million
- Improvements to Craig-Lee Hall to date \$0.12 million
- Improvements to Fogarty Life Science to date \$0.27 million
- Improvements completed to residential housing, Thorp, \$0.12 million
- Renovations to Donovan Dining \$0.3 million
- East Campus Renovations of Buildings 3 & 7 to date (construction in progress) \$1.6 million

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Debt

At June 30, 2008 and 2007, the College had \$13.3 million and \$13.9 million in debt outstanding, a decrease of \$0.6 million and \$0.6 million from the prior years, respectively. The table below summarizes the types of debt instruments:

	June 30		
	2008	2007	2006
	(Dollars in millions)		
Capital lease obligations	\$ —	0.1	0.2
General obligation (note payable)	1.8	1.9	2.0
Revenue bonds	11.5	11.9	12.3
Total	<u>\$ 13.3</u>	<u>13.9</u>	<u>14.5</u>

Debt repayments made during the year were \$0.6 million.

In addition at June 30, 2008, the College had a \$19.3 million obligation to repay the State for funds advanced to construct the new residence hall. This amount will be repaid over a nineteen-year period with interest.

The College has no independent bonding authority. All bonds must be approved by and arranged through the Rhode Island Board of Governors for Higher Education. All general obligation and revenue bond related indebtedness is reflected on the financial accounts of the entity issuing the bonds. Board of Governors' revenue bonds were rated at the time of issuance by Moody's at Aaa and by Standard and Poor's at AAA based upon municipal bond insurance provided by MBIA. As of November 7, 2008, the ratings of MBIA were Baal (Moody's) and AA (Standard and Poor's). State of Rhode Island general obligation bonds are rated by Moody's at Aa3, and Standard and Poor's at AA. More detailed information about the College's long-term liabilities is presented in note 7 to the financial statements.

Economic Factors that will Affect the Future

The seasonally adjusted unemployment rate for the State of Rhode Island, from which the College primarily draws students, was 7.5% in June of 2008 which was an increase compared to a 4.7% in June of 2007, according to the U.S. Bureau of Labor Statistics. This compares to a 5.5% and a 4.6%, respectively, on a national level.

Historically, in times of economic slowdowns, public colleges/universities have experienced increases in their enrollments as unemployed and underemployed workers seek to update and upgrade their skills. The College cannot predict the extent to which enrollment may vary in the current environment.

The College submitted a balance budget for fiscal year 2008. The State projects a significant budget shortfall in fiscal year 2009 and has proposed a reduction of \$3.1 million in the state appropriation to the College's general education budget.

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To support its strategic priorities in this financially challenging environment, the College and the Board of Governors have taken the following actions:

- Fiscal year 2008 tuition and fees were increased by 6.0% for in-state students, 6.0% for out-of-state students, 6.0% for in-state graduate students, and 6.4% for out-of-state graduate students.
- Fiscal year 2009 tuition and fees were increased by 9.8% for in-state students, 6.0% for out-of-state students, 9.8% for in-state graduate students, and 6.4% for out-of-state graduate students.
- The College submitted a request to the Board of Governors for Higher Education for tuition and fee increases for fiscal year 2010 of 9.5% for in-state students, 6.3% for out-of-state students, 9.2% for in-state graduate students, and 6.2% for out-of-state graduate students. Final determination of the 2010 budget for the state appropriation portion of the College's budget is pending final approval from the State of Rhode Island.

Despite the reductions in state funding the College's current financial and capital plans indicate that the infusion of additional financial resources from the foregoing Board and management actions will enable it to maintain its present level of services. The College has also attempted to maintain affordability by limiting the size of tuition and fee increases. It continues to rank well below its peer averages for tuition and fees. In academic year 2007-2008, the College ranked the lowest in tuition and fees in its ten member regional peer group.

At its September 17, 2007 meeting, the Rhode Island Board of Governors for Higher Education voted to discontinue the Retirement Incentive Program at Rhode Island College effective June 30, 2008. The program provides for an incentive payment of 40% of an employee's final annual base salary for nonclassified employees, primarily faculty and administrative staff, who are at least 58 years of age with a minimum of 15 years continuous service with the College. The number of eligible employees who elected to retire was 27, and the total amount paid for the retirement incentive was \$733,228.

At its June 30, 2008 meeting the Rhode Island Board of Higher Education appointed Dr. Nancy Carriuolo as the new president of Rhode Island College.

Request for Information

This financial report is designed to provide a general overview of the College's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Office of the Controller, Rhode Island College, and 600 Mount Pleasant Avenue, Providence, Rhode Island 02908.

RHODE ISLAND COLLEGE
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Statements of Net Assets

June 30, 2008 and 2007

Assets	2008 Rhode Island College	2007 Rhode Island College	2008 Rhode Island College Foundation	2007 Rhode Island College Foundation
Current assets:				
Cash and cash equivalents (note 2)	\$ 16,011,411	13,163,945	90,157	20,708
Cash held by State Treasurer (notes 3 and 7)	876,497	4,976,304	—	—
Accounts receivable, net (note 4)	3,359,845	3,929,255	73,020	120,153
Inventory and other current assets	605,278	470,892	824	1,231
Current portion of pledges receivable	—	—	244,496	245,479
Total current assets	<u>20,853,031</u>	<u>22,540,396</u>	<u>408,497</u>	<u>387,571</u>
Noncurrent assets:				
Restricted cash and cash equivalents (note 2)	464,260	849,483	—	—
Deposits with bond trustee – restricted	—	150,972	—	—
State capital funds	1,392,592	390,186	—	—
Pledges receivable	—	—	95,554	287,497
Deposits	—	—	750	1,100
Investments (note 2)	—	—	20,133,241	20,333,819
Loans receivable, net (note 5)	3,987,013	3,774,988	—	—
Restricted asset	—	—	1,240,555	1,540,536
Capital assets, net of accumulated depreciation (note 6)	87,246,989	82,447,400	1,013	1,302
Total noncurrent assets	<u>93,090,854</u>	<u>87,613,029</u>	<u>21,471,113</u>	<u>22,164,254</u>
Total assets	<u>\$ 113,943,885</u>	<u>110,153,425</u>	<u>21,879,610</u>	<u>22,551,825</u>
Liabilities				
Current liabilities:				
Accounts payable and accrued liabilities (note 3)	\$ 7,625,588	6,583,013	347,020	167,955
Compensated absences (note 7)	3,516,346	3,297,517	—	—
Students' deposits and unearned revenues	2,473,279	2,036,632	—	—
Funds held for others	3,805,726	3,321,762	438,731	420,196
Current portion of capital lease obligation (note 7)	40,911	56,494	—	—
Current portion of bonds and notes payable (note 7)	540,513	545,444	—	—
Current portion of due to State of Rhode Island (note 7)	689,649	666,316	—	—
Current portion of annuity payments payable	—	—	47,252	39,272
Total current liabilities	<u>18,692,012</u>	<u>16,507,178</u>	<u>833,003</u>	<u>627,423</u>
Noncurrent liabilities:				
Compensated absences (note 7)	2,331,084	2,611,523	—	—
Capital lease obligations (note 7)	—	40,911	—	—
Bonds and notes payable (note 7)	12,741,217	13,281,731	—	—
Due to State of Rhode Island (note 7)	18,637,369	19,333,684	—	—
Due to State of Rhode Island – OPEB (note 15)	297,634	—	—	—
Annuity payable	—	—	257,664	212,849
Grant refundable (note 8)	3,756,010	3,839,893	—	—
Net OPEB obligation (note 15)	188,393	—	—	—
Total noncurrent liabilities	<u>37,951,707</u>	<u>39,107,742</u>	<u>257,664</u>	<u>212,849</u>
Total liabilities	<u>\$ 56,643,719</u>	<u>55,614,920</u>	<u>1,090,667</u>	<u>840,272</u>
Net Assets				
Invested in capital assets, net of related debt	\$ 54,597,330	47,805,651	1,013	1,302
Restricted:				
Expendable (note 9)	1,760,887	5,917,163	2,626,212	4,562,194
Nonexpendable	—	—	16,152,444	14,993,464
Unrestricted	941,949	815,691	2,009,274	2,154,593
Contingencies (note 10)	—	—	—	—
Total net assets	<u>\$ 57,300,166</u>	<u>54,538,505</u>	<u>20,788,943</u>	<u>21,711,553</u>

See accompanying notes to financial statements.

