

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

FINANCIAL STATEMENTS

JUNE 30, 2012

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

Financial Statements

June 30, 2012 and 2011

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INDEPENDENT AUDITORS' REPORT

To the Board of Governors for Higher Education
State of Rhode Island and Providence Plantations
Providence, Rhode Island

We have audited the accompanying statements of net assets of Rhode Island College (a component unit of the State of Rhode Island and Providence Plantations) (the "College") as of June 30, 2012 and 2011, and the related statements of revenues, expenses and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the College's management. Our responsibility is to express an opinion on these financial statements based on our audits. We did not audit the financial statements of the Rhode Island College Foundation as of June 30, 2012 and 2011 as discussed in Note 1. The financial statements of this component unit was 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 entity not audited by us included in the discretely presented component unit of the College is based solely upon the report of the other auditors.

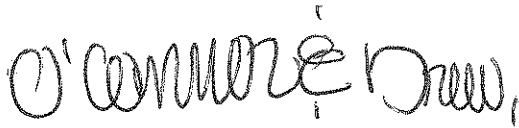
We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes 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 opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Rhode Island College as of June 30, 2012 and 2011 and the results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 30, 2012, on our consideration of Rhode Island College's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. 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.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 19 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

As described in Note 2 of the financial statements, certain funds collected by the College were not on behalf of others and should have been classified as revenue to the College upon receipt. Accordingly, the College restated its financial statements for the year ended June 30, 2011.

A handwritten signature in black ink, appearing to read "O'Connell & Drew". The signature is written in a cursive, somewhat stylized font.

Certified Public Accountants

Braintree, Massachusetts

September 30, 2012

RHODE ISLAND COLLEGE

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

Management's Discussion and Analysis (Unaudited)

June 30, 2012 and 2011

Introduction

The following management discussion and analysis (MD&A) provides management's view of the financial position of Rhode Island College (RIC) as of June 30, 2012 and the results of operations for the year then ended, with selected comparative information for the years ended June 30, 2012 and 2011. The purpose of the MD&A is to assist readers in understanding the accompanying financial statements by providing an objective and understandable analysis of RIC'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 (which consists of highly summarized information and should be read in conjunction with RIC's financial statements and notes thereto that follow this section).

RIC, 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. RIC fulfills its educational mission by offering undergraduate programs in liberal arts and sciences, and in a variety of professional and pre-professional fields. RIC also offers a range of selected graduate programs in arts and sciences, education, and in areas of social, public and community service. RIC 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. RIC 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.

RIC was established in 1854 as the Rhode Island Normal School, focusing on teacher education. Due to diminished state support, RIC 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, RIC was relocated from the downtown location to its current 180-acre campus on the border of Providence and North Providence. In 1959, the mission of RIC 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. RIC now serves approximately 9,000 students in a variety of courses and programs both on and off campus.

RHODE ISLAND COLLEGE
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Management's Discussion and Analysis (Unaudited) - Continued

June 30, 2012 and 2011

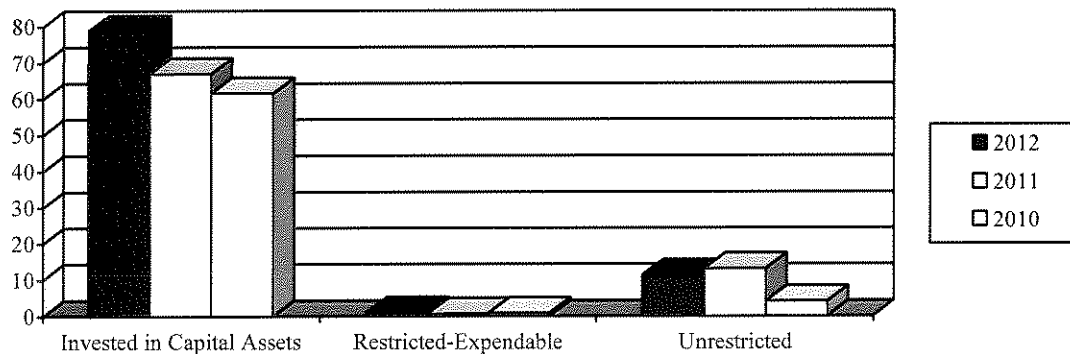
Introduction - Continued

RIC 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 matriculation agreements exist for student transfers within the system. The Board of Governors for Higher Education became the governing body for RIC in 1981.

Financial Highlights

RIC's financial position remained strong as of June 30, 2012. At June 30, 2012, RIC's assets of \$152.0 million exceeded its liabilities of \$60.6 million by \$91.2 million, an increase over the prior year of \$10.4 million. At June 30, 2011, RIC's assets of \$140.5 million exceeded its liabilities of \$59.7 million by \$80.8 million, an increase over the prior year of \$10.8 million.

The resulting net assets are summarized into the following categories (in \$ millions) for the fiscal years ended June 30, 2012, 2011 and 2010:



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.

RHODE ISLAND COLLEGE
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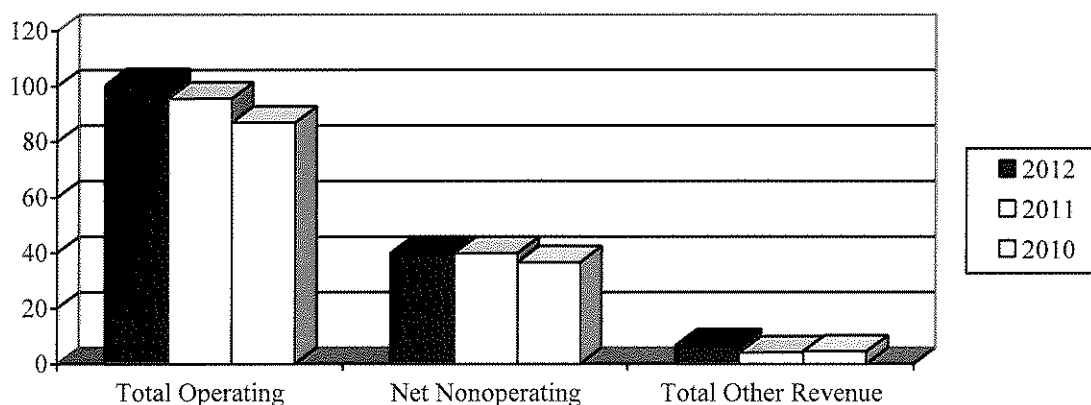
Management's Discussion and Analysis (Unaudited) - Continued

June 30, 2012 and 2011

Financial Highlights - Continued

For fiscal year 2012 operating revenues increased by 5.0 %, or \$4.9 million. Expenses increased by 4.7%, or \$6.2 million. For fiscal year 2011 operating revenues increased by 8.5%, or \$8.6 million. Expenses increased by 1.8%, or \$2.2 million.

The following chart provides a graphical breakdown of total revenues (in \$ millions) by category for the fiscal years ending June 30, 2012, 2011 and 2010:



Cash flow continued to be adequate for operations with a cash balance of \$23.3 million at June 30, 2012 and \$22.4 million at June 30, 2011, an increase of \$0.9 million from the previous year.

Overview of the Financial Statements

The financial statements focus on RIC 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

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

Management's Discussion and Analysis (Unaudited) - Continued

June 30, 2012 and 2011

Overview of the Financial Statements - Continued

Rhode Island College Foundation (the "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 RIC in support of its programs. The Board of the Foundation is self-perpetuating and primarily consists of graduates and friends of RIC. Although RIC 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 RIC by the donors. Because these resources held by the Foundation can only be used by or are for the benefit of RIC, the Foundation is considered a component unit of RIC and is discretely presented in RIC's financial statements.

Management's Discussion and Analysis is required to focus on RIC, not its component unit.

The Financial Statements

The financial statements are designed to provide readers with a broad overview of RIC'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 RIC'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 RIC is improving or deteriorating. Other factors are also relevant to assessing RIC'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 *Statements of Revenues and Expenses and Changes in Net Assets* shows how RIC'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).

RHODE ISLAND COLLEGE

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

Management's Discussion and Analysis (Unaudited) - Continued

June 30, 2012 and 2011

The Financial Statements - Continued

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 20 to 24 of this report.

RIC reports its operations as a business-type activity using the economic measurement focus and full accrual basis of accounting. RIC is a component unit of the State of Rhode Island and Providence Plantations. Therefore, the results of RIC'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 RIC 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 25 to 51 of this report.

