



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

Financial Statements

June 30, 2006 and 2005

(With Independent Auditors' Report Thereon)

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

Financial Statements
June 30, 2006 and 2005

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KPMG LLP
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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, 2006 and 2005, 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. An audit also includes 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, 2006 and 2005, 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 1, 2006 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 on the 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) is not a required part of the financial statements but is 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

September 1, 2006

RHODE ISLAND COLLEGE

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

Management's Discussion and Analysis

June 30, 2006

(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, 2006 and the results of operations for the year then ended, with selected comparative information for the years ended June 30, 2005 and 2004. 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. The College has undergone rapid expansion at the undergraduate and graduate levels in recent decades. 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.

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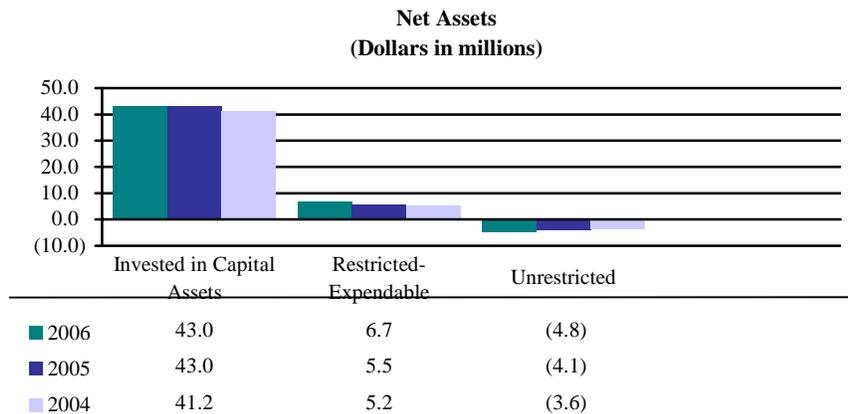
Management’s Discussion and Analysis

June 30, 2006

(Unaudited)

Financial Highlights

The College’s financial position remained strong as of June 30, 2006. At June 30, 2006, the College’s assets of \$87.7 million exceeded its liabilities of \$42.8 million by \$44.9 million, an increase over the prior year of \$0.5 million. At June 30, 2005, the College’s assets of \$80.7 million exceeded its liabilities of \$36.3 million by \$44.4 million, an increase over the prior year of \$1.6 million. The resulting net assets are summarized into the following categories (in millions) for the fiscal years ended June 30, 2006, 2005, and 2004:



The restricted expendable net assets may be expended only for the purposes authorized by the donor or grantor. The negative balance in unrestricted assets is primarily the result of liabilities for employee-related costs funded on a cash basis by the State of Rhode Island that are recognized in the period incurred by the College.

Fiscal year 2006 operating revenues increased by 6.1%, or \$3.6 million. Expenses increased by 4.9%, or \$5.2 million. Fiscal year 2005 operating revenues increased by 8.8%, or \$4.8 million. Expenses increased by 5.4%, or \$5.4 million.

RHODE ISLAND COLLEGE

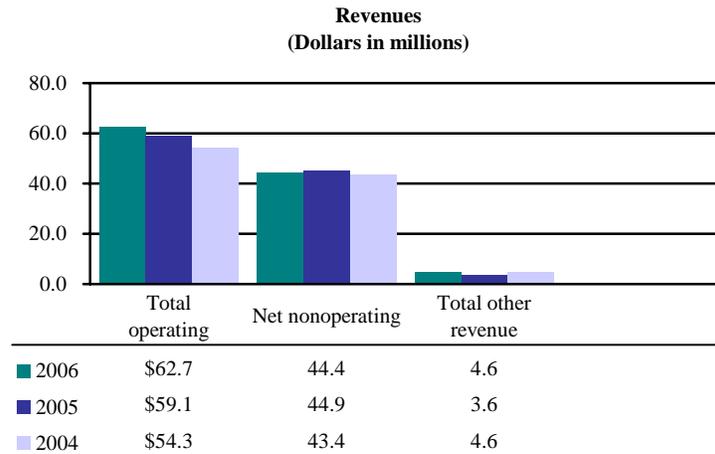
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Management’s Discussion and Analysis

June 30, 2006

(Unaudited)

The following chart provides a graphical breakdown of total revenues by category for the fiscal years ending June 30, 2006, 2005 and 2004:



Cash flow continued to be adequate for operations with a cash balance of \$20.6 million at June 30, 2006, an increase of \$7.8 million from June 30, 2005. The cash balance of \$12.8 million at June 30, 2005 was a decrease of \$3.6 million from June 30, 2004.

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.

RHODE ISLAND COLLEGE

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

Management's Discussion and Analysis

June 30, 2006

(Unaudited)

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.

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 14 to 16 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 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 17 to 33 of this report.

RHODE ISLAND COLLEGE

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Management's Discussion and Analysis

June 30, 2006

(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 \$44.9 million at the close of fiscal year 2006, an increase of \$0.5 million over fiscal year 2005, and assets exceeded liabilities by \$44.4 million at the close of fiscal year 2005, an increase of \$1.6 million over fiscal year 2004, as shown in the chart below:

Condensed Statements of Net Assets

(Dollars in millions)

	<u>2006</u>	<u>2005</u>	<u>2004</u>
Assets:			
Current assets	\$ 21.2	14.7	10.9
Noncurrent assets	66.5	66.0	66.8
Total assets	<u>\$ 87.7</u>	<u>80.7</u>	<u>77.7</u>
Liabilities:			
Current liabilities	\$ 13.0	16.0	13.8
Noncurrent liabilities	29.8	20.3	21.1
Total liabilities	<u>\$ 42.8</u>	<u>36.3</u>	<u>34.9</u>
Net assets (deficit):			
Invested in capital assets, net of related debt	\$ 43.0	43.0	41.2
Restricted:			
Expendable	6.7	5.5	5.2
Unrestricted	(4.8)	(4.1)	(3.6)
Total net assets	<u>\$ 44.9</u>	<u>44.4</u>	<u>42.8</u>

The largest portion of the College's net assets, \$43.0 million in fiscal year 2006 (\$43.0 million in fiscal year 2005), 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.

