

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

FINANCIAL STATEMENTS

June 30, 2009

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

Financial Statements

June 30, 2009 and 2008

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying statement 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, 2009, and the related statements of revenues and expenses, changes in net assets and cash flows for the year 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 audit. The financial statements of the College as of June 30, 2008 were audited by other auditors whose report dated November 26, 2008 expressed an unqualified opinion on the financial statements. We also did not audit the financial statements of the Rhode Island College Foundation as of June 30, 2009 and 2008 as discussed in Note 1. The financial statements of these component units were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the entity not audited by us included in the discretely presented component units of the College is based solely upon the report of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. 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, 2009 and 2008 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, 2009, 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.

The Management's Discussion and Analysis (MD&A) is not a required part of the financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

O'Connor & Drew, P.C.
Certified Public Accountants

September 30, 2009

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

Management's Discussion and Analysis (Unaudited)

June 30, 2009 and 2008

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, 2009 and the results of operations for the year then ended, with selected comparative information for the years ended June 30, 2008 and 2007. 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. In 2008, the new president partnered with the Fruit Hill Neighborhood Association to establish the RIC Farmer's Market.

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 over 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, 2009 and 2008

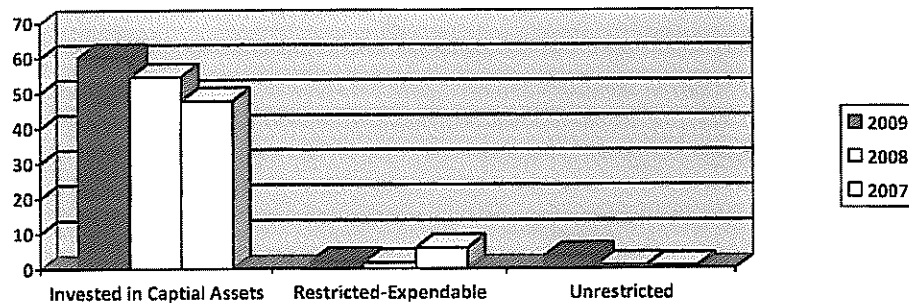
Introduction - Continued

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 articulation 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, 2009. At June 30, 2009, RIC's assets of \$121.0 million exceeded its liabilities of \$55.0 million by \$66.0 million, an increase over the prior year of \$8.6 million. On June 30, 2008, RIC's assets of \$113.9 million exceeded its liabilities of \$56.6 million by \$57.3 million, an increase of \$2.8 million over the prior year.

The resulting net assets are summarized into the following categories (in millions) for the fiscal years ended June 30, 2009, 2008, and 2007:



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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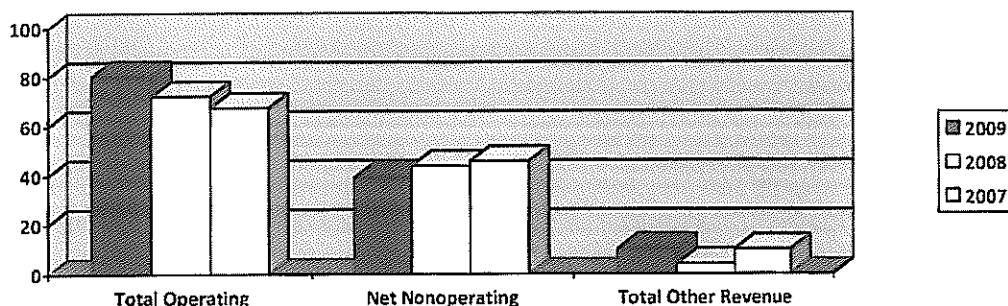
Management's Discussion and Analysis (Unaudited) - Continued

June 30, 2009 and 2008

Financial Highlights - Continued

Fiscal year 2009 operating revenues increased by 11.3%, or \$8.2 million. Expenses increased by 2.9%, or \$3.4 million. Fiscal year 2007 operating revenues increased by 7.8%, or \$4.9 million. Fiscal year 2008 operating revenues increased by 6.9%, or \$4.7 million. Expenses increased by 3.4%, or \$3.9 million.

The following chart provides a graphical breakdown of total revenues (in millions) by category for the fiscal years ending June 30, 2009, 2008 and 2007:



Cash flow continued to be adequate for operations with a cash balance of \$19.9 million at June 30, 2009, and \$18.7 million at June 30, 2008 an increase of \$1.2 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
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Management's Discussion and Analysis (Unaudited) - Continued

June 30, 2009 and 2008

Overview of the Financial Statements - Continued

Rhode Island College Foundation (Foundation) is a legally separate tax-exempt component unit of Rhode Island College. The Foundation acts primarily as a fund-raising organization to supplement the resources that are available to 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 *Statement of Revenues, 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
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Management's Discussion and Analysis (Unaudited) - Continued

June 30, 2009 and 2008

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 23 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 24 to 56 of this report.