RHODE ISLAND COLLEGE

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

Management's Discussion and Analysis (Unaudited) - Continued

June 30, 2012 and 2011

Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of RIC's financial position. In the case of RIC, assets exceeded liabilities by \$91.4 million at the close of fiscal year 2012 and assets exceeded liabilities by \$80.8 million at the close of fiscal year 2011, an increase of \$10.6 million over fiscal year 2010, as shown in the chart below:

Condensed Statement of Net Assets

(Dollars in millions)

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Assets:			
Current assets	\$ 29.7	\$ 29.4	\$ 28.3
Noncurrent assets	<u>122.3</u>	<u>111.1</u>	<u>106.4</u>
Total assets	<u>\$ 152.0</u>	<u>\$ 140.5</u>	<u>\$ 134.7</u>
Liabilities:			
Current liabilities	\$ 19.1	\$ 16.4	\$ 16.9
Noncurrent liabilities	<u>41.5</u>	<u>43.3</u>	<u>47.8</u>
Total liabilities	<u>\$ 60.6</u>	<u>\$ 59.7</u>	<u>\$ 64.7</u>
Net assets:			
Invested in capital assets, net of related debt	\$ 78.9	\$ 67.0	\$ 61.6
Restricted:			
Expendable	1.0	0.7	0.9
Unrestricted	<u>11.5</u>	<u>13.1</u>	<u>7.5</u>
Total net assets	<u>\$ 91.4</u>	<u>\$ 80.8</u>	<u>\$ 70.0</u>

The largest portion of RIC's net assets, \$ 78.9 million in fiscal year 2012 (\$67.0 million in fiscal year 2011), 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. RIC uses these capital assets to provide services to students, faculty, and administration; consequently, these assets are not available for future spending.

RHODE ISLAND COLLEGE

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Management's Discussion and Analysis (Unaudited) - Continued

June 30, 2012 and 2011

Financial Analysis - Continued

Although RIC'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 RIC'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.

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 40% in fiscal year 2012 and 43.0% in fiscal year 2011. Bonds and notes payable at June 30, 2012 of \$21.1 million (\$21.9 million at June 30, 2011) were RIC's largest liabilities.

In the spring of 2008 the College embarked on a feasibility study with the specific intent to comprehensively investigate design and construction opportunities, along with associated cost options, for the renovation of the Rhode Island College Recreation Center. In January of 2010 this in-depth study was submitted to the College for review. The data provided in the feasibility study concluded that a recreation center renovation was necessary in the immediate future. In February 2010 the College issued \$10,280,000 of general revenue bonds to fund the construction through the Rhode Island Higher Education Building Corporation. The Recreation Center renovation was completed for the fall 2012 semester.

RHODE ISLAND COLLEGE

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

Management's Discussion and Analysis (Unaudited) - Continued

June 30, 2012 and 2011

Financial Analysis - Continued

Condensed Statement of Revenues and Expenses

Years ended June 30, 2012, 2011 and 2010

(Dollars in millions)

	2012	2011	2010
Operating revenues:			
Tuition and fees	\$ 64.1	\$ 63.0	\$ 57.6
Auxiliary enterprises	19.3	18.4	18.2
Less scholarship allowances	(19.5)	(18.6)	(16.0)
Grants, contracts, and other	36.6	32.8	28.3
Total operating revenues	100.5	95.6	88.1
Operating expenses:			
Salaries and benefits	95.1	94.2	91.2
Scholarships, grants, and contracts	6.9	6.5	5.8
Utilities	2.8	3.1	3.9
Other expenses	23.2	19.1	20.3
Depreciation and amortization	6.9	6.1	5.5
Total operating expenses	134.9	129.0	126.7
Net operating loss	(34.4)	(33.4)	(38.6)
Nonoperating revenues (expenses):			
State appropriations	38.2	37.6	37.7
Other nonoperating revenues, net	0.1	2.3	(1.1)
Net nonoperating revenues	38.3	39.9	36.6
Loss before other revenues, expenses, gains, or losses	3.9	6.5	(2.0)
Capital appropriations	6.3	3.9	4.2
Capital gifts and grants	0.4	0.3	0.2
Total other revenues	6.7	4.2	4.4
Increase in net assets	\$ 10.6	\$ 10.7	\$ 2.4

RHODE ISLAND COLLEGE

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

Management's Discussion and Analysis (Unaudited) - Continued

June 30, 2012 and 2011

Operating Revenues

Total operating revenues for fiscal year 2012 were \$100.5 million, an increase of \$4.9 million from the prior year. Total operating revenues for fiscal year 2011 were \$95.6 million. The most significant sources of operating revenue for RIC are tuition and fees, grants and contracts, and auxiliary services. Significant changes in operating revenue resulted from:

- The Board of Governors raising fiscal year 2012 tuition and fees increased by 4.0% for in-state student, 4.0% for out-of-state students, 4.7% for in-state graduate students, and 4.5% for out-of-state graduate students.
- Grant, contracts and other revenues increased by \$3.9 million in fiscal year 2012 over 2011 due to increased federal and state grant activity.

RHODE ISLAND COLLEGE

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

Management's Discussion and Analysis (Unaudited) - Continued

June 30, 2012 and 2011

Operating Revenues - Continued

The following summary shows major grant and contract expenses, including indirect cost charges, for the fiscal years ending June 30, 2012, 2011 and 2010 (\$ in thousands):

<u>Agency</u>	<u>Grant/Contract/Program</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>
R.I. Board of Governors for Higher Ed. / R.I. Dept. of Ed.	State Fiscal Stabilization Fund	7,051	2,858	38
R.I. Department of Education	Vision Services	1,255	1,337	1,119
University of Rhode Island	INBRE	792	768	761
R.I. Department of Education	R.I. Technical Assistance Project	721	579	605
R.I. Department of Children, Youth and Families	R.I. Child Welfare Institute	679	609	681
U.S. Department of Education	Upward Bound	616	555	668
U.S. Department of Health and Human Services	University Center on Developmental Disabilities	562	519	571
R.I. Department of Education	Surrogate Parents	543	532	540
R.I. Department of Education	R.I. State Personnel Development	541	583	614
R.I. Department of Children, Youth and Families	Positive Education Partnership	540	585	552
R.I. Department of Human Services	Early Intervention	523	509	490
University of Rhode Island	Project RITES	487	595	399
University of Illinois at Urbana-Champaign	Establishing the Efficacy of the Special Friends Project	207	236	229
National Science Foundation	S-STEM Quahog Cohorts	124	90	56
R.I. Department of Education	Upward Mobility through Training, Employment and Careers	113	88	-
United Way	United Collaboration of Training Resources	109	77	39

RHODE ISLAND COLLEGE
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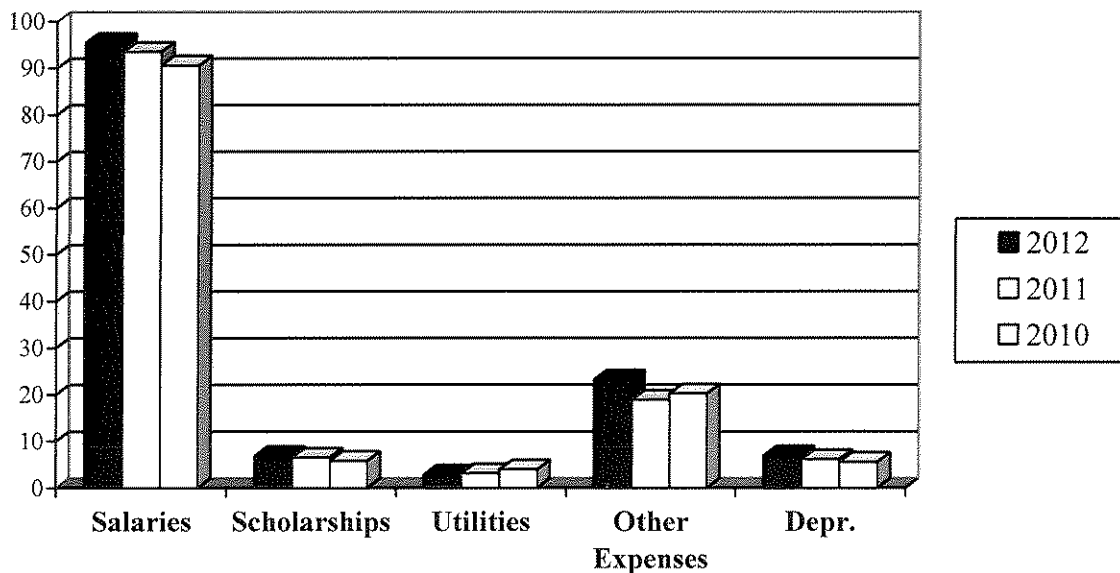
Management's Discussion and Analysis (Unaudited) - Continued

June 30, 2012 and 2011

Operating Expenses

Fiscal year 2012 operating expenses totaled \$134.9 million, an increase of \$5.9 million from the prior year. Fiscal year 2011 operating expenses totaled \$129.0 million, an increase of \$2.3 million from the prior year. Of this total, \$70.1 million or 51.9% (\$69.0 million or 53.5% in 2011) was used for instruction, academic support, student support and scholarships. Depreciation and amortization expense totaled \$6.9 million in fiscal year 2012 and \$6.1 million in fiscal year 2011.

The following chart provides a graphical breakdown of significant operating categories of expenses (in \$ millions) for fiscal years ending June 30, 2012, 2011 and 2010:



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

Notes to the Schedule of Expenditures of Federal Awards

June 30, 2012

Note 1 - **Basis of Presentation**

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal grant activities of Rhode Island College (the "College") (a component unit of the State of Rhode Island and Providence Plantations) and is presented on the accrual basis of accounting.

For purposes of the Schedule, federal awards include all grants, contracts, and similar agreements entered into directly between the College, agencies, departments of the Federal government, and all subawards to the College by nonfederal organizations pursuant to Federal grants, contracts, and similar agreements.