RHODE ISLAND COLLEGE
(A Component Unit of the State of Rhode Island and Providence Plantations)

Statements of Revenues, Expenses and Changes in Net Assets

Years ended June 30, 2008 and 2007

	2008	2007	2008	2007
	Rhode Island	Rhode Island	Rhode Island	Rhode Island
	College	College	College	College
	College	College	Foundation	Foundation
Operating revenues:				
Tuition and fees	\$ 45,899,203	42,927,143	—	—
Auxiliary enterprises	16,355,996	13,252,900	—	—
Less scholarship allowances	(10,122,098)	(8,525,416)	—	—
Net student fees	52,133,101	47,654,627	—	—
Federal, State, local, and private grants and contracts	17,162,280	16,930,198	—	—
Sales and services of educational departments	3,012,398	3,046,038	—	—
Total operating revenues	72,307,779	67,630,863	—	—
Operating expenses (note 11):				
Instruction	36,500,862	36,122,336	—	—
Research	10,953,393	11,120,210	—	—
Academic support	11,035,134	11,069,910	—	—
Student services	7,569,457	7,333,396	—	—
Scholarships and fellowships	4,696,757	4,376,726	382,828	257,511
Public service	697,848	807,512	—	—
Operation and maintenance of plant	12,076,872	11,103,722	—	—
Institutional support	17,382,878	16,371,685	1,950,802	1,359,830
Depreciation and amortization	4,712,975	4,269,902	289	2,065
Auxiliary enterprises	12,070,786	11,261,385	—	—
Total operating expenses	117,696,962	113,836,784	2,333,919	1,619,406
Operating loss	(45,389,183)	(46,205,921)	(2,333,919)	(1,619,406)
Nonoperating revenues (expenses):				
State appropriations (note 12)	44,346,721	45,024,196	—	—
Gifts	—	—	3,164,792	3,786,225
Payments between the College and Foundation	202,474	298,198	(202,474)	(298,198)
Net investment income (loss)	1,076,926	1,252,271	(1,278,871)	2,314,276
Interest expense	(1,586,640)	(639,593)	—	—
Other	—	—	5,768	842
Net nonoperating revenues	44,039,481	45,935,072	1,689,215	5,803,145
Income (loss) before other revenues, expenses, gains or losses	(1,349,702)	(270,849)	(644,704)	4,183,739
Capital appropriations (note 12)	3,833,457	9,636,533	—	—
Capital gifts from Foundation	277,906	279,677	(277,906)	(279,677)
Increase (decrease) in net assets	2,761,661	9,645,361	(922,610)	3,904,062
Net assets, beginning of year	54,538,505	44,893,144	21,711,553	17,807,491
Net assets, end of year	\$ 57,300,166	54,538,505	20,788,943	21,711,553

See accompanying notes to financial statements.

RHODE ISLAND COLLEGE
(A Component Unit of the State of Rhode Island and Providence Plantations)

Statements of Cash Flows

Years ended June 30, 2008 and 2007

	2008	2007
	Rhode Island College	Rhode Island College
Cash flows from operating activities:		
Tuition, residence, dining and other student fees	\$ 52,215,486	47,778,000
Grants and contracts	17,927,246	16,211,219
Payments to suppliers	(20,854,962)	(19,121,274)
Payments to employees	(86,307,087)	(84,228,043)
Payments for scholarships, fellowships and sponsored programs	(4,696,757)	(4,376,726)
Loans issued to students	(830,880)	(793,115)
Collection of loans to students	618,855	911,477
Other receipts	1,830,411	4,408,735
Net cash used by operating activities	<u>(40,097,688)</u>	<u>(39,209,727)</u>
Cash flows from noncapital financing activities:		
State appropriations	44,346,721	45,024,196
Funds held for others	945,788	461,824
Noncapital gifts and grants	202,474	298,198
Net cash provided by noncapital and related financing activities	<u>45,494,983</u>	<u>45,784,218</u>
Cash flows from capital and related financing activities:		
Capital appropriations	3,833,457	9,636,533
Due to state	—	10,553,000
Capital gifts and grants	277,906	279,677
Purchases of capital assets	(9,512,560)	(29,243,104)
Principal paid on capital debt and leases	(1,274,921)	(557,013)
Interest paid on capital debt and leases	(1,586,640)	(639,593)
Deposits with trustee	150,973	569,843
Net cash used by capital and related financing activities	<u>(8,111,785)</u>	<u>(9,400,657)</u>
Cash flows from investing activities:		
Interest on investments	1,076,926	1,252,271
Net cash provided by investing activities	<u>1,076,926</u>	<u>1,252,271</u>
Net decrease in cash	(1,637,564)	(1,573,895)
Cash and cash equivalents – beginning of year	18,989,732	20,563,627
Cash and cash equivalents – end of year	<u>\$ 17,352,168</u>	<u>18,989,732</u>
Reconciliation of net operating loss to net cash used by operating activities:		
Operating loss	\$ (45,389,183)	(46,205,921)
Adjustments to reconcile net loss to net cash used by operating activities:		
Depreciation and amortization	4,712,975	4,269,902
Changes in assets and liabilities:		
Accounts receivable	569,409	(356,832)
Inventory and other current assets	(134,391)	6,640
Loans receivable	(212,025)	118,362
Funds on deposit with the State	(1,002,407)	590,691
Accounts payable and accrued liabilities	1,042,573	2,372,083
Compensated absences	(61,608)	191,338
Due to State of Rhode Island – OPEB	297,634	—
Net OPEB obligation	188,393	—
Students' deposits and unearned revenues	(25,175)	(176,099)
Grants refundable	(83,883)	(19,891)
Net cash used by operating activities	<u>\$ (40,097,688)</u>	<u>(39,209,727)</u>

See accompanying notes to financial statements.

RHODE ISLAND COLLEGE

(A Component Unit of the State of Rhode Island and Providence Plantations)

Notes to Financial Statements

June 30, 2008 and 2007

(1) Summary of Significant Accounting Policies

(a) Organization

The College, founded in 1854, is a comprehensive public institution of higher education in the State of Rhode Island that offers undergraduate and graduate programs in the liberal arts and sciences and in a variety of professional fields. The College is supported by the State of Rhode Island as its only comprehensive college, and as part of the system of public higher education that includes the Community College of Rhode Island (CCRI) and the University of Rhode Island (URI), with which matriculation agreements exist for student transfer within the system.