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

June 30, 2009 and 2008

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 \$65.9 million at the close of fiscal year 2009, an increase of \$8.6 million over fiscal year 2008, and assets exceeded liabilities by \$57.3 million at the close of fiscal year 2008, an increase of \$2.8 million over fiscal year 2007, as shown in the chart below:

Condensed Statement of Net Assets			
(Dollars in millions)			
	2009	2008	2007
Assets:			
Current assets	\$ 23.6	\$ 20.8	\$ 22.5
Noncurrent assets	97.3	93.1	87.6
Total assets	\$ 120.9	\$ 113.9	\$ 110.1
Liabilities:			
Current liabilities	\$ 18.1	\$ 18.7	\$ 16.5
Noncurrent liabilities	36.9	37.9	39.1
Total liabilities	\$ 55.0	\$ 56.6	\$ 55.6
Net assets (deficit):			
Invested in capital assets, net of related debt	\$ 60.2	\$ 54.6	\$ 47.8
Restricted:			
Expendable	2.1	1.8	5.9
Unrestricted	3.6	0.9	0.8
Total net assets	\$ 65.9	\$ 57.3	\$ 54.5

The largest change in total assets is due to the construction on the East Campus which is discussed in more detail on page 16.

The largest portion of RIC's net assets, \$60.2 million in fiscal year 2009 (\$54.6 million in fiscal year 2008), 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, 2009 and 2008

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 45.5% in fiscal year 2009 and 50% in fiscal year 2008. Bonds, notes and leases payable at June 30, 2009 of \$12.7 million, accounts payable of \$6.8 million, compensated absences of \$5.2 million and due to State of Rhode Island of \$18.6 million are RIC's largest liabilities (\$13.3 million, \$7.6 million, \$5.8 million, and \$19.3 million, respectively, in fiscal year 2008).

RHODE ISLAND COLLEGE

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Management's Discussion and Analysis (Unaudited) - Continued

June 30, 2009 and 2008

Financial Analysis - Continued

Condensed Statement of Revenues, Expenses and Changes in Net Assets

Years ended June 30, 2009, 2008 and 2007

(Dollars in millions)

	2009	2008	2007
Operating revenues:			
Tuition and fees	\$ 51.5	\$ 45.9	\$ 42.9
Auxiliary enterprises	17.3	16.3	13.3
Less scholarship allowances	(11.6)	(10.1)	(8.5)
Grants, contracts, and other	23.3	20.2	19.9
Total operating revenues	80.5	72.3	67.6
Operating expenses:			
Salaries and benefits	87.3	87.6	84.9
Scholarships, grants, and contracts	5.4	4.6	4.4
Utilities	3.7	3.3	3.3
Other expenses	19.6	17.5	16.9
Depreciation and amortization	5.1	4.7	4.3
Total operating expenses	121.1	117.7	113.8
Net operating loss	(40.6)	(45.4)	(46.2)
Nonoperating revenues (expenses):			
State appropriations	39.9	44.3	45.0
Other nonoperating revenues, net	(0.8)	(0.3)	0.9
Net nonoperating revenues	39.1	44.0	45.9
Loss before other revenues, expenses, gains, or losses	(1.5)	(1.4)	(0.3)
Capital appropriations	9.8	3.8	9.6
Capital gifts and grants	0.3	0.3	0.3
Total other revenues	10.1	4.1	9.9
Increase in net assets	\$ 8.6	\$ 2.7	\$ 9.6

RHODE ISLAND COLLEGE

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Management's Discussion and Analysis (Unaudited) - Continued

June 30, 2009 and 2008

Operating Revenues

Total operating revenues for fiscal year 2009 were \$80.5 million, an increase of \$8.2 million from the prior year. Total operating revenues for fiscal year 2008 were \$72.3 million, an increase of \$4.7 million from the prior year. 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 2009 tuition and fees increased by 13.6% for in-state student, 7.5% for out-of-state students, 13.1% for in-state graduate students, and 8.1% for out-of-state graduate students. Enrollment for 2008 was flat resulting in a year over year tuition and fee growth of 12.2%.
- Grant, contracts and other revenues grew by \$3.3 million in fiscal year 2009 over 2008 due to increased federal and state grant activity.