Note 2 - **Federal Direct Student Loans Program**

The College disbursed \$34,286,377 of loans under the Federal Direct Student Loans Program which includes Stafford Subsidized and Unsubsidized Loans and Parents' Loans for Undergraduate Students. It is not practical to determine the balances of loans outstanding to students of the College under this program as of June 30, 2012. The College is only responsible for the performance of certain administrative duties and, accordingly, these loans are not included in the College's financial statements.

Note 3 - **Federal Perkins Loan Program**

During the year ended June 30, 2012, \$577,101 in loans were advanced under the Federal Perkins Loan Program. As of June 30, 2012, loan balances receivable under the Federal Perkins Loan Program was \$5,335,829.

RHODE ISLAND COLLEGE

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

Management's Discussion and Analysis (Unaudited) - Continued

June 30, 2012 and 2011

Capital Asset and Debt Administration - Continued

Capital Assets

At June 30, 2012, RIC had \$116.4 million invested in capital assets, net of accumulated depreciation. At June 30, 2011, RIC had \$96.9 million invested in capital assets, net of accumulated depreciation. Included in RIC's capital assets is \$3.6 million in construction in progress. Depreciation charges totaled \$6.9 million for the current fiscal year, an increase of \$.8 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>2012</u>	<u>2011</u>	<u>2010</u>
Land and improvements	\$ 9.4	\$ 6.0	\$ 6.5
Construction in progress	3.6	4.3	2.2
Buildings and improvements	97.4	80.9	77.8
Furniture, fixtures, and equipment	6.0	5.7	5.5
Total	<u>\$ 116.4</u>	<u>\$ 96.9</u>	<u>\$ 92.0</u>

Major capital additions this year included:

Recreation Center Renovation	\$ 12,978,531.69
Federal Stabilization Funds - Fire Safety	9,166,075.08
Clark Science - Chiller system	502,774.36
Physical Plant - Fire Alarm & Sprinkler	351,254.00
Building #2 Renovation	363,589.09
Clark Science - Microscope Room	319,558.00

RHODE ISLAND COLLEGE

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Management's Discussion and Analysis (Unaudited) - Continued

June 30, 2012 and 2011

Debt

At June 30, 2012 and 2011, RIC had \$21.1 million and \$21.9 million in debt outstanding, a decrease of \$.8 million. The table below summarizes the types of debt instruments:

	<u>June 30</u>		
	(Dollars in millions)		
	<u>2012</u>	<u>2011</u>	<u>2010</u>
General obligation (Note Payable)	\$ 1.5	\$ 1.6	\$ 1.7
Revenue bonds	<u>19.6</u>	<u>20.3</u>	<u>20.8</u>
Total	<u>\$ 21.1</u>	<u>\$ 21.9</u>	<u>\$ 22.5</u>

Debt repayments made during the year were \$0.8 million.

In February 2010 the college issued \$10,280,000 of general revenue bonds to fund the renovations of the recreation center through the Rhode Island Higher Education Building Corporation.

In addition at June 30, 2012, RIC had a \$16.4 million obligation to repay the State for funds advanced to construct the new residence hall. This amount will be repaid over a fifteen-year period with interest.

RIC 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 and Rhode Island general obligation bonds are rated by Moody's and by Standard and Poor. More detailed information about RIC's long-term liabilities are presented in Note 8 of the financial statements.

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Management's Discussion and Analysis (Unaudited) - Continued

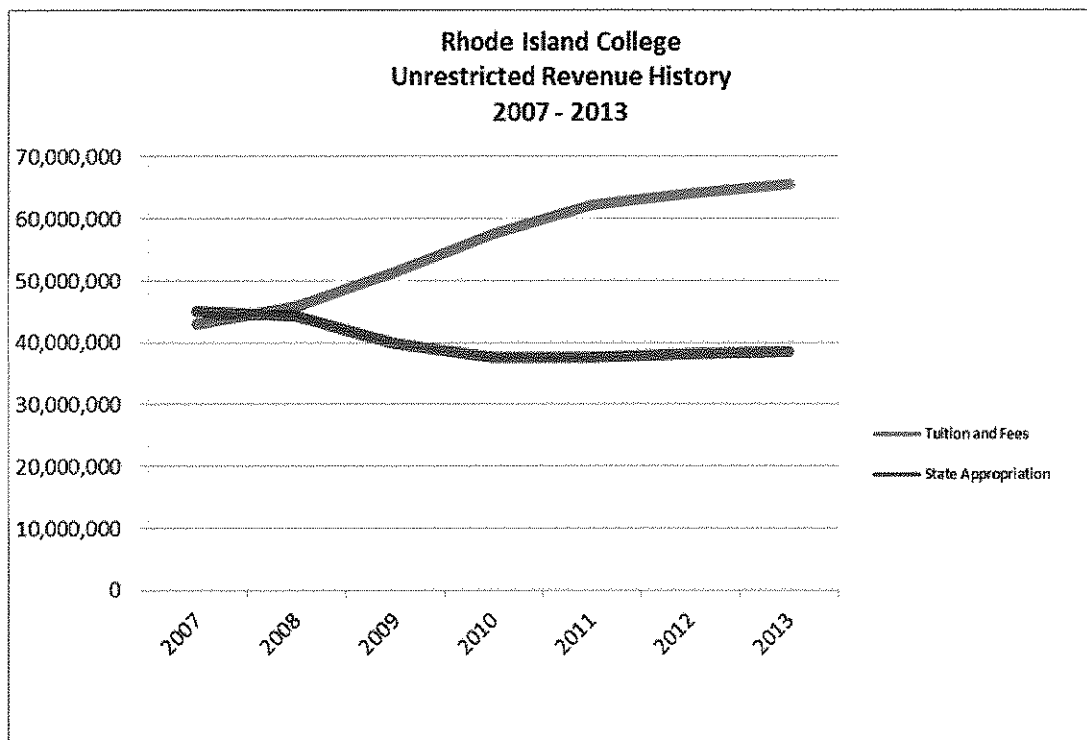
June 30, 2012 and 2011

Economic Factors that will Affect the Future

The seasonally adjusted unemployment rate for the State of Rhode Island, from which RIC primarily draws students, was 10.9% in June of 2012 and 10.8% in June of 2011 which was an decrease compared to a 12.0% in June of 2010, according to the U.S. Bureau of Labor Statistics. This change compares to a 8.2% and a 9.1%, 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. RIC cannot predict the extent to which enrollment may vary in the current environment.

RIC submitted a balanced budget for fiscal year 2013. The State projects a potential budget shortfall in fiscal year 2013. The 2013 appropriation of \$38,609,975 represents a \$370,368 increase over 2012 and provides less than 40% of RIC's unrestricted funding.



RHODE ISLAND COLLEGE

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Management's Discussion and Analysis (Unaudited) - Continued

June 30, 2012 and 2011

Economic Factors that will Affect the Future - Continued

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

- Fiscal year 2013 tuition and fees were increased by 4.5% for in-state student, 4.2% for out-of-state students, 4.5% for in-state graduate students, and 4.0% for out-of-state graduate students.
- RIC submitted a request to the Board of Governors for Higher Education for one fee increase for fiscal year 2014. The tuition and fee increases for fiscal year 2014 is less than 1.0% for both in-state and out-of-state students, 0.0% for in-state and out-of-state graduate students.
- Despite the reductions in state funding, RIC'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. RIC 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 2012-2013, RIC ranked fourth lowest in tuition and fees in its ten-member peer group.

	In-State Tuition and Fees
BUFFALO STATE (SUNY)	\$6,694
UNIVERSITY OF WISCONSIN-OSHKOSH ¹	\$7,351
FROSTBURG STATE UNIVERSITY ¹	\$7,436
RHODE ISLAND COLLEGE	\$7,598
BRIDGEWATER STATE COLLEGE	\$8,052
SALEM STATE UNIVERSITY	\$8,110
SAGINAW VALLEY STATE UNIVERSITY	\$8,253
CENTRAL CONNECTICUT STATE UNIV	\$8,321
WESTERN CONNECTICUT STATE UNIV	\$8,440
KEAN UNIVERSITY	\$10,601
WILLIAM PATERSON UNIVERSITY	\$11,694

RHODE ISLAND COLLEGE

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Management's Discussion and Analysis (Unaudited) - Continued

June 30, 2012 and 2011

Request for Information

This financial report is designed to provide a general overview of RIC'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
(a Component Unit of the State of Rhode Island and Providence Plantations)