The College, a component unit of the State of Rhode Island and Providence Plantations, is governed by the Rhode Island Board of Governors for Higher Education (the Board), a body politic and corporate established under Chapter 59 of Title 16 of the General Laws of Rhode Island. The Board consists of public members appointed by the Governor, the Chair of the Board of Regents for Elementary and Secondary Education, and the Chairs or designees of the Finance Committees of the House and Senate of the Rhode Island General Assembly.

The Rhode Island Office of Higher Education, which operates under the direction of the Commissioner of Higher Education, is the administrative and research arm of the Rhode Island Board of Governors for Higher Education (Board of Governors). The Board of Governors is not a department of state government but an independent public corporation vested with the responsibility of providing oversight for the system of public education in Rhode Island. This system consists of four entities: the University of Rhode Island, Rhode Island College, the Community College of Rhode Island and the Rhode Island Office of Higher Education.

(b) Basis of Presentation

The accompanying financial statements have been prepared using the economic resources measurement focus and the accrual basis of accounting in accordance with U.S. generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board (GASB). Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements have been met. The College has determined that it functions as a Business Type Activity, as defined by GASB. The effect of interfund activity has been eliminated from these financial statements.

The College's policies for defining operating activities in the statements of revenues, expenses and changes in net assets are those that generally result from exchange transactions such as the payment received for services and payment made for the purchase of goods and services. Certain other transactions are reported as nonoperating activities in accordance with GASB Statement No. 35. These nonoperating activities include the College's operating and capital appropriations from the State of Rhode Island, net investment income, gifts, and interest expense.

The College has elected not to adopt the pronouncements issued by the Financial Accounting Standards Board (FASB) and related standards after November 30, 1989.

RHODE ISLAND COLLEGE

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Notes to Financial Statements

June 30, 2008 and 2007

The accompanying statements of revenues, expenses, and changes in net assets demonstrate the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable within a specific function. Program revenues primarily include charges to students or others who enroll or directly benefit from services that are provided by a particular function. Items not meeting the definition of program revenues are instead reported as general revenue.

Rhode Island College Foundation (Foundation) is a legally separate tax-exempt component unit of the College. The Foundation acts primarily as a fund-raising organization to supplement the resources that are available to the College in support of its programs. The Board of the Foundation is self-perpetuating and primarily consists of graduates and friends of the College. Although the College does not control the timing or the amount of receipts from the Foundation, the majority of resources, received or held by the Foundation are restricted to the activities of the College by the donors. Because these resources held by the Foundation can only be used by, or are for the benefit of the College, the Foundation is considered a component unit of the College and is discretely presented in the College's financial statements.

During the years ended June 30, 2008 and 2007, the Foundation distributed \$480,380 and \$577,875, respectively, to the College for both restricted and unrestricted purposes.

The Foundation is a private nonprofit organization that reports under FASB standards, including FASB Statement No. 116, *Accounting for Contributions Received and Contributions Made*, and FASB Statement No. 117, *Financial Reporting for Not-for-Profit Organizations*. As such, certain revenue recognition criteria and presentation features are different from GASB revenue recognition criteria and presentation features. No modifications have been made to the Foundation's financial information in the College's financial reporting entity for these differences.

Complete financial statements for the Foundation can be obtained from: Office of the Controller, Rhode Island College, 600 Mount Pleasant Avenue, Providence, Rhode Island 02908.

(c) **Net Assets**

Resources are classified for accounting purposes into the following four net asset categories:

Invested in capital assets, net of related debt: Capital assets, net of accumulated depreciation and of outstanding principal balances of debt attributable to the acquisition, construction, repair or improvement of those assets.

Restricted – expendable: Net assets whose use is subject to externally imposed conditions that can be fulfilled by the actions of the College or by the passage of time.

Restricted – nonexpendable: Net assets subject to externally imposed conditions that the College must maintain them in perpetuity.

Unrestricted: All other categories of net assets: Unrestricted net assets may be designated by the College.

RHODE ISLAND COLLEGE

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Notes to Financial Statements

June 30, 2008 and 2007

The College has adopted a policy of generally utilizing restricted-expendable funds, when available, prior to unrestricted funds.

(d) Cash Equivalents

Cash equivalents consist entirely of highly liquid debt instruments with an original maturity date of three months or less.

(e) Inventories

Inventories are stated at the lower of cost (first-in, first-out and retail inventory methods) or market, and consist of dining center food supplies and bookstore items.

(f) Capital Assets

Real estate assets, including improvements, are generally stated at cost. Furnishings and equipment are stated at cost at date of acquisition or, in the case of gifts, at fair value at date of donation. In accordance with the Board's capitalization policy, all land is capitalized, regardless of value. Vehicles, equipment, computer software for internal use, and works of art and historical treasures with a unit cost of \$5,000 or more are capitalized. Building, leasehold and infrastructure improvements with a unit cost of \$50,000 or more are capitalized. Interest costs on debt related to capital assets are capitalized during the construction period and then depreciated over the life of the project. College capital assets, with the exception of land and construction in progress are depreciated on a straight-line basis over their estimated useful lives, which range from 5 to 50 years.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

(g) Compensated Absences and Salary Reduction Plan

Certain College employees are granted vacation and sick leave in varying amounts. In the event of termination, an employee is paid for accumulated vacation days allowable under one of the several union contracts in force or in the case of nonunion personnel, according to State or College policy.

Amounts of vested and accumulated vacation and sick leave are reported as accrued compensation and benefits. Amounts are determined based upon the personal service rates in effect as of the balance sheet date. No liability is recorded for nonvesting accumulating rights to receive vacation and sick pay benefits.

Also reported as noncurrent liabilities are the remaining balances of employee salaries deferred under a Comprehensive Salary Reduction Plan adopted by the Board during fiscal years 1991 and 1992. Minor amounts attributable to a voluntary salary reduction program for fiscal year 1993, approved by the Board, are also included. These expenditures can be in the form of paid leave on a day-to-day basis, payment at the time of employee termination or retirement, or payment to an employee's estate in the event of death.

RHODE ISLAND COLLEGE

(A Component Unit of the State of Rhode Island and Providence Plantations)

Notes to Financial Statements

June 30, 2008 and 2007

(h) Health

The State offers one state paid health plan to each of its participating agencies, including the College. The premiums for these plans are divided among the agencies based upon their number of eligible employees. All employees share in healthcare costs. Employee co-pays range from 6% to 11% of healthcare premiums for nonclassified staff. Classified employees are assessed 2.5% base wages and 0.5% of other wages as co-pays. The costs are automatically deducted through the payroll system on a bi-weekly basis. Amounts paid by the College for the 2008 and 2007 health premiums amounted to \$9,379,388 and \$8,291,558 respectively. Employee contributions for 2008 and 2007 were \$841,000 and \$780,000, respectively.

(i) Assessed Fringe Benefit Administrative Fund

In July 2000, the State established the Assessed Fringe Benefit Administrative Fund. This fund is used to make all payments relating to workers' compensation charges, unemployment payments and payments to employees for unused vacation and sick leave at the time of retirement or termination from State service. The State funds this account by assessing a charge against the bi-weekly payrolls of all State agencies, including the College. The fringe benefit assessment rate for fiscal years 2008 and 2007 was 3.8% and 3.2%, respectively. The assessed fringe benefit cost for the College for fiscal year 2008 and 2007 was \$1,851,000 and \$1,490,000, respectively.