Borrowings by the State are not reflected in these financial statements. 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.

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The liabilities-to-assets ratio was 49% in fiscal year 2006 and 45% in fiscal year 2005. Bonds, notes and leases payable at June 30, 2006 of \$14.5 million, accounts payable of \$4.2 million, and compensated absences of \$5.7 million are the College's largest liabilities (\$14.8 million, \$7.5 million, and \$5.3 million, respectively, in fiscal year 2005).

Condensed Revenues, Expenses and Changes in Net Assets

Years ended June 30, 2006, 2005, and 2004

(Dollars in millions)

	<u>2006</u>	<u>2005</u>	<u>2004</u>
Operating revenues:			
Tuition and fees	\$ 40.2	36.8	33.3
Auxiliary enterprises	12.9	12.3	11.4
Less scholarship allowances	(7.6)	(7.1)	(6.6)
Grants, contracts, and other	17.2	17.1	16.2
Total operating revenues	<u>62.7</u>	<u>59.1</u>	<u>54.3</u>
Operating expenses:			
Salaries and benefits	81.7	77.2	73.9
Scholarships, grants, and contracts	4.5	4.9	4.7
Utilities	3.4	2.8	2.5
Other expenses	17.6	16.2	14.4
Depreciation and amortization	4.0	4.9	5.1
Total operating expenses	<u>111.2</u>	<u>106.0</u>	<u>100.6</u>
Net operating loss	<u>(48.5)</u>	<u>(46.9)</u>	<u>(46.3)</u>
Nonoperating revenues (expenses):			
State appropriations	44.1	43.9	43.1
Other nonoperating revenues, net	0.3	1.0	0.3
Net nonoperating revenues	<u>44.4</u>	<u>44.9</u>	<u>43.4</u>
Loss before other revenues, expenses, gains, or losses	<u>(4.1)</u>	<u>(2.0)</u>	<u>(2.9)</u>
Capital appropriations	4.0	2.8	3.8
Capital gifts and grants	0.6	0.8	0.8
Total other revenues	<u>4.6</u>	<u>3.6</u>	<u>4.6</u>
Increase in net assets	<u>\$ 0.5</u>	<u>1.6</u>	<u>1.7</u>

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Operating Revenues

Total operating revenues for fiscal year 2006 were \$62.7 million, an increase of \$3.6 million from the prior year. Total operating revenues for fiscal year 2005 were \$59.1 million, an increase of \$4.8 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 2006 by an average of 7.7% for in-state and 7.9% for out-of-state, along with an increased enrollment of 1.3%, resulted in an increase of \$3.4 million. Student tuition and fees were raised by an average of 8.6% for in-state and 9.0% for out-of-state, along with a decreased enrollment of 0.1%, resulted in an increase of \$3.5 million in fiscal year 2005.
- Scholarship allowances (a contra-revenue) increased 7.0% or \$0.5 million in 2006, and 7.6% or \$0.5 million in 2005, respectively, than the previous year.
- An increase of 0.6% or \$0.1 million (5.6% or \$0.9 million in fiscal year 2005) in federal, state, local and private grants and contracts.

The following summary shows major grant and contract expenses, including indirect cost charges, for the fiscal years ending June 30, 2006, 2005 and 2004 (\$ in thousands):

<u>Agency</u>	<u>Grant</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>
RI Department of Education	RI Technical Assistance Project	\$ 899	1,208	1,407
RI Department of Human Services	Case Management Programs	148	338	257
RI Department of Children, Families	RI Child Welfare Institute	680	840	652
US Department of Education	Upward Bound	609	599	587
US Department of Education	Student Support Services	378	361	347
US Department of Health and Human Services	University Center on Developmental Disabilities	439	426	413
RI Department of Education	Vision Services	893	536	—
RI Department of Education	Surrogate Parent	422	394	318
RI Department of Education	RI Statewide Improvement Grant	794	800	149
University of Rhode Island	INBRE	331	150	216
Workforce Partnership of Greater RI	W.I.A. – TIHEL	194	37	59
US Department of Health and Human Services	P.N.S. – Family Support – 360	258	102	—

Operating Expenses

Fiscal year 2006 operating expenses totaled \$111.2 million, an increase of \$5.2 million from the prior year. Fiscal year 2005 operating expenses totaled \$106.0 million, an increase of \$5.4 million from the prior year. Of this total, \$60.7 million or 55% (\$56.0 million or 53% in 2005) was used for instruction, academic support,

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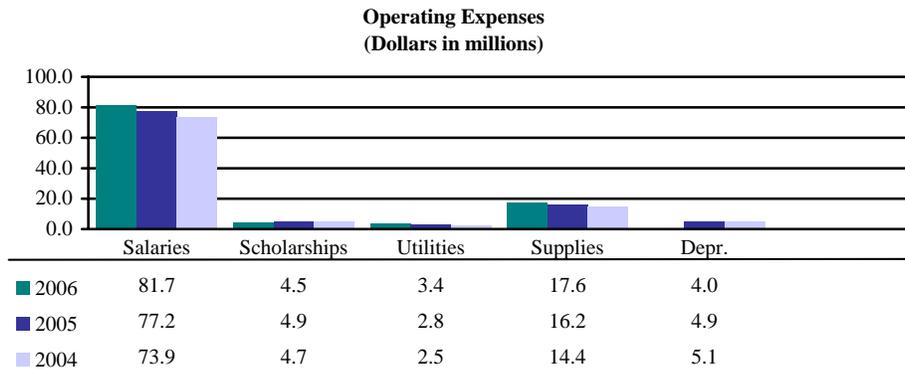
June 30, 2006