Statements of Net Assets

June 30, 2012 and 2011

	<u>Assets</u>			
	2012 Rhode Island College	2011 Rhode Island College	2012 Rhode Island College Foundation	2011 Rhode Island College Foundation
Current Assets:				
Cash and equivalents (Note 3)	\$ 22,872,996	\$ 20,611,400	\$ 319,721	\$ 169,535
Cash held by State Treasurer (Note 4)	-	1,624,675	-	-
Accounts receivable, net (Note 5)	4,894,316	4,333,817	22,898	95,529
Due from primary government	1,280,706	1,876,275	-	-
Due from related party	-	271,598	-	-
Inventory and other current assets	569,337	652,917	4,257	4,060
Current portion of pledges receivable	-	-	173,316	129,089
Total Current Assets	29,617,355	29,370,682	520,192	398,213
Noncurrent Assets:				
Restricted cash and equivalents (Note 3)	440,714	137,044	-	-
Deposits with bond trustee - restricted	1,415,452	9,818,096	-	-
Pledges receivable	-	-	970,042	68,617
Deposits	-	-	5,050	1,500
Investments (Note 3)	-	-	20,832,504	21,012,779
Loans receivable, net (Note 6)	4,081,029	4,181,898	-	-
Restricted assets	-	-	889,936	785,968
Capital assets, net of accumulated depreciation (Note 7)	116,397,691	96,987,474	16,360	25,022
Total Noncurrent Assets	122,334,886	111,124,512	22,713,892	21,893,886
Total Assets	\$ 151,952,241	\$ 140,495,194	\$ 23,234,084	\$ 22,292,099
	<u>Liabilities and Net Assets</u>			
Current Liabilities:				
Accounts payable and accrued liabilities	\$ 9,732,182	\$ 7,438,824	\$ 254,053	\$ 120,583
Compensated absences (Note 8)	4,017,642	3,821,979	-	-
Student deposits and unearned revenues	2,875,595	1,871,824	6,800	1,500
Funds held for others	857,765	1,034,386	400,517	467,140
Current portion of bonds and note payable (Note 8)	756,417	730,035	3,657	3,657
Current portion of due to State of Rhode Island (Note 8)	842,982	1,555,965	-	-
Current portion of annuities payable	-	-	57,449	52,830
Total Current Liabilities	19,082,583	16,453,013	722,476	645,710
Noncurrent Liabilities:				
Compensated absences (Note 8)	1,977,136	2,075,636	-	-
Note and bonds payable (Note 8)	20,386,565	21,142,982	2,272	5,650
Due to State of Rhode Island (Note 8)	15,522,106	16,365,088	-	-
Annuities payable	-	-	212,171	271,180
Grant refundable (Note 9)	3,619,099	3,690,710	-	-
Total Noncurrent Liabilities	41,504,906	43,274,416	214,443	276,830
Total Liabilities	\$ 60,587,489	\$ 59,727,429	\$ 936,919	\$ 922,540
Net Assets:				
Invested in capital assets, net of related debt	\$ 78,889,621	\$ 67,011,500	\$ 16,360	\$ 25,022
Restricted:				
Expendable (Note 10)	1,036,000	681,507	2,762,546	3,545,273
Nonexpendable	-	-	15,724,378	15,273,561
Unrestricted	11,439,131	13,074,758	3,793,881	2,525,703
Total Net Assets	\$ 91,364,752	\$ 80,767,765	\$ 22,297,165	\$ 21,369,559

See accompanying notes to the financial statements.

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

Statements of Revenues and Expenses

For the Years ended June 30, 2012 and 2011

	2012 College	2011 College	2012 Rhode Island Foundation	2011 Rhode Island Foundation
Operating Revenues:				
Tuition and fees	\$ 64,061,185	\$ 62,981,170	\$ -	\$ -
Auxiliary enterprises	19,321,733	18,370,687	-	-
Less: scholarship allowances	<u>(19,473,242)</u>	<u>(18,588,038)</u>	-	-
Net Student Fees	63,909,676	62,763,819	-	-
Federal, state, local, and private grants and contracts	31,042,062	28,410,716	-	-
Sales and services of educational departments	<u>5,517,214</u>	<u>4,475,356</u>	-	-
Total Operating Revenues	<u>100,468,952</u>	<u>95,649,891</u>	<u>-</u>	<u>-</u>
Operating Expenses (Note 12):				
Instruction	42,359,230	41,754,526	-	-
Research	11,953,238	12,887,747	-	-
Academic support	12,793,182	12,855,885	-	-
Student services	8,125,083	7,909,256	-	-
Scholarships and fellowships	6,813,273	6,507,567	383,150	284,281
Public service	1,090,335	863,328	-	-
Operation and maintenance of plant	14,013,961	9,414,927	-	-
Institutional support	17,050,754	16,312,526	1,041,075	1,226,947
Depreciation and amortization	6,925,367	6,092,723	8,662	10,451
Auxiliary enterprises	<u>13,803,617</u>	<u>14,410,529</u>	-	-
Total Operating Expenses	<u>134,928,040</u>	<u>129,009,014</u>	<u>1,432,887</u>	<u>1,521,679</u>
Net operating loss	<u>(34,459,088)</u>	<u>(33,359,123)</u>	<u>(1,432,887)</u>	<u>(1,521,679)</u>
Nonoperating Revenues (Expenses):				
State appropriations (Note 13)	38,239,607	37,567,515	-	-
Gifts	-	-	3,280,421	2,426,814
Payments between the College and Foundation	395,450	465,282	(395,450)	(465,282)
Net interest income	101,905	119,830	23,361	3,453,350
Interest expense	(1,732,786)	(1,789,784)	-	-
Reversal of OPEB obligation (Note 8)	-	2,923,872	-	-
Other	<u>1,332,857</u>	<u>586,259</u>	<u>17,474</u>	<u>26,814</u>
Net Nonoperating Revenues	<u>38,337,033</u>	<u>39,872,974</u>	<u>2,925,806</u>	<u>5,441,696</u>
Increase in net assets before capital contributions and transfers	3,877,945	6,513,851	1,492,919	3,920,017
Capital Contributions and transfers				
Capital appropriations (Note 13)	6,300,385	3,878,206	-	-
Transfer out	-	-	(146,656)	-
Capital gifts from Foundation	<u>418,657</u>	<u>334,454</u>	<u>(418,657)</u>	<u>(334,454)</u>
Increase in net assets	<u>\$ 10,596,987</u>	<u>\$ 10,726,511</u>	<u>\$ 927,606</u>	<u>\$ 3,585,563</u>

See accompanying notes to the financial statements.

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

Statements of Changes in Net Assets

For the Years Ended June 30, 2012 and 2011

	<u>College</u>			
	<u>Investment in Fixed Assets</u>	<u>Restricted Net Assets</u>	<u>Unrestricted Net Assets</u>	<u>Total</u>
Balance at June 30, 2010 (as previously reported)	\$ 61,567,501	\$ 891,598	\$ 4,180,100	\$ 66,639,199
Prior period adjustment (Note 2)	-	-	3,402,053	3,402,053
Balance at June 30, 2010 (as restated)	61,567,501	891,598	7,582,153	70,041,252
Changes in net assets (as previously reported)	5,443,999	(210,091)	5,375,258	10,609,166
Effect of restatement (Note 2)	-	-	117,347	117,347
Balance at June 30, 2011 (as restated)	67,011,500	681,507	13,074,758	80,767,765
Changes in net assets	11,878,121	354,493	(1,635,627)	10,596,987
Balance at June 30, 2012	<u>\$ 78,889,621</u>	<u>\$ 1,036,000</u>	<u>\$ 11,439,131</u>	<u>\$ 91,364,752</u>

	<u>Component Unit</u>			
	<u>Investment in Capital Assets</u>	<u>Restricted Net Assets</u>	<u>Unrestricted</u>	<u>Total</u>
Balance, June 30, 2010	\$ 35,473	\$ 16,536,846	\$ 1,211,677	\$ 17,783,996
Changes in net assets	(10,451)	2,281,988	1,314,026	3,585,563
Balance, June 30, 2011	25,022	18,818,834	2,525,703	21,369,559
Changes in net assets	(8,662)	(331,910)	1,268,178	927,606
Balance, June 30, 2012	<u>\$ 16,360</u>	<u>\$ 18,486,924</u>	<u>\$ 3,793,881</u>	<u>\$ 22,297,165</u>

See accompanying notes to the financial statements.

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

Statements of Cash Flows

For the Years Ended June 30, 2012 and 2011

	<u>2012</u> <u>College</u>	<u>2011</u> <u>College</u>
Cash Flows from Operating Activities:		
Tuition, residence, dining and other student fees	\$ 64,062,593	\$ 62,956,001
Grants and contracts	31,274,525	27,952,845
Payments to suppliers	(25,126,785)	(23,787,907)
Payments to employees	(93,820,779)	(92,762,490)
Payments for scholarships, fellowships and sponsored programs	(6,813,273)	(6,507,567)
Loans to students	(355,447)	(403,999)
Collection of loans to students	456,316	489,553
Other receipts	<u>6,497,915</u>	<u>810,975</u>
 Net Cash Used by Operating Activities	 <u>(23,824,935)</u>	 <u>(31,252,589)</u>
Cash Flows from Noncapital and Related Financing Activities:		
State appropriations	38,239,607	37,567,515
Other	1,261,248	597,577
Noncapital gifts and grants	<u>395,450</u>	<u>465,282</u>
 Net Cash Provided by Noncapital and Related Financing Activities	 <u>39,896,305</u>	 <u>38,630,374</u>
Cash Flows from Capital and Related Financing Activities:		
Capital appropriations	6,300,385	3,878,206
Funds on deposit with bond trustee	8,402,644	163,384
Capital gifts and grants	418,657	334,454
Purchases of capital assets	(26,335,584)	(11,118,066)
Principal paid to State of Rhode Island and on note and bonds payable	(2,286,000)	(582,039)
Interest paid to State of Rhode Island and on note and bonds payable	<u>(1,732,786)</u>	<u>(1,789,784)</u>
 Net Cash Used by Capital and Related Financing Activities	 <u>(15,232,684)</u>	 <u>(9,113,845)</u>