(j) Students' Deposits and Unearned Revenue

Deposits and advance payments received for tuition and fees related to certain summer programs and tuition received for the following academic year are deferred and are recorded as revenues as earned.

(k) Student Fees

Student tuition, dining, residence, and other fees are presented net of scholarships applied to students' accounts. Certain other scholarship amounts are paid directly to, or refunded to, the student and are reflected as expenses.

(l) Tax Status

The College is a component unit of the State of Rhode Island and Providence Plantations and is therefore generally exempt from income taxes under Section 115 of the Internal Revenue Code.

(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. Actual results could differ from those estimates.

RHODE ISLAND COLLEGE

(A Component Unit of the State of Rhode Island and Providence Plantations)

Notes to Financial Statements

June 30, 2008 and 2007

(n) Risk Management

The College is exposed to various risks of loss related to general liability, property and casualty, workers' compensation, unemployment and employee health and life insurance claims.

The College is insured for general liability with policy limits of \$1 million per claim and \$3 million in the aggregate with a \$25,000 deductible. Coverage under the General Liability Policy extends to employed health care providers, excluding physicians who have separate coverage. This policy does not apply to actions relating to federal/civil rights, eminent domain, and breach of contract. Such claims are insured under a separate policy for wrongful acts with limits of \$4 million per claim and \$4 million for the annual aggregate with a \$150,000 deductible. Crime coverage for College employees is carried with a limit of \$1 million and a deductible of \$100,000. The College also maintains an excess liability insurance policy with a limit of \$25 million.

Buildings and contents are insured against fire, theft, and natural disaster to the extent that losses exceed \$100,000 per incident and do not exceed \$535 million. A separate inland marine policy insures specifically listed high value property items such as computer equipment, valuable papers, fine arts, contractor's equipment, and miscellaneous property at various limits of insurance and deductibles.

All vehicles are owned by the State, which insures them for liability through an outside carrier. The policy is a loss retrospective program where premiums can be adjusted for claims incurred. Workers' compensation, unemployment, and employee health and life insurance claims are self-insured and managed by the State.

(o) Implementation of New Accounting Standards

GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, requires governments to recognize other postemployment benefits (OPEB) when earned rather than on a pay-as-you-go basis. Governments with revenues greater than \$100 million are required to implement this standard for financial statement periods beginning after December 15, 2006. The College implemented this standard in the current year (see note 15).

(2) Cash, Cash Equivalents, and Investments

(a) Cash and Cash Equivalents

At June 30, 2008 and 2007, the carrying amount of the College's cash deposits was \$16,475,671 and \$14,013,428, and the bank balance was \$16,920,970 and \$15,000,936, respectively. Deposits are exposed to custodial credit risk if they are not covered by depository insurance and the deposits are:

- a. Uncollateralized
- b. Collateralized with securities held by the pledging financial institution, or
- c. Collateralized with securities held by the pledging financial institution's trust department or agent but not in the depositor-government's name.

RHODE ISLAND COLLEGE

(A Component Unit of the State of Rhode Island and Providence Plantations)

Notes to Financial Statements

June 30, 2008 and 2007

Of the 2008 bank balance, \$242,658 was covered by federal depository insurance and \$14,942,423 was collateralized with securities held in the College's name by the pledging financial institution. The remaining amount, \$1,735,889, was uninsured and uncollateralized. None of the College's cash deposits were required to be collateralized by law since the deposits are not time deposits. In addition, the five financial institutions doing business with the College exceed the minimum capital standards prescribed by their federal regulator.

For 2007, bank balances of \$100,682 were covered by federal depository insurance and \$10,793,553 was collateralized with securities held in the College's name by the pledging financial institution. The remaining amount, \$4,106,701 was uninsured and uncollateralized.

The College's policy is in accordance with Chapter 35-10.1 of the Rhode Island General Laws dealing with the Public Finance, which states that any depository institutions holding public deposits shall insure or pledge eligible collateral equal to one hundred percent (100%) with any time deposit with maturities greater than sixty (60) days. If any depository institution does not meet its minimum capital standard as prescribed by its federal regulator they shall insure or pledge eligible collateral equal to one hundred percent (100%) of all public deposits. The College does not have a policy for custodial credit risk associated with deposits.

(b) Investments

The Rhode Island Board of Governors for Higher Education has a policy stressing preservation of principal and limiting deposits to federally insured and other financially secured accounts. The College predominantly invests in short to medium term cash and similar vehicles.

Foundation investments in marketable securities with readily determinable fair values and all investments in debt securities are valued at their fair values in the statements of financial position. The Foundation records purchased securities at quoted market value and contributed services at their fair value on the date of receipt. Other contributed assets are recorded at appraised value at the time of donation. Investments in marketable securities without readily determinable fair values are recorded at cost. Unrealized gains and losses are reflected in the statements of activities.

The Foundation pools the investments of its various funds. The income from such investments and the realized and unrealized gains and losses on the investments are allocated to the participating funds based on book value of the fund groups. Participation units in the investment funds are determined monthly based on the fair value of investments at the calculation date.

RHODE ISLAND COLLEGE

(A Component Unit of the State of Rhode Island and Providence Plantations)

Notes to Financial Statements

June 30, 2008 and 2007

The June 30, 2008 and 2007 investment portfolio concentrations are as follows:

	Foundation 2008	
	Amount	Percentage
Common stocks	\$ 13,321,037	66%
Government securities	5,944,666	30
Direct financing lease	45,837	—
Cash equivalents	821,701	4
	\$ 20,133,241	100%

	Foundation 2007	
	Amount	Percentage
Common stocks	\$ 13,146,053	65%
Government securities	5,773,885	28
Direct financing lease	101,864	1
Cash equivalents	1,312,017	6
	\$ 20,333,819	100%

(c) Restricted Cash

Restricted cash includes the following at June 30:

	2008	2007
Grant Fund	\$ 29,116	112,857
Loan Fund	435,981	736,626
Bonds with Trustee	(837)	—
	\$ 464,260	849,483

(3) Cash Held by State Treasurer

Accounts payable and accrued salaries to be funded from state-appropriated funds totaled \$701,497 and \$348,816 at June 30, 2008 and 2007, respectively. The College has recorded a comparable dollar amount of cash held by the State Treasurer for the benefit of the College. In addition, the College has \$175,000 on deposit with the State with respect to issuance of bonds on behalf of the College at June 30, 2008 and \$4,627,488 at June 30, 2007.

RHODE ISLAND COLLEGE

(A Component Unit of the State of Rhode Island and Providence Plantations)

Notes to Financial Statements

June 30, 2008 and 2007

(4) Accounts Receivable

Accounts receivable include the following at June 30:

	<u>2008</u>	<u>2007</u>
Student accounts receivable	\$ 1,766,995	2,115,069
Grants receivable	2,025,478	2,529,550
Other receivables	860,325	815,351
	<u>4,652,798</u>	<u>5,459,970</u>
Less allowance for doubtful accounts	<u>(1,292,953)</u>	<u>(1,530,715)</u>
	<u>\$ 3,359,845</u>	<u>3,929,255</u>

The College has determined that the net amount of accounts receivable will be collected within an one-year timeframe.