(Unaudited)

student support and scholarships. Depreciation and amortization expense totaled \$4.0 million in fiscal year 2006 and \$4.9 million in fiscal year 2005. Significant changes in operating expenses resulted from:

- Depreciation and amortization expenses of \$4.0 and \$4.9 million were \$0.9 and \$0.2 million lower in fiscal years 2006 and 2005, respectively, than the previous years.
- Supplies and other services of \$17.6 and \$16.2 million increased \$1.4 million and \$1.8 million, respectively, from the previous years.
- Scholarships of \$4.5 million in 2006 and \$4.9 million in 2005 decreased \$0.4 and increased \$0.2 million, respectively, from the previous years. Offsetting the decrease in scholarships in fiscal 2006, were scholarship allowances (a contra-revenue) increasing \$0.5 million.
- Utility expenses of \$3.4 million and \$2.8 million increased \$0.6 million and \$0.3 million in fiscal years 2006 and 2005, respectively, than the previous years.
- Personnel related expenses increased \$4.5 million.

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



Nonoperating Revenues and Expenses

Net nonoperating revenues for fiscal years 2006 and 2005 are \$44.4 and \$44.9 million, respectively, consisting of the state appropriations, gifts, and net investment earnings. This represents a decrease of \$0.5 and an increase of \$1.5 million over the prior years, respectively.

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Other

Capital appropriations of \$4.0 and \$2.8 million in fiscal years 2006 and 2005, respectively, represent RI 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.

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 2008-2012 plan for the College totals \$82 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 2006, the College expended \$3.7 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. When complete, the new residence hall will be 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 projected cost of this facility is \$30.0 million. In fiscal year 2006, the College recorded \$1.9 million in construction in progress for this project.

Capital Assets

At June 30, 2006, the College had \$57.5 million invested in capital assets, net of accumulated depreciation of \$65.3 million. Depreciation charges totaled \$4.0 million for the current fiscal year, a decrease of \$0.9 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)

	<u>2006</u>	<u>2005</u>	<u>2004</u>
Land and improvements	\$ 4.4	3.5	3.1
Construction in progress	3.0	7.2	5.8
Buildings and improvements	45.8	42.1	41.4
Furniture, fixtures, and equipment	4.3	5.0	6.2
Total	<u>\$ 57.5</u>	<u>57.8</u>	<u>56.5</u>

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Management's Discussion and Analysis

June 30, 2006

(Unaudited)

Major capital additions this year included:

- Parking Lot "H" and "T" completed improvements of \$0.8 million
- Building renovations completed on Alger Hall at a cost of \$5.2 million
- Completed improvements to Whipple of \$0.6 million
- Completed improvements to Roberts Hall to date \$0.3 million
- Completed improvements to Gaige Hall to date \$0.2 million
- Completed improvements to Adams Library to date \$0.1 million
- Improvements to Soccer Field of \$0.3 million
- Renovations (construction in progress) to Rhode Island State Home and School to date \$0.1 million
- Improvements (construction in progress) to Clarke Science to date \$0.1 million
- Upgrade of generator systems at residence halls (construction in progress) to date \$0.3 million
- Improvements (construction in progress) to residential housing, Browne to date \$0.1 million
- Continued improvements to residential housing, Weber, \$0.4 million

Debt

At June 30, 2006 and 2005, the College had \$14.5 and \$14.8 million in debt outstanding, a decrease of \$0.3 and a decrease of \$0.6 million from the prior years, respectively. The table below summarizes the types of debt instruments:

Summary Schedule of Debt

June 30, 2006, 2005, and 2004

(Dollars in millions)

	2006	2005	2004
Capital lease obligations	\$ 0.2	0.2	0.2
General obligation (note payable)	2.0	2.1	2.1
Revenue bonds	12.3	12.5	13.1
Total	\$ 14.5	14.8	15.4

Additions to debt and repayments made during the year were \$3.5 million and \$3.8 million, respectively.

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

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bonds are rated by Moody's at Aaa and by Standard and Poor's at AAA. 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, increased from 5.0% in June of 2005 to 5.5% in June of 2006, according to the U.S. Bureau of Labor Statistics. This compares to a decrease from 5.0% to 4.6%, respectively, on a national level. Rhode Island was one of only four states to record an increased rate of unemployment during this period.

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.

Rhode Island faced a state budget deficit in fiscal year 2006 and, as part of state-wide program to balance the budget reduced the annual state appropriation to the College by \$0.9 million at mid-year. The state projects a significant budget shortfall in fiscal year 2007 and has proposed reductions in the state appropriation that will result in an operating shortfall of \$3.1 million for the College.

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

- Fiscal year 2006 tuition and fees were increased by 7.7% for in-state students, 7.9% for out-of-state students, 7.5% for in-state graduate students, and 6.3% for out-of-state graduate students.
- Fiscal year 2007 tuition and fees were increased by 6% for in-state students, 7.5% for out-of-state students, and 7.5% for all graduate students.
- All discretionary spending was closely reviewed by senior management.

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 2005-2006, the College ranked third lowest in tuition and fees in its ten member regional peer group.

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, 600 Mount Pleasant Avenue, Providence, Rhode Island 02908.