RHODE ISLAND COLLEGE

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Management's Discussion and Analysis (Unaudited) - Continued

June 30, 2009 and 2008

Operating Revenues - Continued

The following summary shows major grant and contract expenses, including indirect cost charges, for the fiscal years ending June 30, 2009, 2008 and 2007 (\$ in thousands):

Agency	Grant	2009	2008	2007
RI Department of Education	RI Technical Assistance Project	\$ 916	\$ 864	\$ 1,059
RI Department of Children, Families	RI Child Welfare Institute	734	802	820
US Department of Education	Upward Bound	576	595	571
US Department of Education	Student Support Services	295	358	363
US Department of Health	University Center on Developmental Disabilities	521	505	468
RI Department of Education	Vision Services	1,107	1,149	1,138
RI Department of Education	Surrogate Parent	462	436	412
RI Department of Education	RI Statewide Improvement Grant	—	271	770
University of Rhode Island	INBRE	498	479	639
RI Department of Human Services	Early Intervention	421	371	320
RI Department of Children, Families	Positive Education Partnership	597	565	610
RI Office of Higher Education	No Child Left Behind Partnership	136	197	182
RI Department of Education	RI State Personnel Development	694	245	—
RI Department of Education	Personnel Preparation	158	180	76

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

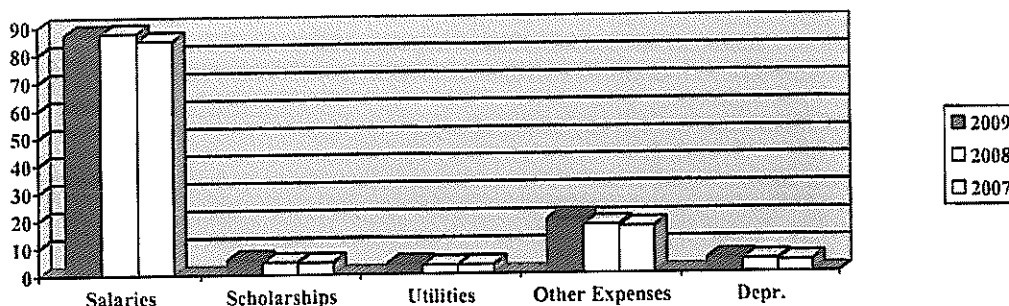
June 30, 2009 and 2008

Operating Expenses

Fiscal year 2009 operating expenses totaled \$121.1 million, an increase of \$3.4 million from the prior year. Fiscal year 2008 operating expenses totaled \$117.7 million, an increase of \$3.9 million from the prior year. Of this total, \$61.6 million or 51 % (\$59.7 million or 51% in 2008) was used for instruction, academic support, student support and scholarships. Depreciation and amortization expense totaled \$5.1 million in fiscal year 2009 and \$4.7 million in fiscal year 2008. Significant changes in operating expenses resulted from:

- Depreciation and amortization expenses of \$5.1 and \$4.7 million were \$0.4 higher and \$0.4 million higher in fiscal years 2009 and 2008, respectively, than the previous years. This increase is due to increased construction activity throughout campus.
- Personnel related expenses decreased \$0.3 million due to cost-control measures implemented as a result of appropriation decreases.

The following chart provides a graphical breakdown of significant operating categories of expenses, in millions for fiscal years ending June 30, 2009, 2008 and 2007:



RHODE ISLAND COLLEGE

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

Management's Discussion and Analysis (Unaudited) - Continued

June 30, 2009 and 2008

Nonoperating Revenues and Expenses

Net nonoperating revenues for fiscal years 2009 and 2008 are \$39.1 and \$44.0 million, respectively, consisting of the state appropriations, gifts, and net investment earnings. These figures represent a decrease of \$4.9 million and a decrease of \$1.9 million over the prior years, respectively.

Other

Capital appropriations of \$9.8 and \$3.8 million in fiscal years 2009 and 2008, respectively, represent funds to renovate the East Campus and STEM Center as well as Rhode Island Capital Plan Funds utilized by RIC to construct or acquire capital assets.

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

Capital Asset and Debt Administration

Capital Plan

The Rhode Island Board of Governors for Higher Education submits a running five-year capital improvement plan to the General Assembly and State Executive each year. The plan includes proposed capital asset protection projects for RIC. The fiscal year 2011-2015 plan for RIC totals \$198.7 and includes all projects underway and planned, whether funded or not. This plan forms the basis for discussions on funding the various projects from all available funding sources. During fiscal year 2009, RIC expended \$10.3 million on plant-related projects. RIC generally has funded its capital plans through a combination of funds received from College operations, State of Rhode Island Capital appropriation, and general obligation bonds. The execution of RIC's capital improvement plan is contingent upon approval and sufficient funding from the State.