(5) Loans Receivable

Loans receivable include the following at June 30:

	<u>2008</u>	<u>2007</u>
Perkins loans receivable	\$ 5,028,945	4,762,429
Nursing loans receivable	39,122	48,742
	<u>5,068,067</u>	<u>4,811,171</u>
Less allowance for doubtful accounts	<u>(1,081,054)</u>	<u>(1,036,183)</u>
	<u>\$ 3,987,013</u>	<u>3,774,988</u>

RHODE ISLAND COLLEGE

(A Component Unit of the State of Rhode Island and Providence Plantations)

Notes to Financial Statements

June 30, 2008 and 2007

(6) Capital Assets

Capital assets of the College consist of the following at June 30:

	2008					
	Estimated lives (in years)	Beginning balance	Additions	Retirements	Reclassifications	Ending balance
Capital assets not being depreciated:						
Construction in progress	—	\$ 27,987,045	2,367,439	—	(27,675,049)	2,679,435
Land	—	1,630,968	—	—	—	1,630,968
Total not being depreciated		<u>29,618,013</u>	<u>2,367,439</u>	<u>—</u>	<u>(27,675,049)</u>	<u>4,310,403</u>
Capital assets being depreciated:						
Land improvements	15 – 25	7,009,254	1,087,549	—	204,100	8,300,903
Buildings, including improvements	10 – 50	96,370,703	5,168,094	—	27,470,949	129,009,746
Furnishings and equipment (including cost of capital leases)	5 – 15	18,999,213	889,482	(180,595)	—	19,708,100
Total being depreciated		<u>122,379,170</u>	<u>7,145,125</u>	<u>(180,595)</u>	<u>27,675,049</u>	<u>157,018,749</u>
Less accumulated depreciation:						
Land improvements		3,088,594	414,381	—	—	3,502,975
Buildings, including improvements		51,533,065	3,488,897	—	—	55,021,962
Furnishings and equipment		14,928,124	809,697	(180,595)	—	15,557,226
Total accumulated depreciation		<u>69,549,783</u>	<u>4,712,975</u>	<u>(180,595)</u>	<u>—</u>	<u>74,082,163</u>
Capital assets, net		<u>\$ 82,447,400</u>	<u>4,799,589</u>	<u>—</u>	<u>—</u>	<u>87,246,989</u>

RHODE ISLAND COLLEGE

(A Component Unit of the State of Rhode Island and Providence Plantations)

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2007						
	<u>Estimated lives (in years)</u>	<u>Beginning balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Reclassifications</u>	<u>Ending balance</u>
Capital assets not being depreciated:						
Construction in progress		\$ 2,969,364	26,047,438	—	(1,029,757)	27,987,045
Land		<u>1,630,968</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>1,630,968</u>
Total not being depreciated		<u>4,600,332</u>	<u>26,047,438</u>	<u>—</u>	<u>(1,029,757)</u>	<u>29,618,013</u>
Capital assets being depreciated:						
Land improvements	15 – 25	5,493,543	1,486,461	—	29,250	7,009,254
Buildings, including improvements	10 – 50	94,286,853	1,083,343	—	1,000,507	96,370,703
Furnishings and equipment (including cost of capital leases)	5 – 15	<u>18,424,359</u>	<u>625,862</u>	<u>(51,008)</u>	<u>—</u>	<u>18,999,213</u>
Total being depreciated		<u>118,204,755</u>	<u>3,195,666</u>	<u>(51,008)</u>	<u>1,029,757</u>	<u>122,379,170</u>
Less accumulated depreciation:						
Land improvements		2,745,545	343,049	—	—	3,088,594
Buildings, including improvements		48,514,603	3,018,462	—	—	51,533,065
Furnishings and equipment		<u>14,070,741</u>	<u>908,391</u>	<u>(51,008)</u>	<u>—</u>	<u>14,928,124</u>
Total accumulated depreciation		<u>65,330,889</u>	<u>4,269,902</u>	<u>(51,008)</u>	<u>—</u>	<u>69,549,783</u>
Capital assets, net		<u>\$ 57,474,198</u>	<u>24,973,202</u>	<u>—</u>	<u>—</u>	<u>82,447,400</u>

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(7) Long-Term Liabilities

Long-term liabilities consist of the following at June 30:

	2008				
	Beginning balance	Additions	Reductions	Ending balance	Current portion
Leases and bonds payable:					
Lease obligations	\$ 97,405	—	56,494	40,911	40,911
Note payable	1,919,822	—	70,643	1,849,179	74,582
Revenue bonds payable	11,907,353	—	474,802	11,432,551	465,931
Total leases and bonds payable	13,924,580	—	601,939	13,322,641	581,424
Other long-term liabilities:					
Due to State of Rhode Island	20,000,000	—	672,982	19,327,018	689,649
Compensated absences	5,909,040	3,815,307	3,876,917	5,847,430	3,516,346
Net OPEB obligation	—	746,493	558,100	188,393	—
Total long-term liabilities	\$ 39,833,620	4,561,800	5,709,938	38,685,482	4,787,419
	2007				
	Beginning balance	Additions	Reductions	Ending balance	Current portion
Leases and bonds payable:					
Lease obligations	\$ 148,544	—	51,139	97,405	56,494
Note payable	1,986,734	—	66,912	1,919,822	70,643
Revenue bonds payable	12,346,315	—	438,962	11,907,353	474,801
Total leases and bonds payable	14,481,593	—	557,013	13,924,580	601,938
Other long-term liabilities:					
Due to State of Rhode Island	9,447,000	10,553,000	—	20,000,000	666,316
Compensated absences	5,717,702	3,711,955	3,520,617	5,909,040	3,297,517
Total long-term liabilities	\$ 29,646,295	14,264,955	4,077,630	39,833,620	4,565,771

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(a) *Notes and Bonds Payable*

The following is a summary of the College's long-term debt at June 30:

	June 30	
	2008	2007
3% Dormitory Bonds of 1967, original amount issued \$365,000, payable to the United States Government. The bonds are due in annual installments of \$40,000, plus interest, through October 1, 2007. The final installment of \$40,000 plus interest was paid on October 1, 2007.	\$ —	40,000
Rhode Island Health and Educational Building Corporation Various Purpose Educational Facilities Issue, Series 1993 B. The bonds, original amount issued \$103,253, carry interest rates ranging from 4.60% to 5.60%, are due in varying annual installments from \$23,292 to \$28,397 plus interest. The final installment of \$23,292 plus interest was paid on September 1, 2007.	—	23,292
Rhode Island Health and Educational Building Corporation Higher Education Facility Revenue Bonds, Series 2003 B payable to the United States Government. The bonds, original amount issued \$7,771,512, carry interest rates ranging from 4.40% to 5.625%. The bonds are due in varying annual installments from \$229,075 – \$587,125, plus interest, through September 15, 2023.	6,655,420	6,960,148
Rhode Island Health and Educational Building Corporation Higher Education Facility Revenue Bonds, Series 2005 E payable to the United States Government. The bonds original amount issued – was \$3,530,000, carry interest rates ranging from 3.50% – 4.50%. The bonds are due in varying annual installments from \$25,000 – \$230,000, plus interest, through September 15, 2030.	3,410,000	3,505,000

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	<u>June 30</u>	
	<u>2008</u>	<u>2007</u>
Rhode Island Health and Educational Building Corporation Higher Education Facility Revenue Bonds, Series 2003 C payable to the United States Government. The bonds original amount issued – was \$1,409,964, carry interest rates ranging from 4.40% – 5.625%. The bonds are due in varying annual installments from \$8,025 – \$117,165, plus interest, through September 15, 2023.	\$ 1,367,132	1,378,913
United States Department of Education Note Payable used to renovate and restore the Sylvan R. Forman Center. The note original amount issued \$2,561,000, carries an interest rate of 5.5% payable in level semi-annual installments of \$87,637 through February 1, 2024.	1,849,179	1,919,822
	<u>\$ 13,281,730</u>	<u>13,827,175</u>

The Series 2005 E and 2003 B bonds are collateralized by the revenues of the auxiliaries operated under the authority of the Board of Governors.