RHODE ISLAND COLLEGE
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Statements of Net Assets

June 30, 2006 and 2005

Assets	2006 Rhode Island College	2005 Rhode Island College	2006 Rhode Island College Foundation	2005 Rhode Island College Foundation
Current assets:				
Cash and cash equivalents (note 2)	\$ 7,491,335	589,975	86,957	41,432
Cash held by State Treasurer (notes 3 and 7)	9,706,912	9,865,065	—	—
Accounts receivable, net (note 4)	3,572,423	3,775,489	103,565	26,556
Inventory and other current assets	477,532	498,761	7,126	2,507
Current portion of pledges receivable	—	—	2,279,363	302,490
Total current assets	<u>21,248,202</u>	<u>14,729,290</u>	<u>2,477,011</u>	<u>372,985</u>
Noncurrent assets:				
Restricted cash and cash equivalents (note 2)	3,365,380	2,351,140	—	—
Deposits with bond trustee – restricted	720,816	776,564	—	—
State capital funds	980,877	1,051,387	—	—
Pledges receivable	—	—	372,945	261,832
Deposits	—	—	3,000	3,200
Investments (note 2)	—	—	14,330,903	11,940,448
Loans receivable, net (note 5)	3,893,350	4,084,696	—	—
Restricted asset	—	—	1,348,490	1,120,932
Capital assets, net of accumulated depreciation (note 6)	57,474,198	57,753,857	1,921	5,838
Total noncurrent assets	<u>66,434,621</u>	<u>66,017,644</u>	<u>16,057,259</u>	<u>13,332,250</u>
Total assets	<u>\$ 87,682,823</u>	<u>80,746,934</u>	<u>18,534,270</u>	<u>13,705,235</u>
Liabilities				
Current liabilities:				
Accounts payable and accrued liabilities (note 3)	\$ 4,210,930	7,459,981	69,778	107,574
Compensated absences (note 7)	3,161,652	3,003,831	—	—
Students' deposits and unearned revenues	2,212,731	2,576,903	—	—
Funds held for others	2,859,940	2,333,100	350,239	342,265
Current portion of capital lease obligation (note 7)	51,139	46,294	—	—
Current portion of bonds and notes payable (note 7)	505,874	582,888	1,262	3,809
Current portion of annuity payments payable	—	—	46,964	61,852
Total current liabilities	<u>13,002,266</u>	<u>16,002,997</u>	<u>468,243</u>	<u>515,500</u>
Noncurrent liabilities:				
Compensated absences (note 7)	2,556,050	2,303,438	—	—
Capital lease obligations (note 7)	97,405	148,544	—	—
Bonds and notes payable (note 7)	13,827,176	14,016,752	—	941
Due to State of Rhode Island (note 7)	9,447,000	—	—	—
Annuity payable	—	—	258,539	312,545
Grant refundable (note 8)	3,859,782	3,862,934	—	—
Total noncurrent liabilities	<u>29,787,413</u>	<u>20,331,668</u>	<u>258,539</u>	<u>313,486</u>
Total liabilities	<u>\$ 42,789,679</u>	<u>36,334,665</u>	<u>726,782</u>	<u>828,986</u>
Net Assets				
Invested in capital assets, net of related debt	\$ 42,992,602	42,959,379	659	1,088
Restricted:				
Expendable (note 9)	6,702,194	5,560,673	2,507,105	2,035,146
Nonexpendable	—	—	13,144,621	8,536,183
Unrestricted (deficit) (note 10)	(4,801,652)	(4,107,783)	2,155,106	2,303,832
Contingencies (note 11)	—	—	—	—
Total net assets	<u>\$ 44,893,144</u>	<u>44,412,269</u>	<u>17,807,491</u>	<u>12,876,249</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, 2006 and 2005

	2006	2005	2006	2005
	Rhode Island	Rhode Island	Rhode Island	Rhode Island
	College	College	College	College
	College	College	Foundation	Foundation
Operating revenues:				
Tuition and fees	\$ 40,254,215	36,828,384	—	—
Auxiliary enterprises	12,851,544	12,311,852	—	—
Less scholarship allowances	(7,557,146)	(7,083,681)	—	—
Net student fees	45,548,613	42,056,555	—	—
Federal, State, local, and private grants and contracts	14,379,196	14,037,817	—	—
Sales and services of educational departments	2,781,388	3,017,811	—	—
Total operating revenues	62,709,197	59,112,183	—	—
Operating expenses (note 12):				
Instruction	36,818,644	33,291,306	—	—
Research	8,870,799	8,288,387	—	—
Academic support	12,027,271	10,829,183	—	—
Student services	7,387,122	7,021,970	—	—
Scholarships and fellowships	4,486,357	4,906,999	226,907	180,309
Public service	816,426	875,177	—	—
Operation and maintenance of plant	12,447,596	10,344,955	—	—
Institutional support	13,366,586	15,140,297	785,264	779,278
Depreciation and amortization	4,022,254	4,926,631	3,917	3,994
Auxiliary enterprises	10,983,199	10,391,481	—	—
Total operating expenses	111,226,254	106,016,386	1,016,088	963,581
Operating loss	(48,517,057)	(46,904,203)	(1,016,088)	(963,581)
Nonoperating revenues (expenses):				
State appropriations (note 13)	44,069,413	43,892,352	—	—
Gifts	—	—	5,763,106	1,704,415
Payments between the College and Foundation	222,988	266,916	(222,988)	(266,916)
Net investment income	541,507	470,311	958,383	812,390
Interest expense	(872,506)	(686,268)	—	—
Other	396,902	974,738	21,748	40,778
Net nonoperating revenues	44,358,304	44,918,049	6,520,249	2,290,667
Income (loss) income before other revenues, expenses, gains or losses	(4,158,753)	(1,986,154)	5,504,161	1,327,086
Capital appropriations (note 13)	4,025,270	2,814,558	—	—
Capital gifts and grants	41,439	379,914	—	—
Capital gifts from Foundation	572,919	398,032	(572,919)	(398,032)
Increase in net assets	480,875	1,606,350	4,931,242	929,054
Net assets, beginning of year	44,412,269	42,805,919	12,876,249	11,947,195
Net assets, end of year	\$ 44,893,144	44,412,269	17,807,491	12,876,249