RHODE ISLAND COLLEGE

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

Management's Discussion and Analysis (Unaudited) - Continued

June 30, 2009 and 2008

Capital Asset and Debt Administration - Continued

Capital Plan - Continued

In October 2006, RIC, URI, and CCRI in collaboration with the Governor's Office and the Board of Governors for Higher Education submitted a proposal for supporting the creative use of technology in higher education in Rhode Island. This proposed plan seeks to integrate technology and education to improve the education of pre-service and in-service teachers in science, technology, engineering and mathematics (STEM). The proposal was approved on October 6, 2006 and provided for \$11.8 million in funding to be spent over a three-year period for the system. Rhode Island College's share of this funding is \$5.0 million. The STEM Resource Center will facilitate a resource network for in-service and pre-service teachers in Rhode Island. The remaining phases of the project are expected to be completed in 2010 and will renovate and furnish additional electronic instructional venues. RIC received \$1.8 million from these funds in fiscal year 2009.

Capital Assets

At June 30, 2009, RIC had \$161.0 million invested in capital assets, \$91.6 million, net of accumulated depreciation. Included in RIC's capital assets is \$9.5 million in construction in progress. Depreciation charges totaled \$5.1 million for the current fiscal year, an increase of \$.4 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>2009</u>	<u>2008</u>	<u>2007</u>
Land and improvements	\$ 6.8	\$ 6.4	\$ 5.5
Construction in progress	9.5	2.6	28.0
Buildings and improvements	71.2	74.0	44.8
Furniture, fixtures, and equipment	3.9	4.2	4.1
Total	<u>\$ 91.4</u>	<u>\$ 87.2</u>	<u>\$ 82.4</u>

RHODE ISLAND COLLEGE

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Management's Discussion and Analysis (Unaudited) - Continued

June 30, 2009 and 2008

Capital Asset and Debt Administration - Continued

Capital Assets - Continued

Major capital additions this year included:

- Purchase of property on Hennessey Street \$0.6 Million
- Improvements to Softball Field and Track of \$0.2 million
- Improvements to Craig-Lee Hall to date \$0.11 million
- Improvements to Recreational Center Pool of \$0.16 million
- Emergency Generators \$0.17 million
- STEM Center \$0.5 million
- Computer network upgrades \$0.3 million
- East Campus Renovations of Buildings 3 & 7 to date (construction in progress) \$7.16 million
- STEM Center \$2.18 million (\$1.68 million in construction in progress)

RHODE ISLAND COLLEGE

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Management's Discussion and Analysis (Unaudited) - Continued

June 30, 2009 and 2008

Debt

At June 30, 2009 and 2008, RIC had \$12.8 and \$13.2 million in debt outstanding, a decrease of \$0.4 and \$0.7 million from the prior years, respectively. The table below summarizes the types of debt instruments:

	June 30		
	(Dollars in millions)		
	2009	2008	2007
Capital lease obligations	\$ —	\$ —	\$ 0.1
General obligation (note payable)	1.8	1.8	1.9
Revenue bonds	11.0	11.4	11.9
Total	\$ 12.8	\$ 13.2	\$ 13.9

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

In addition at June 30, 2009, RIC had a \$18.6 million obligation to repay the State for funds advanced to construct the new residence hall. This amount will be repaid over a nineteen-year period with interest.

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 is presented in note 7 to the financial statements.

Economic Factors that will Affect the Future

The seasonally adjusted unemployment rate for the State of Rhode Island, from which RIC primarily draws students, was 12.4% in June of 2009 which was an increase compared to a 7.5% in June of 2008, according to the U.S. Bureau of Labor Statistics. This change compares to a 9.4% and a 5.5%, respectively, on a national level.

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Management's Discussion and Analysis (Unaudited) - Continued

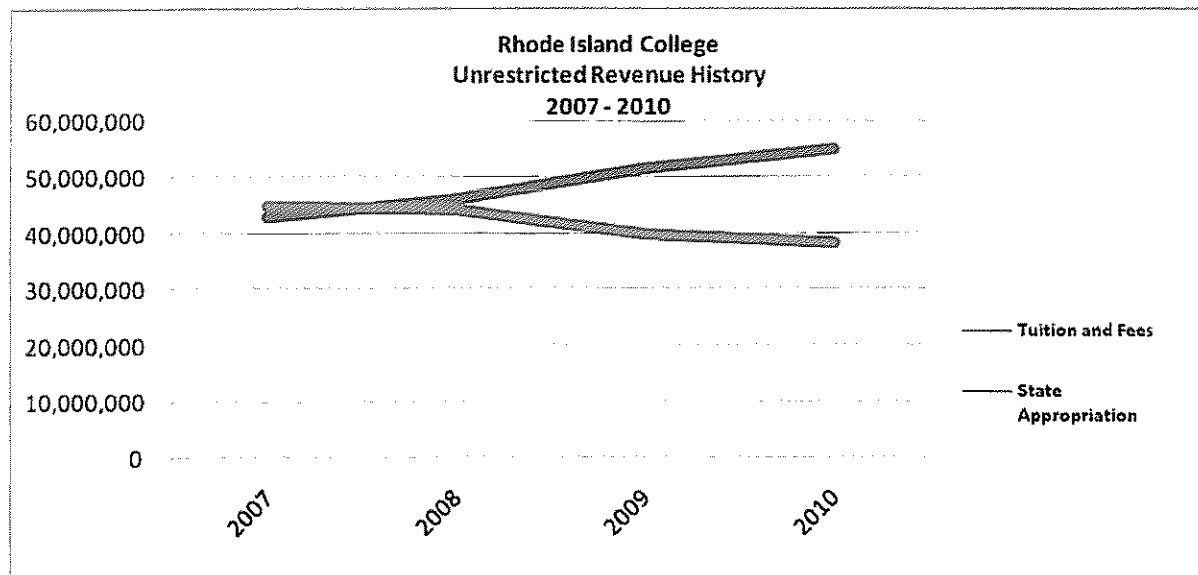
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Economic Factors that will Affect the Future - Continued