The State of Rhode Island has issued bonds for the development of certain College facilities. These bonds are not obligations of the College and, therefore, are not recorded as liabilities in the accompanying financial statements. The State annually appropriates funds to the College to be used for debt service on these bonds.

Principal and interest on notes and bonds payable for the next five years and in subsequent five-year periods are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Year ending June 30:			
2009	\$ 540,513	571,755	1,112,268
2010	566,161	553,884	1,120,045
2011	582,040	534,196	1,116,236
2012	600,034	513,550	1,113,584
2013	621,417	491,504	1,112,921
2014 – 2018	3,515,407	2,059,978	5,575,385
2019 – 2023	4,420,384	1,156,383	5,576,767
2024 – 2028	1,775,774	280,211	2,055,985
2029 – 2031	660,000	45,450	705,450
	<u>\$ 13,281,730</u>	<u>6,206,911</u>	<u>19,488,641</u>

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Interest costs for the years ended June 30, 2008 and 2007, were \$675,662 and \$639,593, respectively.

(b) Lease Obligations

During fiscal year 1989, the College completed the sale with leaseback of its School of Social Work Building with a related party, the Rhode Island College Foundation. The building was sold for \$550,000 in cash. Under the terms of the agreement, the College has agreed to lease back the building under a long-term lease agreement for a period of 20 years. The lease agreement provides the College with an option to repurchase at any of the lease anniversary dates at a predetermined value or at the end of the lease period for \$1.

The following schedule summarizes future minimum payments under noncancelable leases at June 30, 2008:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Year ending June 30:			
2009	\$ 40,911	1,549	42,460
	<u>\$ 40,911</u>	<u>1,549</u>	<u>42,460</u>

(c) Related Party Transactions

In November 2004, the voters of Rhode Island authorized the issuance of \$30 million in general obligation debt for the construction of a new residence hall at the College. Of this amount \$20 million will be repaid to the State.

The residence hall was finished and in service by September 2007 at which time the College began collecting revenues to pay for its share of the debt service. Debt service obligation is to be split two-thirds to the College, one-third to the State for all payments after September 2007.

The College will repay the State for debt service paid on its behalf on a straight-line basis amortized over the remaining life of the bonds, which carry rates ranging from 3–5% and a life of nineteen years, beginning in fiscal year 2009.

As of June 30, 2007, the State has issued all of the \$30 million authorized debt. The College has recognized \$20 million as a liability to the State for its obligation to pay two-thirds of the debt service as a result of these issuances. Additionally, the College has recorded \$10 million of contributed capital by the State.

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Principal and interest on bonds payable on the new residence hall for the next five years and in subsequent five-year periods are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Year ending June 30:			
2009	\$ 689,649	923,343	1,612,992
2010	716,316	892,110	1,608,426
2011	756,316	859,368	1,615,684
2012	799,649	824,335	1,623,984
2013	842,982	787,335	1,630,317
2014 – 2018	4,928,246	3,278,290	8,206,536
2019 – 2023	6,228,246	1,984,498	8,212,744
2024 – 2026	4,365,614	465,405	4,831,019
	<u>\$ 19,327,018</u>	<u>10,014,684</u>	<u>29,341,702</u>

Interest costs for the years ended June 30, 2008 and 2007 were \$903,780 and \$717,167, respectively.

Also, in November 2006, the voters of Rhode Island approved \$72.8 million general obligation bonds, refunding bonds, and temporary notes consisting of \$65.0 million for the construction of a new college of pharmacy building at the University of Rhode Island and \$7.8 million for renovation to the former Department of Children, Youth, and Families Facilities at the College. In 2008, \$1.56 million in funding was received by the College (none in 2007).

(8) Grant Refundable

The College participates in the Federal Perkins Loan and Nursing Loan programs. These programs are funded through a combination of federal and institutional resources. The portion of these programs that has been funded with federal funds is ultimately refundable back to the U.S. government upon the termination of the College's participation in the program.

(9) Restricted Net Assets

The College is the recipient of funds that are subject to various external constraints upon their use, either as to purpose or time. These funds are composed of the following at June 30:

	<u>2008</u>	<u>2007</u>
Restricted – expendable:		
Retirement of general long-term debt	\$ 33,059	130,173
Renewal and replacements	1,339,999	522,326
College funds	212,671	637,164
Capital project programs	175,158	4,627,500
	<u>\$ 1,760,887</u>	<u>5,917,163</u>

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(10) Contingencies

Various lawsuits are pending or threatened against the College that arose from the ordinary course of operations. In the opinion of management, no litigation is now pending, or threatened that would materially affect the College's financial position.

The College receives significant financial assistance from federal and state agencies in the form of grants. Expenditures of funds under these programs require compliance with the grant agreements and are subject to audit. Any disallowed expenditures resulting from such audits become a liability of the College. In the opinion of management such adjustments, if any, are not expected to materially affect the financial condition of the College.

(11) Operating Expenses

The College's operating expenses, on a natural classification basis, are as follows for the years ended June 30:

	<u>2008</u>	<u>2007</u>
Compensation and benefits	\$ 87,741,011	84,902,293
Supplies and services	20,546,219	20,287,863
Depreciation and amortization	4,712,975	4,269,902
Scholarships and fellowships	4,696,757	4,376,726
	<u>\$ 117,696,962</u>	<u>113,836,784</u>

(12) State Appropriations

(a) Direct Appropriations

Pursuant to the Rhode Island General Law 16-59-9, the legislature enacted budget reflects the budget passed by the General Assembly and signed by the Governor as well as any re-appropriations made by the Governor for fiscal year 2005. The Board reviews and approves the unrestricted and restricted budgets and makes recommendations to the Governor and General Assembly for revisions to the current year's budget and the ensuing year's budget for the College, URI, CCRI, and the Office of Higher Education.

The original and supplemental budget requests to the Governor and General Assembly are acted upon by a vote of the Board. As part of the College's annual budget process for unrestricted and restricted funds, the Board allocates specific amounts in the budget which are allocated for the following categories: (1) salaries and wages, (2) operating expenditures, and (3) outlays for personnel costs, utilities, repairs, capital, and student aid, as well as the overall budget allocation.

(b) State Capital Plan Funds

The Rhode Island Capital Plan Fund was modeled on a financial technique originating in the State of Delaware. Each year the State of Delaware reserves 2% of its general revenues to fund a Budget Reserve and Cash Stabilization Fund. This process continues annually until the fund reaches 3% of

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total resources. Once that point is achieved, excess revenues are transferred to a Capital Plan Fund. This Capital Fund is used for capital expenditures and for debt reduction. The technique is a “pay-as-you-go” process that avoids increasing the State’s debt burden. Higher education has received off-budget allocations through this program since fiscal year 1995.

During fiscal years 2008 and 2007, the State allocated \$2,019,125 and \$1,532,500, respectively, to the College for asset protection.