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, 2006 and 2005

	2006 Rhode Island College	2005 Rhode Island College
Cash flows from operating activities:		
Tuition, residence, dining and other student fees	\$ 45,653,067	42,268,678
Grants and contracts	14,077,444	13,801,224
Payments to suppliers	(21,323,737)	(19,464,835)
Payments to employees	(84,429,290)	(75,542,162)
Payments for scholarships, fellowships and sponsored programs	(4,486,357)	(4,907,000)
Loans issued to students	(607,654)	(829,399)
Collection of loans to students	799,000	938,974
Other receipts	3,102,934	5,375,803
Net cash used by operating activities	(47,214,593)	(38,358,717)
Cash flows from noncapital financing activities:		
State appropriations	44,069,413	43,892,352
Funds held for others	526,840	(128,380)
Noncapital gifts and grants	619,890	1,241,654
Net cash provided by noncapital and related financing activities	45,216,143	45,005,626
Cash flows from capital and related financing activities:		
Capital appropriations	3,531,308	2,814,558
Proceeds from capital debt	4,025,270	16,628
Due to state	9,447,000	—
Capital gifts and grants	614,358	777,946
Purchases of capital assets	(3,742,594)	(6,131,845)
Principal paid on capital debt and leases	(3,844,194)	(586,824)
Interest paid on capital debt and leases	(872,506)	(686,268)
Deposits with trustee	55,748	250,984
Net cash (used by) capital and related financing activities	9,214,390	(3,544,821)
Cash flows from investing activities:		
Interest on investments	541,507	470,311
Net cash provided by investing activities	541,507	470,311
Net increase in cash	7,757,447	3,572,399
Cash and cash equivalents – beginning of year	12,806,180	9,233,781
Cash and cash equivalents – end of year	\$ 20,563,627	12,806,180
Reconciliation of net operating loss to net cash used by operating activities:		
Operating loss	\$ (48,517,057)	(46,904,203)
Adjustments to reconcile net loss to net cash used by operating activities:		
Depreciation and amortization	4,022,254	4,926,631
Changes in assets and liabilities:		
Accounts receivable	203,066	(1,084,027)
Inventory and other current assets	21,229	(19,306)
Loans receivable	191,346	109,579
Funds on deposit with the State	70,510	2,471,015
Accounts payable and accrued liabilities	(3,249,050)	1,030,687
Compensated absences	410,433	142,539
Students' deposits and unearned revenues	(364,172)	969,082
Grants refundable	(3,152)	(714)
Net cash used by operating activities	\$ (47,214,593)	(38,358,717)

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, 2006 and 2005

(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 articulation 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. The Board of Governor's 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 accounting principles generally accepted in the United States of America, 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, 2006 and 2005

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, 2006 and 2005, the Foundation distributed \$795,907 and \$664,948, 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

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

Notes to Financial Statements

June 30, 2006 and 2005

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, 2006 and 2005

(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 sixteen participants based upon their number of lives (eligible employees). All employees share in healthcare costs. Employee co-pays range from 6% to 11% of healthcare premiums for non-classified 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 2006 and 2005 health premiums amounted to \$9,300,000 and \$9,100,000, respectively. Employee contributions for 2006 were \$577,000.

(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 2006 and 2005 was 3.8% and 4.1%, respectively. The assessed fringe benefit cost for the College was \$1,700,000 for both fiscal years 2006 and 2005.

(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 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

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Notes to Financial Statements

June 30, 2006 and 2005

(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 \$350 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.

(2) Cash, Cash Equivalents, and Investments

(a) Cash and Cash Equivalents

At June 30, 2006 and 2005, the carrying amount of the College's cash deposits was \$10,856,715 and \$2,941,115, and the bank balance was \$12,072,008 and \$4,577,733, 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.

In addition, the College has \$9,447,000 on deposit with the State with respect to issuance of bonds on behalf of the College.

Of the bank balance, \$193,353 was covered by federal depository insurance and \$7,561,150 was collateralized with securities held in the College's name by the pledging financial institution. The remaining amount, \$4,317,505 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

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

Notes to Financial Statements

June 30, 2006 and 2005

addition, the three financial institutions doing business with the College exceed the minimum capital standards prescribed by their federal regulator.

The College's policy is in accordance with Chapter 35-10.1 of the Rhode Island General Laws dealing with the Public Finance 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.

The June 30, 2006 and 2005 investment portfolio concentrations are as follows:

	Foundation 2006	
	Amount	Percentage
Common stocks	\$ 8,968,269	63%
Government securities	4,372,583	30
Direct financing lease	153,852	1
Cash equivalents	836,199	6
	<u>\$ 14,330,903</u>	<u>100%</u>

RHODE ISLAND COLLEGE

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

Notes to Financial Statements

June 30, 2006 and 2005

	Foundation 2005	
	<u>Amount</u>	<u>Percentage</u>
Common stocks	\$ 7,532,473	63%
Government securities	3,416,890	28
Direct financing lease	198,489	2
Cash equivalents	792,596	7
	<u>\$ 11,940,448</u>	<u>100%</u>

(c) Restricted Cash

Restricted cash includes the following at June 30:

	<u>2006</u>	<u>2005</u>
Grant Fund	\$ 232,889	133,387
Loan Fund	614,564	511,963
Restricted Auxiliary	2,517,927	1,705,790
	<u>\$ 3,365,380</u>	<u>2,351,140</u>

(3) Cash Held by State Treasurer

Accounts payable and accrued salaries to be funded from state-appropriated funds totaled \$259,912 and \$9,865,065 at June 30, 2006 and 2005, 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 \$9,447,000 on deposit with the State with respect to issuance of bonds on behalf of the College at June 30, 2006.