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

Statements of Cash Flows - Continued

For the Years Ended June 30, 2012 and 2011

	<u>2012</u> <u>College</u>	<u>2011</u> <u>College</u>
Cash Flows from Investing Activities:		
Interest income	\$ <u>101,905</u>	\$ <u>119,830</u>
Net Cash Provided by Investing Activities	<u>101,905</u>	<u>119,830</u>
Net Increase (Decrease) in Cash and Equivalents	940,591	(1,616,230)
Cash and Equivalents, Beginning of Year	<u>22,373,119</u>	<u>23,989,349</u>
Cash and Equivalents, End of Year	<u>\$ 23,313,710</u>	<u>\$ 22,373,119</u>
Reconciliation of Net Operating Loss to Net Cash Used by Operating Activities:		
Net operating loss	\$ (34,459,088)	\$ (33,359,123)
Adjustments to reconcile net operating loss to net cash used by operating activities:		
Bad debts	1,387,219	1,463,768
Depreciation	6,925,367	6,092,723
Changes in assets and liabilities:		
Accounts receivable	(1,676,122)	(1,218,275)
Inventory and other current assets	83,580	(90,990)
Loans receivable	100,869	85,554
Accounts payable and accrued liabilities	2,293,358	(1,389,692)
Compensated absences	97,163	149,890
Funds held for others	(176,621)	(192,412)
Student deposits and unearned revenues	1,003,771	(917,412)
Due from State of Rhode Island	<u>595,569</u>	<u>(1,876,275)</u>
Net Cash Used by Operating Activities	<u>\$ (23,824,935)</u>	<u>\$ (31,252,244)</u>
Non-Cash Transaction		
Reversal of OPEB Obligation (Note 15)	<u>\$ -</u>	<u>\$ 2,923,872</u>

See accompanying notes to the financial statements.

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

Notes to the Financial Statements

June 30, 2012 and 2011

Note 1 - **Summary of Significant Accounting Policies**

Organization

Rhode Island College (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 is 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.

In June 2012, the Rhode Island General Assembly approved a reorganization of the entire Rhode Island system of public education. The Rhode Island Board of Education (BOE) will be established, effective January 1, 2013, to assume all the powers and duties currently vested in the Board of Governors and in the Board of Regents for Elementary and Secondary Education (BOR). The Board of Governors and the BOR will cease to exist as of January 1, 2013. The OHE will be abolished on July 1, 2014.

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

Notes to the Financial Statements - Continued

June 30, 2012 and 2011

Note 1 - **Summary of Significant Accounting Policies - Continued**

Organization - Continued

The BOE will establish an Executive Commission of Education (Commission) consisting of the presidents of the University of Rhode Island, Rhode Island College, and the Community College of Rhode Island, as well as the Commissioner of Higher Education and the Commissioner of Elementary and Secondary Education to oversee public higher education. All recommendations by and information from the Commission will be forwarded to the BOE for final action. No later than July 1, 2013, the BOE will submit a final plan for the administrative structure for higher education.

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.

The accompanying statements of revenues and expenses, and statements of 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
(a Component Unit of the State of Rhode Island and Providence Plantations)

Notes to the Financial Statements - Continued

June 30, 2012 and 2011

Note 1 - **Summary of Significant Accounting Policies - Continued**

Basis of Presentation - Continued

Rhode Island College Foundation

Rhode Island College Foundation (the "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, 2012 and 2011, the Foundation distributed approximately \$814,000 and \$800,000, respectively, to the College for both restricted and unrestricted purposes. The Foundation is a private nonprofit organization that reports in accordance with standards of the Financial Accounting Standards Board (FASB), including ASC 958-205, Presentation of Financial Statements for Not-for-Profit Entities, and ASC 958-605, Revenue Recognition for Not-for-Profit Entities. Accordingly, 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.

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 and other obligations attributable to the acquisition, construction, repair or improvement of those assets.

RHODE ISLAND COLLEGE

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

Notes to the Financial Statements - Continued

June 30, 2012 and 2011

Note 1 - Summary of Significant Accounting Policies - Continued

Net Assets - Continued

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

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

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

The College has adopted a policy of generally utilizing restricted-expendable funds, when available, prior to unrestricted funds. The College's unrestricted net assets at June 30 represent goods and services that have not yet been received and normal working capital balances maintained for auxiliary enterprise and departmental activities.

Cash and Equivalents

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

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.

Capital Assets

Real estate assets, including improvements, are generally stated at cost. Furnishings and equipment are stated at cost as of date of acquisition or, in the case of gifts, at fair value as of 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 at least \$5,000 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 30 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.

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

Notes to the Financial Statements - Continued

June 30, 2012 and 2011

Note 1 - **Summary of Significant Accounting Policies - Continued**

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 and sick days allowable in accordance with the applicable union contract or in the case of non-union 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 compensation rates in effect as of the balance sheet date.

Amounts related to Salary Reduction Plans adopted during fiscal years 1991, 1992 and 1993 can be distributed in the form of paid leave, payment at the time of separation from the College or to an employee's estate. Amounts related to a fiscal year 2009 plan can be received in the form of paid leave or payment between July 1, 2010 and June 15, 2012. Any leave not used or elected for payment before June 15, 2012 was lost.

Post Employment Benefits

GASB 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions* requires governments to account for other postemployment benefits (OPEB) on the accrual basis, rather than pay as you go (cash basis). Furthermore, the determination of the OPEB liability is dependent upon the type of plan in which the employer participates. Effective July 1, 2011, the State of Rhode Island established an independent corporation titled the OPEB Board, to manage OPEB benefits for all state government employers including the College. A separate legal OPEB entity classified as a cost sharing multiple employer, as established by the State, assesses annually a contractual obligation based on the plan's parameters to each participating employer. In accordance with the requirements of GASB 45, the accumulated net OPEB obligation recorded in previous years has been reduced to zero.

To the extent the employer does not pay the entire ARC or contractual obligation, they will have an OPEB related liability. However, in the case of a cost-sharing plan, the ultimate responsibility for OPEB liabilities remains with the OPEB entity.

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

Notes to the Financial Statements - Continued

June 30, 2012 and 2011

Note 1 - **Summary of Significant Accounting Policies - Continued**

Health Insurance

The State offers one state paid health plan to each of its participating agencies. 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 13% to 15% of healthcare premiums for non-classified staff and from 15% to 35% for classified employees. The costs are automatically deducted through the payroll system on a bi-weekly basis. Amounts paid by the College for the 2012 and 2011 health premiums amounted to \$10,721,000 and \$10,566,000, respectively. Employee contributions for 2012 and 2011 were approximately \$1,598,000 and \$1,509,000, respectively.

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 based on bi-weekly payrolls of all State agencies. The fringe benefit assessment rate for fiscal year 2012 was 3.75% for non-faculty and 3.30% for faculty and for 2011 was 4.00% for non-faculty and 3.46% for faculty. The assessed fringe benefit cost for the College for fiscal year 2012 and 2011 was approximately \$1,863,000 and \$1,870,000, respectively.

Student 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.

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.

Funds Held for Others

The College holds funds for student and other organizations affiliated with the College.

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

Notes to the Financial Statements - Continued

June 30, 2012 and 2011

Note 1 - **Summary of Significant Accounting Policies - Continued**

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.

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.

Risk Management

Insurance is maintained for general liability, property and casualty, workers' compensation, unemployment and employee health and life insurance claims.

The College is insured for general liability with limits of \$1 million per occurrence and \$3 million in the aggregate with a \$25,000 deductible as well as a \$25 million umbrella. 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 \$25 million with a \$150,000 deductible. The College also keeps a \$25 million excess liability insurance policy.

As an agency of the State of Rhode Island and Providence Plantations, the College participates in a group property program. In fiscal years 2011 and 2012 buildings and contents were insured against fire, theft, and natural disaster with a limit of \$535 million and a \$100,000 deductible per occurrence. For fiscal year 2013 buildings and contents carry the same \$100,000 per occurrence deductible but the limit for 2013 is now \$200 million. This change was made due to new coverage restrictions instituted by insurers. 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.

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

Notes to the Financial Statements - Continued

June 30, 2012 and 2011

Note 1 - **Summary of Significant Accounting Policies - Continued**

Risk Management - Continued

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. The amounts of settlement have not exceeded insurance coverage in each of the past three years.

Reclassification

Certain reclassifications have been made to the 2011 financial statements of the College and the Foundation to conform to the 2012 presentation.

New Governmental Accounting Pronouncements

GASB 60, *Accounting and Financial Reporting for Service Concession Arrangements*, effective for periods beginning after December 15, 2011, establishes accounting requirements for arrangements between a transferor and operator (SCA's) in which (a) the transferor conveys to the operator the right and related obligation to provide services through the use of infrastructure or other public asset in exchange for significant consideration and (b) the operator collects and is compensated by fees from third parties. This statement applies only to arrangements meeting specific criteria determining whether a transferor retains control over the public asset. The College does not currently have any SCA's and therefore GASB 60 is not expected to have any impact on the financial statements.