(c) State Contributed Capital

In October 2006, the College, URI, and CCRI in collaboration with the Governor’s Office and the Board of Governors for Higher Education, submitted a proposal for supporting the creative use of technology in higher education in Rhode Island. This proposed plan seeks to integrate technology and education to improve the education of pre-service and in-service teachers in science, technology, engineering and mathematics (STEM). The proposal was approved on October 6, 2006 and provided for \$11,750,000 in funding to be spent over a three-year period for the system: \$5,750,000 for URI; \$1,500,000 for CCRI; and \$4,500,000 for Rhode Island College. The College received \$228,633 in fiscal year 2008. For 2007, no funding was received by the College.

In 2008, the College received \$1,585,699 in appropriations for renovations to the former Department of Children, Youth & Family facilities. These are more fully explained in note 7(c), *Related Party Transactions*. For 2007, no funding was received by the College. In 2007, the College received \$8.1 million for the new residence hall.

The College’s State appropriation is composed of the following at June 30:

	<u>2008</u>	<u>2007</u>
Direct appropriations	\$ 44,346,721	45,024,196
State capital plan funds	2,019,125	1,532,500
State contributed capital	1,814,332	8,104,033
	<u>\$ 48,180,178</u>	<u>54,660,729</u>

(13) Pension and Early Retirement Plans

Certain employees of the College (principally faculty and administrative personnel) are covered by individual annuity contracts under a defined contribution retirement plan established by the Rhode Island Board of Governors (Board) which is also responsible for amending it. Eligible employees who have reached the age of 30, and who have two (2) years of service are required to participate in either the Teachers’ Insurance and Annuity Association, the Metropolitan Life Insurance Company, or Variable Annuity Life Insurance Company retirement plan. The Board establishes and amends contribution rates. Eligible employees must contribute at least 5% of their gross biweekly earnings. These contributions may be made on a pre-tax basis. The College contributes 9% of the employee’s gross biweekly earnings. The total expenditures by the College for such annuity contracts amounted to approximately \$2,880,000 and \$2,786,000 during the 2008 and 2007, respectively.

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Other employees of the College (principally civil service personnel) participate in the Employees' Retirement System of the State of Rhode Island (the System), a multiple-employer, cost-sharing, defined benefit, public employee retirement system. The plan provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. The level of benefits provided to state employees is established by Chapter 36-10 of the General Laws which is subject to amendment by the general assembly.

The payroll expense of College employees covered by the System was approximately \$12,947,000 and \$12,730,000 for the years ended June 30, 2008 and 2007, respectively. The College's total payroll expense for the years ended June 30, 2008 and 2007 was approximately \$62,857,000 and \$63,220,000, respectively.

All full-time employees of the College who have not obtained at least 10 years of contributory service as of July 1, 2006 and are not covered by 403(b) annuity contracts are eligible to retire at or after age 65 with 10 years of credited service, or at age 59 with 29 years of credited service or at age 55 and had completed 20 years of total service provided, that the retirement allowance, as determined according to the formula in the State statute is reduced actuarially for each month that the age of the member is less than 65 years. The retirement benefit is equal to various percentages of annual earnings, ranging from 1.60% to 2.25% for each of the first 38 years of service, to the maximum benefit of 75% of final salary after 38 years of service. Final average salary is the three highest consecutive years of earned salary, excluding overtime, bonuses or severance pay. The System also provides certain death and disability benefits. The above information can be found at RIGL 36-10-9 and 36-10-10.

The employee contribution rate is set by general law and may be amended by the general assembly. The employer contribution rate is calculated by the System's actuary and is reviewed and approved by the System's retirement board annually.

Covered employees in the System were required to contribute 8.75% of salaries paid in 2008 and 2007 while the College was required to pay 20.27% and 18.40% of salaries paid for the years ending June 30, 2008 and 2007, respectively. In addition, the College is required to contribute 3.91% and 3.08% for post-retirement health benefits in 2008 and 2007, respectively. Employees contributed approximately \$1,243,000 and \$1,233,000 during the years ended June 30, 2008 and 2007, respectively. The College's contributions to the System for the years ended June 30, 2008, 2007, and 2006 were approximately \$2,961,000, \$2,611,000 and \$2,018,000, respectively, representing 100% of the required contribution for each of the three years.

The System issues a publicly available financial report that includes financial statements and required supplementary information for plans administered by the system. The report may be obtained by writing to the Employees' Retirement System, 40 Fountain Street, Providence, RI 02903

(14) Discontinuance of Retirement Incentive Plan

At its September 17, 2007 meeting, the Rhode Island Board of Governors for Higher Education voted to discontinue the Retirement Incentive Program at Rhode Island College effective June 30, 2008. The program provides for an incentive payment of 40% of an employee's final annual base salary for nonclassified employees, primarily faculty and administrative staff, who are at least 58 years of age with a

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minimum of 15 years continuous service with the College. For year end June 30, 2008, the incentive program payment amounted to \$733,228.

(15) Other Postemployment Benefits (OPEB)

GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, is required to be implemented by governments with annual revenues greater than \$100 million for financial statement periods beginning after December 15, 2006. Statement No. 45 requires governments to account for other postemployment benefits (OPEB), primarily healthcare, on an accrual basis rather than on a pay-as-you-go basis. The effect is the recognition of an actuarially required contribution as an expense on the statement of revenues, expenses, and changes in net assets when future retirees earn their postemployment benefits, rather than when they use their postemployment benefit. To the extent that an entity does not fund its actuarially required contribution, a postemployment benefit liability is recognized on the balance sheet over time.

(a) Rhode Island Retiree Health Care Benefit Plan (RIRHCBP)

Approximately 400 employees of the College (principally civil service personnel) who are members of the Employees' Retirement System of the State of Rhode Island also participate in the State-administered defined benefit post-employment health care plan known as the Rhode Island Retiree Health Care Benefit Plan (RIRHCBP).

RIGL Sections 36-10-2, 36-12.1, 36-12.2.2 and 36-12-4 govern the provisions of the RIRHCBP. The contribution requirements of plan members, the State and other participating employers are established and may be amended by the General Assembly.

A complete description of the RIRHCBP, including contribution requirements and benefits provided, is included in the State of Rhode Island's Comprehensive Annual Financial Report for the fiscal year ended June 30, 2008.

In order to recover its costs, the State bills the College for the costs of providing this benefit to the employees covered under the RIRHCBP. The College recognized an expense equal to the amount billed to them by the State totaling \$851,801, which represents 6.01% of covered payroll. However, the College actually reimbursed the State \$554,167, which is 3.91% of annual covered payroll. This resulted in an amount due to the State totaling \$297,634 as of June 30, 2008. In 2007, the College reimbursed the State \$445,000.

(b) Rhode Island Board of Governors for Higher Education Health Care Insurance Retirement Program

Plan Description

The College contributes to the Rhode Island Board of Governors for Higher Education (Board) health care insurance retirement program (Plan), medical coverage only, for eligible employees who participate in the Board's Alternate Retirement Plan (ARP) and per union contracts. The Board established an agent multiple-employer defined benefit healthcare plan effective July 1, 1998 for

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Office of Higher Education, University of Rhode Island (URI), Rhode Island College (RIC) and Community College of Rhode Island (CCRI).