(4) Accounts Receivable

Accounts receivable include the following at June 30:

	<u>2006</u>	<u>2005</u>
Student accounts receivable	\$ 1,924,964	2,194,167
Grants receivable	1,792,211	1,616,379
Other receivables	893,807	1,024,979
	<u>4,610,982</u>	<u>4,835,525</u>
Less allowance for doubtful accounts	<u>(1,038,559)</u>	<u>(1,060,036)</u>
	<u>\$ 3,572,423</u>	<u>3,775,489</u>

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

RHODE ISLAND COLLEGE

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

Notes to Financial Statements

June 30, 2006 and 2005

(5) Loans Receivable

Loans receivable include the following at June 30:

	2006	2005
Perkins loans receivable	\$ 4,845,992	4,995,341
Nursing loans receivable	87,757	91,337
	4,933,749	5,086,678
Less allowance for doubtful accounts	(1,040,399)	(1,001,982)
	\$ 3,893,350	4,084,696

(6) Capital Assets

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

	2006					
	Estimated lives (in years)	Beginning balance	Additions	Retirements	Reclassifications	Ending balance
Capital assets not being depreciated:						
Construction in progress	—	\$ 7,201,595	2,642,169	—	(6,874,400)	2,969,364
Land	—	1,630,968	—	—	—	1,630,968
Total not being depreciated		8,832,563	2,642,169	—	(6,874,400)	4,600,332
Capital assets being depreciated:						
Land improvements	15 – 25	4,405,218	334,701	—	753,624	5,493,543
Buildings, including improvements	10 – 50	88,292,525	379,994	(506,442)	6,120,776	94,286,853
Furnishings and equipment (including cost of capital leases)	5 – 15	18,124,606	385,731	(85,978)	—	18,424,359
Total being depreciated		110,822,349	1,100,426	(592,420)	6,874,400	118,204,755
Less accumulated depreciation:						
Land improvements		2,498,855	246,690	—	—	2,745,545
Buildings, including improvements		46,232,578	2,788,467	(506,442)	—	48,514,603
Furnishings and equipment		13,169,622	987,097	(85,978)	—	14,070,741
Total accumulated depreciation		61,901,055	4,022,254	(592,420)	—	65,330,889
Capital assets, net		\$ 57,753,857	(279,659)	—	—	57,474,198

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

Notes to Financial Statements

June 30, 2006 and 2005

2005						
	Estimated lives (in years)	Beginning balance	Additions	Retirements	Reclassifications	Ending balance
Capital assets not being depreciated:						
Construction in progress	—	\$ 5,825,282	5,002,206	—	(3,625,893)	7,201,595
Land	—	<u>1,630,968</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>1,630,968</u>
Total not being depreciated		<u>7,456,250</u>	<u>5,002,206</u>	<u>—</u>	<u>(3,625,893)</u>	<u>8,832,563</u>
Capital assets being depreciated:						
Land improvements	15-25	3,808,413	398,032	—	198,773	4,405,218
Buildings, including improvements	10-50	84,494,655	464,189	(93,439)	3,427,120	88,292,525
Furnishings and equipment (including cost of capital leases)	5-15	<u>18,068,854</u>	<u>267,418</u>	<u>(211,666)</u>	<u>—</u>	<u>18,124,606</u>
Total being depreciated		<u>106,371,922</u>	<u>1,129,639</u>	<u>(305,105)</u>	<u>3,625,893</u>	<u>110,822,349</u>
Less accumulated depreciation:						
Land improvements		2,309,339	189,516	—	—	2,498,855
Buildings, including improvements		43,092,750	3,233,267	(93,439)	—	46,232,578
Furnishings and equipment		<u>11,877,440</u>	<u>1,503,848</u>	<u>(211,666)</u>	<u>—</u>	<u>13,169,622</u>
Total accumulated depreciation		<u>57,279,529</u>	<u>4,926,631</u>	<u>(305,105)</u>	<u>—</u>	<u>61,901,055</u>
Capital assets, net		<u>\$ 56,548,643</u>	<u>1,205,214</u>	<u>—</u>	<u>—</u>	<u>57,753,857</u>

(7) Long-Term Liabilities

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

2006					
	Beginning balance	Additions	Reductions	Ending balance	Current portion
Leases and bonds payable:					
Lease obligations	\$ 194,838	—	46,294	148,544	51,139
Note payable	2,050,113	—	63,379	1,986,734	66,912
Revenue bonds payable	<u>12,549,527</u>	<u>3,531,309</u>	<u>3,734,521</u>	<u>12,346,315</u>	<u>438,962</u>
Total leases and bonds payable	14,794,478	3,531,309	3,844,194	14,481,593	557,013
Other long-term liabilities:					
Compensated absences	<u>5,307,269</u>	<u>3,656,668</u>	<u>3,246,235</u>	<u>5,717,702</u>	<u>3,161,652</u>
Total long-term liabilities	<u>\$ 20,101,747</u>	<u>7,187,977</u>	<u>7,090,429</u>	<u>20,199,295</u>	<u>3,718,665</u>