GASB 61, *The Financial Reporting Entity: Omnibus an Amendment of GASB Statements 14 and 34*, effective for periods beginning after June 15, 2012, provides additional criteria for classifying entities as component units to better assess the accountability of officials by ensuring that the financial reporting entity includes only organizations for which the officials are financially accountable or that are determined by the government to be misleading to exclude. Management of the College does not expect implementation to affect the financial statements.

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

Notes to the Financial Statements - Continued

June 30, 2012 and 2011

Note 1 - **Summary of Significant Accounting Policies - Continued**

New Governmental Accounting Pronouncements - Continued

GASB 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, effective for periods beginning after December 15, 2011, incorporates into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in the following pronouncements issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements: Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins of the American Institute of Certified Public Accountants' (AICPA) Committee on Accounting Procedure. Management of the College does not expect implementation to affect the financial statements.

GASB 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, effective for periods beginning after December 15, 2011, provides financial reporting guidance. Deferred outflows are the consumption of net assets and deferred inflows are the acquisition of net assets, applicable to future reporting periods. Net position is identified by Concepts Statement No. 4 as the residual of all other elements presented in a statement of financial position and requires the incorporation of deferred outflows and inflows into the required components of the residual measure and renaming that measure, known as net assets, as net position. An item is not considered a deferred outflow of resources or a deferred inflow of resources unless specifically required by a GASB pronouncement. Currently only GASB 53 *Accounting and Financial Reporting for Derivative Instruments* and GASB 60 contain this requirement. Management is in the process of reviewing this statement and its potential effect upon their financial reporting but does not expect any material impact.

GASB 64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions - an amendment of GASB Statement 53*, effective for periods beginning after June 15, 2011 provides clarification whether an effective hedging relationship continues after the replacement of the swap counterparty of swap counterparty's credit support provider and establishes criteria in order to continue or discontinue hedge accounting and the resulting effects of recognition of the deferred outflows or inflows of resources as a component of investment income. This statement had no effect on the financial statements.

RHODE ISLAND COLLEGE
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Notes to the Financial Statements - Continued

June 30, 2012 and 2011

Note 1 - **Summary of Significant Accounting Policies - Continued**

New Governmental Accounting Pronouncements - Continued

GASB 65, *Items Previously Reported as Assets and Liabilities*, effective for periods beginning after December 15, 2012, establishes accounting and financial reporting standards for the reclassification of certain assets and liabilities in accordance with GASB 63. Management expects this statement to have no effect on the financial statements.

GASB 66, *Technical Corrections - 2012 - an amendment of GASB Statements 10 and 62*, effective for periods beginning after December 15, 2012, resolves conflicts between recently issued and earlier GASB statements as well as modifying guidance related to accounting for certain operating leases. Management is in the process of reviewing this statement and its potential effect upon their financial reporting, but does not expect any material impact.

Note 2 - **Prior Period Adjustment**

The College holds certain funds for various student organizations, agencies and others affiliated with the College. The College has determined that certain funds collected were not on behalf of others and should have been classified as revenue to the College upon receipt. Accordingly, the College restated its financial statements for the year ended June 30, 2011. The effect of the correction was to increase unrestricted net assets by \$3,519,400 as of June 30, 2011. There is no effect on the current year change in net assets.

Note 3 - **Cash, Equivalents and Investments**

Cash and Equivalents

The College's policy is in accordance with Chapter 35-10.1 of the R.I. General Laws regarding depository institutions holding deposits of the State, its agencies or governmental subdivisions of the State, which indicates that they shall at a minimum, insure or pledge eligible collateral equal to one hundred percent of time deposits with maturities greater than 60 days. Any of these institutions which do not meet minimum capital standards prescribed by federal regulations shall insure or pledge eligible collateral equal to one hundred percent of deposits, regardless of maturity.

The College does not have a policy for custodial credit risk associated with deposits.

RHODE ISLAND COLLEGE

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Notes to the Financial Statements - Continued

June 30, 2012 and 2011

Note 3 - Cash, Equivalents and Investments - Continued

Cash and Equivalents - Continued

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 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.

Bank balances covered by federal depository insurance (FDIC) at June 30, 2012 and 2011 approximated \$447,723 and \$380,064, respectively. In addition, approximately \$22,148,000 and \$22,162,000, respectively, was collateralized with securities held by the pledging financial institution in the College's name. These balances reflect FDIC insurance and guarantee programs in effect at their respective periods. None of the cash deposits of the College were required to be collateralized at June 30, 2012 and 2011.

Deposit with Bond Trustees - Restricted

The deposit with bond trustees is invested in money market funds with First American Government Obligations Fund. These funds were uninsured, but invest exclusively in short-term U.S. Treasury obligations, including repurchase agreements secured by U.S. Treasury obligations. As of June 30, 2012, the First American Government Obligations Fund had a rating of AAAM by Standard & Poor's and Aaa-mf by Moody's.

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.

RHODE ISLAND COLLEGE

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Notes to the Financial Statements - Continued

June 30, 2012 and 2011

Note 3 - Cash, Equivalents and Investments - Continued

Investments - Continued

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 on the date of receipt. Other contributed assets are recorded at appraised value at the time of donation. 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. The June 30, 2012 and 2011 investment portfolio concentrations are as follows:

	Foundation 2012	
	Amount	Percentage
Common stocks	\$ 13,938,155	67%
Government securities	5,797,148	28%
Cash equivalents	1,097,201	5%
	<u>\$ 20,832,504</u>	<u>100%</u>

	Foundation 2011	
	Amount	Percentage
Common stocks	\$ 13,643,100	65%
Government securities	4,562,682	22%
Cash equivalents	2,806,997	13%
	<u>\$ 21,012,779</u>	<u>100%</u>

RHODE ISLAND COLLEGE
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Notes to the Financial Statements - Continued

June 30, 2012 and 2011

Note 3 - **Cash, Equivalents and Investments - Continued**

Restricted Cash

Restricted cash includes the following at June 30:

	College	
	2012	2011
Grant fund	\$ 360,560	\$ 41,730
Loan fund	80,154	95,314
	\$ 440,714	\$ 137,044

Note 4 - **Cash Held by State Treasurer**

Cash held by State Treasurer represents accrued expenses to be funded from state appropriated funds at June 30, 2011. 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 had \$168,531 on deposit with the State with respect to issuance of bonds on behalf of the College at June 30, 2011.

Note 5 - **Accounts Receivable**

Accounts receivable, all of which are anticipated to be collected within one year, include the following at June 30:

	<u>2012</u>	<u>2011</u>
Student accounts receivable	\$ 3,550,721	\$ 3,224,485
Grants receivable	2,922,017	3,140,162
Other receivable	<u>631,615</u>	<u>127,701</u>
	<u>7,104,353</u>	6,492,348
Less: allowance for doubtful accounts	<u>(2,210,037)</u>	<u>(2,158,531)</u>
	\$ <u>4,894,316</u>	\$ <u>4,333,817</u>

RHODE ISLAND COLLEGE
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Notes to the Financial Statements - Continued

June 30, 2012 and 2011

Note 6 - Loans Receivable

Loans receivable include the following at June 30:

	<u>2012</u>	<u>2011</u>
Perkins loans receivable	\$ 5,342,993	\$ 5,335,829
Nursing loans receivable	<u>36,212</u>	<u>36,352</u>
	<u>5,379,205</u>	<u>5,372,181</u>
Less: allowance for doubtful accounts	<u>(1,298,176)</u>	<u>(1,190,283)</u>
	<u>\$ 4,081,029</u>	<u>\$ 4,181,898</u>

Note 7 - Capital Assets

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

	2012					Ending balance
	Estimated lives (in years)	Beginning balance	Additions	Retirements	Reclassifications	
Capital assets not depreciated:						
Construction in progress	—	\$ 4,352,473	\$ 3,114,269	\$ —	\$ (3,874,934)	\$ 3,591,808
Land	—	<u>2,230,968</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>2,230,968</u>
Total not depreciated		<u>6,583,441</u>	<u>3,114,269</u>	<u>—</u>	<u>(3,874,934)</u>	<u>5,822,776</u>
Capital assets depreciated:						
Land improvements	15 – 25	8,699,229	3,961,762	—	-	12,660,991
Buildings, including improvements	10 – 30	148,606,551	17,782,903	—	3,874,934	170,264,388
Furnishings and equipment (including cost of capital leases)	5 – 15	<u>23,899,040</u>	<u>1,476,650</u>	<u>—</u>	<u>-</u>	<u>25,375,690</u>
Total depreciated		<u>181,204,820</u>	<u>23,221,315</u>	<u>—</u>	<u>3,874,934</u>	<u>208,301,069</u>
Total capital assets		<u>187,788,261</u>	<u>26,335,584</u>	<u>—</u>	<u>—</u>	<u>214,123,845</u>
Less: accumulated depreciation:						
Land improvements	—	4,875,046	554,676	—	—	5,429,722
Buildings and improvements	—	67,741,006	5,157,080	—	—	72,898,086
Furnishings and equipment	—	<u>18,184,735</u>	<u>1,213,611</u>	<u>—</u>	<u>—</u>	<u>19,398,346</u>
Total accumulated depreciation		<u>90,800,787</u>	<u>6,925,367</u>	<u>—</u>	<u>—</u>	<u>97,726,154</u>
Capital assets, net		<u>\$ 96,987,474</u>	<u>\$ 19,410,217</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 116,397,691</u>