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 2009. The State projects a significant budget shortfall in fiscal year 2010 and has proposed a reduction of \$2.5 million in state appropriation to RIC's general education budget.

As a result of a reduction in State Appropriation, the 2010 appropriation provides less than 40% of RIC's unrestricted funding.



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

- Fiscal year 2009 tuition and fees were increased by 13.6% for in-state student, 7.5% for out-of-state students, 13.1% for in-state graduate students, and 8.1% for out-of-state graduate students.
- RIC submitted a request to the Board of Governors for Higher Education for tuition and fee increases for fiscal year 2010 of 9.5% for in-state students, 6.3% for out-of-state students, 9.2% for in-state graduate students, and 6.2% for out-of-state graduate students.

RHODE ISLAND COLLEGE

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Management's Discussion and Analysis (Unaudited) - Continued

June 30, 2009 and 2008

Economic Factors that will Affect the Future - Continued

- 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 2008-2009, RIC ranked second lowest in tuition and fees in its ten-member peer group.

	In-State Tuition and Fees
BUFFALO STATE (SUNY)	\$5,375
RHODE ISLAND COLLEGE	\$5,771
UNIVERSITY OF WISCONSIN-OSHKOSH	\$6,037
BRIDGEWATER STATE COLLEGE	\$6,107
SALEM STATE COLLEGE	\$6,460
SAGINAW VALLEY STATE UNIVERSITY	\$6,492
FROSTBURG STATE UNIVERSITY	\$6,714
CENTRAL CONNECTICUT STATE UNIV	\$7,042
WESTERN CONNECTICUT STATE UNIV	\$7,088
KEAN UNIVERSITY	\$9,179
WILLIAM PATERSON UNIVERSITY	\$10,492

At its June 30, 2008 meeting the Rhode Island Board of Higher Education appointed Dr. Nancy Carriuolo as the new president of Rhode Island College. The president of RIC has focused on three themes during this difficult economic period, 1) Linking arms with the community for the greater good, 2) Maintaining RIC's safe and environmentally friendly campus, 3) Raising and saving money to ensure affordable, quality programs for our students.

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
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Statements of Net Assets