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	2005				
	<u>Beginning balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending balance</u>	<u>Current portion</u>
Leases and bonds payable:					
Lease obligations	\$ 236,739	—	41,901	194,838	46,294
Note payable	2,110,144	—	60,031	2,050,113	63,378
Revenue bonds payable	<u>13,017,791</u>	<u>16,628</u>	<u>484,892</u>	<u>12,549,527</u>	<u>519,510</u>
Total leases and bonds payable	15,364,674	16,628	586,824	14,794,478	629,182
Other long-term liabilities:					
Compensated absences	<u>5,164,730</u>	<u>3,117,937</u>	<u>2,975,398</u>	<u>5,307,269</u>	<u>3,003,831</u>
Total long-term liabilities	<u>\$ 20,529,404</u>	<u>3,134,565</u>	<u>3,562,222</u>	<u>20,101,747</u>	<u>3,633,013</u>

Notes and Bonds Payable

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

	June 30	
	<u>2006</u>	<u>2005</u>
3% Student Center Bonds of 1965 payable to the United States Government. The final installment of \$35,000 plus interest was made on October 1, 2005.	\$ —	35,000
3% Dormitory Bonds of 1967 payable to the United States Government. The bonds are due in annual installments of \$40,000, plus interest, through October 1, 2007.	80,000	120,000
6.10% – 7.10% Dormitory Bonds of 1971 payable to the United States Government. The bond's final installment of \$40,000 plus interest is due on August 1, 2006. The Federal Government reimburses the College for approximately one-half of the aggregate interest charge annually averaged over the term of the bond issue.	40,000	95,000
Rhode Island Health and Educational Building Corporation Various Purpose Educational Facilities Issue, Series 1993 B. The bonds, which carry interest rates ranging from 4.60% to 5.60%, are due in varying annual installments from \$23,292 to \$28,397 plus interest, through 2007.	48,222	74,856

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	June 30	
	<u>2006</u>	<u>2005</u>
Rhode Island Health and Educational Building Corporation Higher Education Facility Revenue Bonds, Series 2000 A payable to the United States Government. The bonds carry interest rates ranging from 4.40% – 5.625%. The bonds are due in varying annual installments from \$55,000 – \$230,000, plus interest, through September 15, 2030. These bonds were paid off in fiscal 2005 from the proceeds of the 2005 E issue.	\$ —	3,275,000
Rhode Island Health and Educational Building Corporation Higher Education Facility Revenue Bonds, Series 2003 B payable to the United States Government. This issue refinanced and fully refunded Series 1993 A. The bonds carry interest rates ranging from 4.40% – 5.625%. The bonds are due in varying annual installments from \$229,075 – \$587,125, plus interest, through September 15, 2023.	7,257,399	7,549,041
Rhode Island Health and Educational Building Corporation Higher Education Facility Revenue Bonds, Series 2005 E payable to the United States Government. This issue refinanced and fully refunded Series 2000A. The bonds 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.	3,530,000	—
Rhode Island Health and Educational Building Corporation Higher Education Facility Revenue Bonds, Series 2003 C payable to the United States Government. This issue refinanced and partially refunded Series 1993B. The bonds 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.	1,390,694	1,400,630
United States Department of Education Note Payable used to renovate and restore the Sylvan R. Forman Center. The note carries an interest rate of 5.5% payable in level semi-annual installments of \$87,637 through February 1, 2024.	1,986,734	2,050,113
	<u>\$ 14,333,049</u>	<u>14,599,640</u>

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During 1994, the College obtained a loan from the United States Department of Education in the amount of \$2,561,000. The loan balance of \$1,986,734 bears interest at 5.5% and is payable in semi-annual installments of principal and interest through 2024. The loan proceeds were used to finance the renovation and restoration of the Sylvan R. Forman Center on the East campus.

On July 17, 2003, the Corporation issued the Facility Revenue Refunding Bonds Auxiliary Enterprise Revenue Issue, Series 2003 B Bonds, par amount \$20,785,000 and the Facility Revenue Refunding Bonds Educational and General Revenue Issue, Series 2003 C Bonds, par amount \$13,165,000. The proceeds of these bonds were used to defease the outstanding obligations of the College, URI and CCRI relative to the previous Series A and Series B issues of 1993.

On November 2, 2005, the Rhode Island Health and Educational Building Corporation (the Corporation) issued the Auxiliary Enterprise Revenue Refunding Issue, Series 2005 E Bonds, par amount \$3,530,000. The proceeds of this bond were used to defease the outstanding obligation of the College relative to the previous Series A issue of 2000. The remaining principal on the Series 2000 A issue was \$3,215,000. The additional principal of \$315,000 will be offset by decreased interest expense of \$471,340 realized over the life of the bonds.

The Series 2005 E, 2003 B and 2003 C 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:			
2007	\$ 505,874	627,986	1,133,860
2008	545,444	614,904	1,160,348
2009	540,513	571,755	1,112,268
2010	566,161	553,884	1,120,045
2011	582,040	534,196	1,116,236
2012-2016	3,241,918	2,328,826	5,570,744
2017-2021	4,012,499	1,562,506	5,575,005
2022-2026	3,283,600	533,007	3,816,607
2027-2031	1,055,000	122,737	1,177,737
	<u>\$ 14,333,049</u>	<u>7,449,801</u>	<u>21,782,850</u>

Interest costs for the years ended June 30, 2006 and 2005, were \$872,506 and \$686,268, respectively.

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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 non-cancelable leases at June 30, 2006:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Year ending June 30:			
2007	\$ 51,139	12,552	63,691
2008	56,494	7,198	63,692
2009	40,911	1,549	42,460
	<u>\$ 148,544</u>	<u>21,299</u>	<u>169,843</u>

Related Party Transactions

In November 2005, the voters of Rhode Island authorized the issuance of \$30.0 million in general obligation debt for the construction of a new residence hall at Rhode Island College. Subject to any pledge of housing revenues derived by the Board of Governors for Higher Education from residence halls at Rhode Island College, the College shall to the extent of any available funds, reimburse the state for debt service paid by the state on the bonds issued.