RHODE ISLAND COLLEGE
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Notes to the Financial Statements - Continued

June 30, 2012 and 2011

Note 7 - Capital Assets - Continued

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

	Estimated lives (in years)	2011				Ending balance
		Beginning balance	Additions	Retirements	Reclassifications	
Capital assets not depreciated:						
Construction in progress	—	\$ 2,151,520	\$ 3,748,318	\$ —	\$ (1,547,365)	\$ 4,352,473
Land	—	2,230,968	—	—	—	2,230,968
Total not depreciated		<u>4,382,488</u>	<u>3,748,318</u>	<u>—</u>	<u>(1,547,365)</u>	<u>6,583,441</u>
Capital assets depreciated:						
Land improvements	15 – 25	8,699,229	—	—	-	8,699,229
Buildings, including improvements	10 – 30	140,983,173	6,076,013	—	1,547,365	148,606,551
Furnishings and equipment (including cost of capital leases)	5 – 15	22,605,305	1,293,735	—	-	23,899,040
Total depreciated		<u>172,287,707</u>	<u>7,369,748</u>	<u>—</u>	<u>1,547,365</u>	<u>181,204,820</u>
Total capital assets		<u>176,670,195</u>	<u>11,118,066</u>	<u>—</u>	<u>—</u>	<u>187,788,261</u>
Less: accumulated depreciation:						
Land improvements	—	4,424,890	450,156	—	—	4,875,046
Buildings and improvements	—	63,188,755	4,552,251	—	—	67,741,006
Furnishings and equipment	—	17,094,419	1,090,316	—	—	18,184,735
Total accumulated depreciation		<u>84,708,064</u>	<u>6,092,723</u>	<u>—</u>	<u>—</u>	<u>90,800,787</u>
Capital assets, net		<u>\$ 91,962,131</u>	<u>\$ 5,025,343</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 96,987,474</u>

RHODE ISLAND COLLEGE
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Notes to the Financial Statements - Continued

June 30, 2012 and 2011

Note 8 - Long-Term Liabilities

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

	2012				
	Beginning balance	Additions	Reductions	Ending balance	Current portion
Note and bonds payable:					
Note payable	\$ 1,612,727	\$ —	\$ 87,765	\$ 1,524,962	\$ 92,659
Revenue bonds payable	20,260,290	—	642,270	19,618,020	663,758
Total note and bonds payable	21,873,017	—	730,035	21,142,982	756,417
Other long-term liabilities:					
Due to State of Rhode Island	17,921,053	—	1,555,965	16,365,088	842,982
Compensated absences	5,897,615	97,163	—	5,994,778	4,017,642
Total long-term liabilities	<u>\$ 45,691,685</u>	<u>\$ 97,163</u>	<u>\$ 2,286,000</u>	<u>\$ 43,502,848</u>	<u>\$ 5,617,041</u>
	2011				
	Beginning balance	Additions	Reductions	Ending balance	Current portion
Note and bonds payable:					
Note payable	\$ 1,695,857	\$ —	\$ 83,130	\$ 1,612,727	\$ 87,765
Revenue bonds payable	20,759,199	—	498,909	20,260,290	642,270
Total note and bonds payable	22,455,056	—	582,039	21,873,017	730,035
Other long-term liabilities:					
Due to State of Rhode Island	17,921,053	—	—	17,921,053	1,555,965
Due to State of Rhode Island-OPEB	763,905	—	763,905	—	—
Compensated absences	5,747,725	149,890	—	5,897,615	3,821,979
Net OPEB obligation	2,159,967	—	2,159,967	—	—
Total long-term liabilities	<u>\$ 49,047,706</u>	<u>\$ 149,890</u>	<u>\$ 3,505,911</u>	<u>\$ 45,691,685</u>	<u>\$ 6,107,979</u>

RHODE ISLAND COLLEGE
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Notes to the Financial Statements - Continued

June 30, 2012 and 2011

Note 8 - **Long-Term Liabilities - Continued**

Bonds and Notes Payable

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

	June 30	
	2012	2011
Rhode Island Health and Educational Building Corporation Higher Education Facility Revenue Bonds, Series 2010 A. The bonds original amount issued was \$10,280,000, carry interest rates ranging from 2.75%-5.00%. The bonds are due in varying annual installments from \$130,000-\$700,000, plus interest, through September 15, 2040.	\$ 10,150,000	\$ 10,280,000
Rhode Island Health and Educational Building Corporation Higher Education Facility Revenue Bonds, Series 2003 B. 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.	5,348,640	5,690,756
Rhode Island Health and Educational Building Corporation Higher Education Facility Revenue Bonds, Series 2005 E. 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.	3,020,000	3,120,000
Rhode Island Health and Educational Building Corporation Higher Education Facility Revenue Bonds, Series 2003 C. 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.	1,099,381	1,169,532
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, is payable in level semi-annual installments of \$87,637, including interest at 5.5%, through February 1, 2024.	1,524,961	1,612,729
	\$ 21,142,982	\$ 21,873,017

RHODE ISLAND COLLEGE
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Notes to the Financial Statements - Continued

June 30, 2012 and 2011

Note 8 - **Long-Term Liabilities - Continued**

Bonds and Notes Payable - Continued

The Series 2005 E and 2003 B bonds are collateralized by the revenues of the auxiliary enterprises operated under the authority of the Board of Governors. The Series 2010 A bonds are collateralized by fees generated by the related facilities.

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:			
2013	\$ 756,417	\$ 953,547	\$ 1,709,964
2014	784,942	926,421	1,711,363
2015	813,566	897,847	1,711,413
2016	846,958	866,502	1,713,460
2017	881,742	832,064	1,713,806
2018-2022	5,038,762	3,527,767	8,566,529
2023-2027	3,930,595	2,345,823	6,276,418
2028-2032	2,890,000	1,633,200	4,523,200
2033-2037	2,605,000	987,375	3,592,375
2038-2042	2,595,000	267,875	2,862,875
	<u>\$ 21,142,982</u>	<u>\$ 13,238,421</u>	<u>\$ 34,381,403</u>

Interest expense for the years ended June 30, 2012 and 2011 was \$ 979,231 and \$1,038,198, respectively.

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.

Due to State of Rhode Island

As part of a \$30 million general obligation bond issuance authorized by the voters for the construction of a new residence hall, the College agreed to repay the State \$20 million. The residence hall was completed in September 2007, at which time the College commenced repayment over the remaining life of the bonds which bear interest at rates ranging from 3% to 5%. In addition, the \$10 million, for which the State remained as the primary obligor, was recorded as a capital appropriation by the College.

RHODE ISLAND COLLEGE
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Notes to the Financial Statements - Continued

June 30, 2012 and 2011

Note 8 - **Long-Term Liabilities - Continued**

Due to State of Rhode Island - Continued

In August 2011, the College and the State of Rhode Island amended the Memorandum of Understanding dated August 1, 2006 regarding the repayment of a portion of the debt service for the General Obligation Bonds for fiscal year 2011. The parties agreed to amend the repayment schedule to have no payment from the College for fiscal year 2011 and for fiscal year 2012 to make the scheduled payment and an additional payment of \$756,316 for principal and \$859,368 for interest. The College accrued for the interest payable in 2011.

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:

	Principal	Interest	Total
Year ending June 30:			
2013	\$ 842,982	\$ 787,335	\$ 1,630,317
2014	889,649	748,368	1,638,017
2015	936,316	705,310	1,641,626
2016	986,316	658,143	1,644,459
2017	1,032,982	608,477	1,641,459
2018-2022	5,954,912	2,257,875	8,212,787
2023-2027	5,721,930	750,000	6,471,930
	\$ 16,365,087	\$ 6,515,508	\$ 22,880,595

Interest expense for the years ended June 30, 2012 and 2011 were \$824,335 and \$859,368, respectively.

Note 9 - **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.

RHODE ISLAND COLLEGE
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Notes to the Financial Statements - Continued

June 30, 2012 and 2011

Note 10 - **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:

	2012	2011
Restricted – expendable:		
College grant funds	\$ 258,756	\$ 354,513
Capital project programs	777,244	326,994
	\$ 1,036,000	\$ 681,507

Note 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.

RHODE ISLAND COLLEGE
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Notes to the Financial Statements - Continued

June 30, 2012 and 2011

Note 12 - **Operating Expenses**

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

	2012	2011
Compensation and benefits	\$ 95,203,231	\$ 94,212,583
Supplies and services	25,986,169	22,196,141
Depreciation and amortization	6,925,367	6,092,723
Scholarships and fellowships	6,813,273	6,507,567
	\$ 134,928,040	\$ 129,009,014

Note 13 - **State Appropriations**

Direct Appropriations

Pursuant to Rhode Island General Law 16-59-9, the legislative enacted budget reflects the budget passed by the General Assembly and signed by the Governor as well as any reappropriations made by the Governor for fiscal year 2012. 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 entities it oversees. As part of the College's annual budget process for unrestricted and restricted funds, the General Assembly 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. In fiscal year 2012, the State reserved 4.8% of its general revenues to fund a Budget Reserve and Cash Stabilization Fund. If the fund reaches a maximum threshold (2.8% of total resources in fiscal year 2012), the excess revenues are transferred to a Capital Plan Fund. This Capital Plan 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 1995.