June 30, 2009 and 2008

	Assets		2009 Rhode Island College Foundation	2008 Rhode Island College Foundation
	2009 Rhode Island College	2008 Rhode Island College		
Current Assets:				
Cash and cash equivalents (Note 2)	\$ 17,154,427	\$ 16,011,411	\$ 313,800	\$ 90,157
Cash held by State Treasurer (Notes 3 and 7)	1,336,362	876,497	-	-
Accounts receivable, net (Note 4)	4,377,332	3,359,845	142,116	73,020
Inventory and other current assets	772,916	605,278	3,717	824
Current portion of pledges receivable	-	-	49,117	244,496
Total Current Assets	23,641,037	20,853,031	508,750	408,497
Noncurrent Assets:				
Restricted cash and cash equivalents (Note 2)	167,523	464,260	-	-
State capital funds	1,293,648	1,392,592	-	-
Pledges receivable	-	-	144,424	95,554
Deposits	-	-	1,650	750
Investments (Note 2)	-	-	16,366,907	20,133,241
Loans receivable, net (Note 5)	4,252,169	3,987,013	-	-
Restricted assets	-	-	689,416	1,240,555
Capital assets, net of accumulated depreciation (Note 6)	91,608,705	87,246,989	15,524	1,013
Total Noncurrent Assets	97,322,045	93,090,854	17,217,921	21,471,113
Total Assets	\$ 120,963,082	\$ 113,943,885	\$ 17,726,671	\$ 21,879,610
	Liabilities and Net Assets			
Current Liabilities:				
Accounts payable and accrued liabilities	\$ 6,841,695	\$ 7,625,588	\$ 118,479	\$ 347,020
Compensated absences (Note 7)	3,660,366	3,516,346	-	-
Student deposits and unearned revenues	2,101,336	2,473,279	-	-
Funds held for others	4,226,647	3,805,726	546,919	438,731
Current portion of capital lease obligation (Note 7)	-	40,911	-	-
Current portion of bonds and note payable (Note 7)	566,161	540,513	2,910	-
Current portion of due to State of Rhode Island (Note 7)	716,316	689,649	-	-
Current portion of annuity payments payable	-	-	45,672	47,252
Total Current Liabilities	18,112,521	18,692,012	713,980	833,003
Noncurrent Liabilities:				
Compensated absences (Note 7)	1,515,705	2,331,084	-	-
Capital lease obligations (Note 7)	-	-	-	-
Bonds and notes payable (Note 7)	12,175,056	12,741,217	12,401	-
Due to State of Rhode Island (Note 7)	17,921,053	18,637,369	-	-
Due to State of Rhode Island - OPEB (Note 7 and 15)	351,126	297,634	-	-
Annuity payable	-	-	260,436	257,664
Grant refundable (Note 8)	3,752,399	3,756,010	-	-
Net OPEB obligation (Note 7 and 15)	1,206,507	188,393	-	-
Total Noncurrent Liabilities	36,921,846	37,951,707	272,837	257,664
Total Liabilities	\$ 55,034,367	\$ 56,643,719	\$ 986,817	\$ 1,090,667
Net Assets:				
Invested in capital assets, net of related debt	\$ 60,230,119	\$ 54,597,330	\$ 15,524	\$ 1,013
Restricted:				
Expendable (Note 9)	2,127,159	1,760,887	1,677,659	2,626,212
Nonexpendable	-	-	15,176,934	16,152,444
Unrestricted	3,571,437	941,949	(130,263)	2,009,274
Total Net Assets	\$ 65,928,715	\$ 57,300,166	\$ 16,739,854	\$ 20,788,943

See accompanying notes to financial statements.

RHODE ISLAND COLLEGE

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

Statements of Revenues, Expenses and Changes in Net Assets

For the Years ended June 30, 2009 and 2008

	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>
	Rhode Island College	Rhode Island College	Rhode Island College Foundation	Rhode Island College Foundation
Operating revenues:				
Tuition and fees	\$ 51,480,727	\$ 45,899,203	\$ -	\$ -
Auxiliary enterprises	17,250,953	16,355,996	-	-
Less scholarship allowances	<u>(11,602,003)</u>	<u>(10,122,098)</u>	-	-
Net Student Fees	57,129,677	52,133,101	-	-
Federal, state, local, and private grants and contracts	19,351,054	17,162,280	-	-
Sales and services of educational departments	<u>3,975,928</u>	<u>3,012,398</u>	-	-
Total Operating Revenues	<u>80,456,659</u>	<u>72,307,779</u>	-	-
Operating Expenses (Note 12):				
Instruction	36,954,423	36,500,862	-	-
Research	11,219,346	10,953,393	-	-
Academic support	12,061,561	11,035,134	-	-
Student services	7,226,361	7,569,457	-	-
Scholarships and fellowships	5,350,557	4,696,757	387,744	382,828
Public service	713,330	697,848	-	-
Operation and maintenance of plant	12,812,435	12,076,872	-	-
Institutional support	17,604,012	17,382,878	1,814,476	1,950,802
Depreciation and amortization	5,104,273	4,712,975	1,934	289
Auxiliary enterprises	<u>12,084,907</u>	<u>12,070,786</u>	-	-
Total Operating Expenses	<u>121,131,205</u>	<u>117,696,962</u>	<u>2,204,154</u>	<u>2,333,919</u>
Net operating loss	<u>(40,674,546)</u>	<u>(45,389,183)</u>	<u>(2,204,154)</u>	<u>(2,333,919)</u>
Nonoperating Revenues (Expenses):				
State appropriations (Note 13)	39,895,044	44,346,721	-	-
Gifts	-	-	2,591,087	3,164,792
Payments between the College and Foundation	411,584	202,474	(411,584)	(202,474)
Net investment income (loss)	389,906	1,076,926	(3,740,172)	(1,278,871)
Interest expense	(1,556,085)	(1,586,640)	-	-
Other	-	-	17,865	5,768
Net Nonoperating Revenues (Expenses)	<u>39,140,449</u>	<u>44,039,481</u>	<u>(1,542,804)</u>	<u>1,689,215</u>
Decrease in net assets before other revenues	(1,534,097)	(1,349,702)	(3,746,958)	(644,704)
Other revenues:				
Capital appropriations (Note 13)	9,860,515	3,833,457	-	-
Capital gifts from Foundation	<u>302,131</u>	<u>277,906</u>	<u>(302,131)</u>	<u>(277,906)</u>
Increase (decrease) in net assets	8,628,549	2,761,661	(4,049,089)	(922,610)
Net Assets, Beginning of Year	<u>57,300,166</u>	<u>54,538,505</u>	<u>20,788,943</u>	<u>21,711,553</u>
Net Assets, End of Year	<u>\$ 65,928,715</u>	<u>\$ 57,300,166</u>	<u>\$ 16,739,854</u>	<u>\$ 20,788,943</u>