The residence hall is scheduled for occupancy in September 2007 at which time the College will begin 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. Before September 2007, all debt service will be paid by the State.

The College will repay the State for debt service paid on its behalf (two-thirds of the total debt service before September 2007) on a straight line basis amortized over the remaining life of the bond beginning in September 2007.

As of June 30, 2006, the State has issued \$14.1 million of the \$30.0 million authorized debt. The College has recognized \$9.4 million as a liability to the State for its obligation to pay two-thirds of the debt service as a result of these issuances, and has recorded this amount as due to State.

(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

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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>2006</u>	<u>2005</u>
Restricted – expendable:		
Retirement of general long-term debt	\$ 186,599	247,142
Renewal and replacements	2,068,393	1,703,727
College funds	761,306	833,325
Auxiliary enterprises (includes inventories)	1,698,617	1,314,856
Capital project programs	1,987,279	1,461,623
	<u>\$ 6,702,194</u>	<u>5,560,673</u>

(10) Unrestricted Net Assets

Management anticipates that the deficit in unrestricted net assets as of June 30, 2006 and 2005 will be eliminated through future operating and nonoperating revenues, including state appropriation.

(11) 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.

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June 30, 2006 and 2005

(12) Operating Expenses

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

	<u>2006</u>	<u>2005</u>
Compensation and benefits	\$ 81,754,735	77,186,178
Supplies and services	20,962,908	18,996,578
Depreciation and amortization	4,022,254	4,926,631
Scholarships and fellowships	4,486,357	4,906,999
	<u>\$ 111,226,254</u>	<u>106,016,386</u>

(13) State Appropriations

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.

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 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 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 2006 and 2005, the State allocated \$1,650,000 respectively, to the College for asset protection.

State Contributed Capital

In November 2000, the Rhode Island Voters approved the issuance of \$36.9 million General Obligations Bonds to fund improvements to the College, URI, and CCRI. The bonds provide funding until 2008 with \$4.0 million to fund the renovations and upgrades of student residence halls and surrounding landscape at

RHODE ISLAND COLLEGE

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

Notes to Financial Statements

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the College, \$22.0 million to fund the major renovations and upgrades of student residence halls and surrounding landscape at URI and \$10.9 million to fund the construction of a building for the Newport campus of CCRI. During fiscal 2006 the College spent \$529,303.

The College also received \$1,895,967 in funding for a new residence hall. This is more fully explained in *note 7, Related Party Transactions*.

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

	2006	2005
Direct appropriations	\$ 44,069,413	43,892,352
State capital plan funds	1,600,000	2,814,558
State contributed capital	2,425,270	—
	\$ 48,094,683	46,706,910

(14) 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. 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. 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. Total expenditures by the College for such annuity contracts amounted to \$2,676,000 and \$2,630,000 during the years ended June 30, 2006 and 2005, respectively.

In 1998, the Rhode Island Board of Governors for Higher Education established a health care insurance retirement program (medical coverage only), effective July 1, 1998. This health benefit applies to employees who participate in the Rhode Island Board of Governors defined contribution retirement plan noted above. Active employees who are covered by the Board of Governors retiree medical plan contribute 0.25% of their regular salary. To be eligible for coverage the retiree must have worked a minimum of 10 years for the Board of Governors or the College and must be 60 years of age, unless they have 28 years of service. Depending on the years of service and the retiree's age the Board of Governors will pay from 50% to 100% medical insurance premium while the retiree will contribute from 50% to 0%. Employees covered by this program contributed \$74,000 and \$71,000 during fiscal years 2006 and 2005, respectively.

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 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 that is subject to amendment by the General Assembly. 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.

RHODE ISLAND COLLEGE

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Notes to Financial Statements

June 30, 2006 and 2005

The payroll of employees covered by the System was \$12,000,000 and \$11,500,000 for the years ended June 30, 2006 and 2005, respectively. The College's total payroll expense for the years ended June 30, 2006 and 2005 was \$59,960,000 and \$55,660,000, respectively.

All full-time employees of the College who have not obtained at least 10 years of contributory service as of July 1, 2005 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 1.6% 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.

Employer and employee required contributions to the System are established by the State of Rhode Island and are based on percentages established by the State of Rhode Island and are based on percentages of covered employees' gross salaries, which are calculated annually by the fund's actuaries. Covered employees in the System were required to contribute 8.75% of salaries paid, which includes an assessment for post-retirement health plan, while the College was required to pay 14.84% and 11.51% of salaries paid for the years ending June 30, 2006 and 2005, respectively. In addition, the College is required to contribute 2.25% and 1.87% for post-retirement health benefits in 2006 and 2005. Employees contributed \$1,194,000 and \$1,090,000 during the years ended June 30, 2006 and 2005, respectively. The College's contributions to the System for the years ending June 30, 2006, 2005, and 2004 were \$2,018,000, \$1,460,000, and \$1,137,000, respectively, representing 100% of the required contribution for each of the three years. The post-retirement contributions of \$537,000 and \$230,000 were made during fiscal years 2006 and 2005, respectively.



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**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, 2006, which collectively comprise the College's basic financial statements, and have issued our report thereon dated September 1, 2006, which included a reference to the report of the other auditor who audited the discretely presented component unit. 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.

Our consideration of internal control over financial reporting and our tests of compliance with certain provisions of laws, regulations, contracts and grants, and other matters did not include the discretely presented component unit audited by the other auditor referred to in the previous paragraph. The findings, if any, of the other auditor are not included herein.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the College's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

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 and 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

September 1, 2006