RHODE ISLAND COLLEGE
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Notes to the Financial Statements - Continued

June 30, 2012 and 2011

Note 13 - **State Appropriations - Continued**

State Capital Plan Funds - Continued

During fiscal years 2012 and 2011, the College expended \$5,211,951 and 1,181,039, respectively, in State Capital Plan funds.

State Contributed Capital

In October 2006, the College, University of Rhode Island (URI) and Community College of Rhode Island (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 \$11,750,000 in funding. The College's share of this funding is \$5,000,000. During fiscal year 2011, the project was completed and the College recorded approximately \$2,697,000, in these funds.

In November 2010, the Rhode Island voters approved the issuance of \$78 million General Obligation Bonds to fund improvements the construction of a new chemistry building at the University of Rhode Island, and \$17 million for the renovation and construction of an addition to the Art Center at Rhode Island College. During fiscal year 2012, construction began and the College recorded approximately \$1,088,000, in these funds.

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

	2012	2011
Direct appropriations	\$ 38,239,607	\$ 37,567,515
State capital plan funds	5,211,952	1,181,039
State contributed capital	1,088,433	2,697,166
	\$ 44,539,992	\$ 41,445,720

In accordance with Rhode Island State law, unexpended capital plan appropriations lapse after June 30th of the fiscal year in which appropriated. Such funds may be applied for in the subsequent fiscal year.

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Notes to the Financial Statements - Continued

June 30, 2012 and 2011

Note 14 - **Pension and Retirement Plans**

Certain employees of the College, (principally faculty and administrative personnel) are covered by individual annuity contracts under a defined contribution retirement plan, Alternate 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 (TIAA), 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.

Funding Policy

The College contributes 9% of the employee's gross biweekly earnings. Total expenditures by the College for such 403(b) annuity contracts amounted to approximately \$3,340,000 and \$3,158,000 during 2012 and 2011, respectively. The employee contribution amounted to \$1,823,000 and \$1,739,000 during 2012 and 2011, respectively.

State of Rhode Island Employees' Retirement System (ERS)

Other employees of the College (principally civil service personnel) participate in the Employees' Retirement System of the State of Rhode Island (System), a multiple-employer, cost-sharing, defined benefit plan. The plan provides retirement and disability benefits, annual cost-of-living adjustments (COLA), 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 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, 50 Service Avenue, Warwick, RI 02886.

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

Notes to the Financial Statements - Continued

June 30, 2012 and 2011

Note 14 - **Pension and Retirement Plans - Continued**

State of Rhode Island Employees' Retirement System (ERS) - Continued

Funding Policy

The funding policy, as set forth in the General Laws, Section 36-10-2, provides for actuarially determined periodic contributions to the plan. College employees in the System are required to contribute 8.75% of their annual covered salary. The College is required to contribute at an actuarial determined rate: the rate was 22.98% of the annual covered for the years ending June 30, 2012. Employees contributed approximately \$1,256,000 and \$1,150,000, and \$1,163,000, respectively, and the College's contribution to the System for the years ended June 30, 2012, 2011 and 2010 were approximately \$3,298,000 and \$2,730,000, and \$2,762,000, respectively, representing 100% of the required contribution.

Pension Reform Impacting Future Periods:

In November 2011, the Rhode Island General Assembly enacted comprehensive pension reform legislation which included implementing a supplemental defined contribution plan and other benefit and eligibility changes including suspending COLA's. The above changes and other provisions of the reform enacted are effective July 1, 2012.

Note 15 - **Other Post-Employment Benefits (OPEB)**

Rhode Island Retiree Health Care Benefit Plan (RIRHCBP)

Plan Description

The College contributes (for certain employees) to the State Employees' defined benefit post-employment health care plan, a cost-sharing, multiple-employer plan administered through the Rhode Island State Employees' and Electing Teachers OPEB System (OPEB System). The State of Rhode Island OPEB Board (Board) was authorized, created and established under Chapter 36-12.1 of the RI General Laws. The Board was established to independently hold and administer, in trust, the funds of the OPEB system. The plan provides medical benefits to certain retired employees of participating employers including Rhode Island College.

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

Notes to the Financial Statements - Continued

June 30, 2012 and 2011

Note 15 - **Other Post-Employment Benefits (OPEB) - Continued**

Rhode Island Retiree Health Care Benefit Plan (RIRHCBP) - Continued

Plan Description - Continued

Pursuant to legislation enacted by the General Assembly, a trust has been established to accumulate assets and pay benefits and other costs associated with the system.

The OPEB system issues a stand-alone, publicly available financial report that includes the financial statements and required supplementary information. A copy of the report can be obtained from the State Controller's Office, 1 Capitol Hill, Providence, RI 02903.

Funding Policy

RIGL Sections 36-12.1, 36-12-2.2, and 36-12-4 govern the provisions of the OPEB System. The contribution requirements of plan members, the State, and other participating employers are established and may be amended by the General Assembly. Active employees make no contribution to the OPEB plan. Employees who retired after October 1, 2008 must contribute 20% of the annual estimated benefit cost (working rate) or annual premium for Medicare supplemental coverage. Employees retiring before October 1, 2008 have varying co-pay percentages ranging from 0% to 50% based on age and years of service at retirement. Further information about the contributions of plan members can be found in the financial report of the OPEB System.

All participating employers are required by law to fund the actuarially determined annual required contribution (ARC), which for fiscal year 2012 was 6.86% of covered payroll. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The College's contribution to the plan for the years ended June 30, 2012 and 2011 was approximately \$953,000 and \$917,000, respectively, which represents 100% of the ARC.

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

Notes to the Financial Statements - Continued

June 30, 2012 and 2011

Note 15 - **Other Post-Employment Benefits (OPEB) - Continued**

Rhode Island Board of Governors for Higher Education Health Care Insurance Retirement Plan

Plan Description

The College contributes (for certain employees) 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 a defined benefit healthcare plan effective July 1, 1998 for Office of Higher Education, University of Rhode Island (URI), Rhode Island College (RIC) and Community College of Rhode Island (CCRI). The Board's ARP is considered a cost-sharing, multiple-employer plan. Rhode Island State law established the "Rhode Island State Employees' and Electing Teachers OPEB System" (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, includes the Board Plan. The State of Rhode Island OPEB Board (Board) was authorized, created and established under Chapter 36-12.1 of the RI General Laws.

The Board was established to independently hold and administer, in trust, the funds of the OPEB system. The plan provides medical benefits to certain retired employees of participating employers including Rhode Island College.

Pursuant to legislation enacted by the General Assembly, a trust was established in fiscal year 2011 to accumulate assets and pay benefits and other costs associated with the system.

The OPEB system issues a stand-alone, publicly available financial report that includes the financial statements and required supplementary information. A copy of the report can be obtained from the State Controller's Office, 1 Capitol Hill, Providence, RI 02903.

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

Notes to the Financial Statements - Continued

June 30, 2012 and 2011

Note 15 - **Other Post-Employment Benefits (OPEB) - Continued**

Rhode Island Board of Governors for Higher Education Health Care Insurance Retirement Plan - Continued

Funding Policy

RIGL Sections 36-12.1, 36-12-2.2, and 36-12-4 govern the provisions of the OPEB System. The contribution requirements of plan members and the College are established and may be amended by the Board. Effective in fiscal year 2011, all participating employers are required by law to fund the actuarially required contribution (ARC) which for fiscal year 2011 and 2012 was 2.69% of payroll covered by the Board Plan. Active employees contribute 0.9% of payroll to the OPEB plan. Retired employees have varying co-pay percentages ranging from 0% to 50% based on age and years of service at retirement. Further information about the contributions of plan members can be found in the financial report of the OPEB System.

Rhode Island College's contribution to the plan for the year ended June 30, 2012 was approximately \$972,000 and active employees contributed .9% of covered payroll, approximately \$321,000. Rhode Island College's contribution to the plan for the year ended June 30, 2011 was approximately \$933,000 and active employees contributed 0.9% of covered payroll, approximately \$307,000. In prior years, Rhode Island College contributed to the State Employees' OPEB plan, which consistent with GASB 45 provisions, was administered as an agent multiple employer plan because no separate legal trust had been created. The transition by the State of its OPEB plan in fiscal 2011 to an OPEB Trust resulted in the State Employees' Plan being redefined as a cost-sharing, multiple-employer plan. In accordance with the requirements of GASB 45, the component unit's net OPEB obligation recorded in previous years has been reduced to zero as of June 30, 2011.

**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***

A deficiency in internal control 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 and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the College's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, 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 Rhode Island 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*.

We noted certain matters that we reported to management of Rhode Island College in a separate letter dated September 30, 2012.

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



Certified Public Accountants

Braintree, Massachusetts

September 30, 2012