See accompanying notes to financial statements

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

Statements of Cash Flows

For the Years Ended June 30, 2009 and 2008

	2009 Rhode Island College	2008 Rhode Island College
Cash Flows from Operating Activities:		
Tuition, residence, dining and other student fees	\$ 56,814,391	\$ 52,215,486
Grants and contracts	18,511,532	17,927,246
Payments to suppliers	(22,840,123)	(20,854,962)
Payments to employees	(88,111,011)	(86,307,087)
Payments for scholarships, fellowships and sponsored programs	(5,388,168)	(4,696,757)
Loans to students	(741,199)	(830,880)
Collection of loans to students	476,043	618,855
Other receipts	<u>3,597,724</u>	<u>1,830,411</u>
Net Cash Used by Operating Activities	<u>(37,680,811)</u>	<u>(40,097,688)</u>
Cash Flows from Noncapital Financing Activities:		
State appropriations	39,895,044	44,346,721
Funds held for others	420,921	945,788
Noncapital gifts and grants	<u>411,584</u>	<u>202,474</u>
Net Cash Provided by Noncapital and Related Financing Activities	<u>40,727,549</u>	<u>45,494,983</u>
Cash Flows from Capital and Related Financing Activities:		
Capital appropriations	9,860,515	3,833,457
Capital gifts and grants	302,131	277,906
Purchases of capital assets	(9,465,988)	(9,512,560)
Principal paid on capital debt and leases	(1,271,073)	(1,274,921)
Interest paid on capital debt and leases	(1,556,085)	(1,586,640)
Deposits with trustee	<u>-</u>	<u>150,973</u>
Net Cash Used by Capital and Related Financing Activities	<u>(2,130,500)</u>	<u>(8,111,785)</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, 2009 and 2008

	2009 Rhode Island College	2008 Rhode Island College
Cash Flows from Investing Activities:		
Interest on investments	<u>\$ 389,906</u>	<u>\$ 1,076,926</u>
Net Cash Provided by Investing Activities	<u>389,906</u>	<u>1,076,926</u>
Net Increase (Decrease) in Cash and Cash Equivalents	1,306,144	(1,637,564)
Cash and Cash Equivalents, Beginning of Year	<u>17,352,168</u>	<u>18,989,732</u>
Cash and Cash Equivalents, End of Year	<u>\$ 18,658,312</u>	<u>\$ 17,352,168</u>
Reconciliation of Net Operating Loss to Net Cash Applied to Operating Activities:		
Operating loss	\$ (40,674,546)	\$ (45,389,183)
Adjustments to reconcile net loss to net cash applied to operating activities:		
Bad debt	1,007,803	855,155
Depreciation	5,104,272	4,712,975
Changes in assets and liabilities:		
Accounts receivable	(2,025,290)	285,746
Inventory and other current assets	(167,638)	(134,391)
Loans receivable	(265,156)	(212,025)
State capital funds	98,944	(1,002,407)
Accounts payable and accrued liabilities	(783,893)	1,042,573
Compensated absences	(671,359)	(61,608)
Due to State of Rhode Island - OPEB	53,492	297,634
Net OPEB obligation	1,018,114	188,393
Student deposits and unearned revenues	(371,943)	(25,175)
Grants refundable	<u>(3,611)</u>	<u>(83,883)</u>
Net Cash Applied to Operating Activities	<u>\$ (37,680,811)</u>	<u>\$ (39,526,196)</u>

See accompanying notes to financial statements.

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

Notes to the Financial Statements

June 30, 2009 and 2008

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.

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.

RHODE ISLAND COLLEGE

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

Notes to the Financial Statements - Continued

June 30, 2009 and 2008

Note 1 - Summary of Significant Accounting Policies - Continued

Basis of Presentation - Continued

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

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, 2009 and 2008, the Foundation distributed \$713,715 and \$480,380, respectively, to the College for both restricted and unrestricted purposes.

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

Notes to the Financial Statements - Continued

June 30, 2009 and 2008

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

Basis of Presentation - Continued

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

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

Net Assets

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

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

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

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

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

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

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

Notes to the Financial Statements - Continued

June 30, 2009 and 2008

Note 1 - Summary of Significant Accounting Policies - Continued

Cash and Cash 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 50 years.