Contributions are recognized when made. Health care claims are recognized when due and payable in accordance with the terms of the plan. A liability for incurred but not reported claims is determined based on past claims payment trends and is included in the State's financial statements. Working premium rates are determined by the State each fiscal year after consultation with an employee benefits consultant and are designed to fund current claims incurred during the fiscal year as well as the costs of administering the plan. For the year ended June 30, 2008 and 2007, the Plan operated on a pay as you go basis and no provision has been made to fund future benefits to be provided to Plan members.

The Plan offers two types of retiree health care benefits. The Plan offers a self-insured health care plan administered by United Healthcare for pre-65 and post-65 retirees or a fully insured Medicare HMO plan for post-65 retirees. The tier I, non-Medicare eligible plans, subsidy provides that the Board will pay the portion of the cost of post-retirement health care for the retiree between the active group rate and the early retiree rate. This subsidy is not based on years of service and ends at age 65. In addition, the Board pays a portion of the cost of post retirement health care for the retiree based on age and years of service, referred to as Tier II. Tier II benefits are a lifetime benefit.

To be eligible for coverage, the retiree must have worked a minimum of 10 years for the Board/College and must be 60 years of age, unless they have 28 years or more of service. Depending on the years of service and the retiree's age, the Board will pay from 50% to 100% of medical insurance premium while the retiree contributes from 50% to 0%.

Effective July 1, 2008, the pre-65 retiree health coverage is eliminated. Employees retiring after June 30, 2008, who are not yet 65 years of age, who have worked a minimum of 10 years for the College and are at least 60 years of age or who have 28 years or more of service, may purchase health insurance coverage at the actual retiree premium rate for themselves and their spouses. The College will continue to pay a portion of the post-65 Tier II benefits, 50% to 100% of medical insurance premium depending on the years of service and the retiree's age while the retiree will contribute from 50% to 0%.

On May 1, 2008, Public Law 2008-09 was enacted. This law established the "Rhode Island State Employees' and Electing Teachers OPEB System", as defined in G.L. 36-12.1-5, which will be managed by an OPEB Board for the purpose of providing and administering OPEB Benefits for retired employees of the State, including the Board Plan. The OPEB Board shall establish one or more trust funds and/or sub trusts to hold the assets of the OPEB System, which will be known as "Rhode Island OPEB System Trust."

The Board's health care insurance retirement program does not issue a publicly available financial report.

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Funding Policy

The contribution requirements of plan members and the College are established and may be amended by the Board. The College is not required to fund the plan other than the pay-as-you-go amount necessary to provide current benefits to retirees. The Board reserves the authority to establish and amend contribution rates and benefit provisions of the plan.

Active employees who are covered by the Board's Plan contribute the following:

<u>Effective date</u>	<u>Percentage of salary</u>
July 1, 1998	0.25%
January 1, 2008	0.50
July 1, 2008	0.75
July 1, 2009	0.90

Employer contributions are made to cover expenditures beyond the amount of employee and retiree contributions.

College employees covered by this program contributed \$87,531 and \$78,858 during fiscal years 2008 and 2007, respectively. Employer contributions to the program were \$558,100 and \$506,385 during fiscal years 2008 and 2007, respectively.

College membership in the Board's Plan consisted of the following at June 30, 2006, the date of the latest actuarial valuation:

Retires and beneficiaries receiving benefits	152
Active board plan members	543
Total	<u>695</u>

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Annual OPEB Cost and Net OPEB Obligation

For fiscal year 2008, the College's annual OPEB cost (expense) was \$746,493 for the Plan resulting in a net OPEB obligation of \$188,393.

Annual Required Contribution (ARC)	\$	746,493
Interest on net OPEB obligation		—
Adjustment to ARC		—
		<hr/>
Annual OPEB cost		746,493
		<hr/>
Contributions made		(558,100)
		<hr/>
Change in net OPEB obligation		188,393
		<hr/>
Net OPEB obligation - beginning of year		—
		<hr/>
Net OPEB obligation - end of year	\$	<u>188,393</u>

The funded status of the College's share of the plan as of June 30, 2006, the date of the most recent actuarial valuation, was as follows:

Actuarial Accrued Liability (AAL)	\$	18,310,257
Actuarial value of plan assets		—
		<hr/>
Unfunded actuarial accrued liability (UAAL)	\$	<u>18,310,257</u>
		<hr/>
Funded ratio (actuarial value of plan assets/AAL)		—%
Annual covered payroll (active plan members)	\$	30,688,424
UAAL as a percentage of covered payroll		60%

The College's annual OPEB cost, the percentage of annual OPEB cost contributed to the Plan, and the net OPEB obligation for fiscal year 2008 is as follows:

<u>Fiscal year ended</u>	<u>Annual OPEB cost</u>	<u>Percentage of annual OPEB cost contributed</u>	<u>Net OPEB obligation</u>
June 30, 2008	\$ 746,493	75%	\$ 188,393

RHODE ISLAND COLLEGE

(A Component Unit of the State of Rhode Island and Providence Plantations)

Notes to Financial Statements

June 30, 2008 and 2007

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan and include the types of benefits provided at the time of each valuation. The actuarial assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the June 30, 2006 actuarial valuation, the individual entry age actuarial cost method was used to determine the annual required contribution (ARC) and the annual net OPEB obligation. The actuarial assumptions included a 3.566% discount rate, rate of annual salary increases of 4.5%, an annual healthcare cost trend rate of 11% initially, reduced by decrements to an ultimate rate of 4.5% in 2015, and a 4.5% inflation assumption. The discount rate was calculated based upon the average rate of return during the 10 years ended June 30, 2008 for short term investments of the State General Fund. The College's unfunded actuarial accrued liability of \$18,310,257 is being amortized over an open period of 30 years using the level percentage of projected payroll amortization method.

Plan changes effective for employees retiring after June 30, 2008 have been reflected in the actuarial valuation performed as of June 30, 2006.

RHODE ISLAND COLLEGE
(A Component Unit of the State of Rhode Island and Providence Plantations)
Required Supplementary Information
June 30, 2008
(Unaudited)

Schedule of Funding Progress – OPEB

<u>Actuarial valuation date</u>	<u>Actuarial value of assets (a)</u>	<u>Actuarial accrued liability (b)</u>	<u>Unfunded (b-a)</u>	<u>Funded ratio (a/b)</u>	<u>Covered payroll (c)</u>	<u>((b-a)/c)</u>
6/30/2006	\$ —	18,310,257	18,310,257	—%	\$ 30,688,424	59.7%

See accompanying independent auditors' report.



KPMG LLP
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Providence, RI 02903

**Auditors' Report on Internal Control over Financial Reporting and on
Compliance and Other Matters Based on an Audit of Financial Statements
Performed in Accordance with *Government Auditing Standards***

The Board of Governors for Higher Education
State of Rhode Island and Providence Plantations:

We have audited the financial statements of the business-type activities and the discretely presented component unit of Rhode Island College (the College) (a component unit of the State of Rhode Island and Providence Plantations) as of and for the year ended June 30, 2008, which collectively comprise the College's basic financial statements, and have issued our report thereon dated November 26, 2008. Our audit report was modified to include a reference to other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Other auditors audited the financial statements of the Rhode Island College Foundation, as described in our report on the College's financial statements.

This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the College's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the College's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the College's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.



Compliance and Other Matters

As part of obtaining reasonable assurance about whether the College's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Board of Governors for Higher Education, management, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

November 26, 2008