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

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 nonunion personnel, according to State or College policy.

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

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

Notes to the Financial Statements - Continued

June 30, 2009 and 2008

Note 1 - Summary of Significant Accounting Policies - Continued

Compensated Absences and Salary Reduction Plan - Continued

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

Post Employment Benefits

In accordance with GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions* (GASBS 45), the College implemented this pronouncement for the fiscal year ending 2008. GASBS 45 requires governments to account for other postemployment benefits (OPEB), primarily healthcare, on an accrual basis rather than on a pay-as-you-go basis. The effect is the recognition of an actuarially required contribution as an expense on the statement of revenues, expenses and changes in net assets when a future retiree earns their postemployment benefits, rather than when they use their postemployment benefit. To the extent that an entity does not fund their actuarially required contribution, a postemployment benefit liability is recognized on the balance sheet over time.

Health Insurance

The State offers one state paid health plan to each of its participating agencies, including the College. The premiums for these plans are divided among the agencies based upon their number of eligible employees. All employees share in healthcare costs. Employee co-pays range from 8% to 13% of healthcare premiums for nonclassified staff. Classified employees co-pays range from 8% to 25% of healthcare premiums. The costs are automatically deducted through the payroll system on a bi-weekly basis. Amounts paid by the College for the 2009 and 2008 health premiums amounted to \$9,679,742 and \$9,379,388 respectively. Employee contributions for 2009 and 2008 were approximately \$1,141,000 and \$841,000, respectively.

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

Notes to the Financial Statements - Continued

June 30, 2009 and 2008

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

Assessed Fringe Benefit Administrative Fund

In July 2000, the State established the Assessed Fringe Benefit Administrative Fund. This fund is used to make all payments relating to workers' compensation charges, unemployment payments and payments to employees for unused vacation and sick leave at the time of retirement or termination from State service. The State funds this account by assessing a charge against the bi-weekly payrolls of all State agencies, including the College. The fringe benefit assessment rate for fiscal year 2009 was 6.3% for non-faculty and 2.9% for faculty. The 2008 rate was 3.8% for both non-faculty and faculty. The assessed fringe benefit cost for the College for fiscal year 2009 and 2008 was approximately \$2,278,000 and \$41,851,000, 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.

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.

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

Notes to the Financial Statements - Continued

June 30, 2009 and 2008

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

Risk Management

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

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

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

All vehicles are owned by the State, which insures them for liability through an outside carrier. The policy is a loss retrospective program where premiums can be adjusted for claims incurred. Workers' compensation, unemployment, and employee health and life insurance claims are self-insured and managed by the State. The amounts of settlement have not exceeded insurance coverage in each of the past three years.

New Governmental Accounting Pronouncements

In November 2006, GASB issued Statement 49, *Accounting and Financial Reporting for Pollution Remediation Obligations* (GASB 49), effective for periods beginning after December 15, 2007. GASB 49 requires the reporting of pollution remediation obligations that address the current or potential detrimental effects of existing pollution and provides guidance on the identification and recognition of such pollution obligations. The Community College has adopted GASB 49 effective as of July 1, 2008. The statement's implementation had no material effect on 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, 2009 and 2008

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

New Governmental Accounting Pronouncements - Continued

In June 2007 GASB issued Statement 51, *Accounting and Financial Reporting for Intangible Assets* (GASB 51), effective for periods beginning after June 15, 2009. GASB 51 requires the capitalization of intangible assets and provides guidance on the recognition and amortization of these intangible assets. The College is reviewing the requirements of this promulgation and does not believe its implementation will have any material effects on the financial statements. GASB 53, *Accounting and Financial Reporting for Derivative Instruments*, also effective for periods beginning after June 15, 2009, addresses the recognition, measurement and disclosure of information regarding derivative instruments. The College does not hold any derivative instruments.

GASB 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, is required for periods beginning after June 15, 2010 (fiscal year end June 2011). This Statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of resources reported in governmental funds. The initial distinction that it makes is identifying amounts that are considered non-spendable. It also provides for additional classification as restricted, committed, assigned and unassigned based on the relative strength of the constraints that control how specific amounts can be spent. Management of the College is currently reviewing this Statement and has made no determination as to its impact on the financial statements.

Note 2 - **Cash, Cash Equivalents and Investments**

Cash and Cash Equivalents

At June 30, 2009 and 2008, the carrying amount of the College's cash deposits are \$17,321,950 and \$16,475,671, and the bank balance was \$18,627,699 and \$16,920,970, respectively. Deposits that are not covered by depository insurance are uncollateralized, collateralized with securities held by the pledging financial institution, or collateralized with securities held by the pledging financial institution's trust department or agent but not in the depositor-government's name are exposed to custodial credit risk.

RHODE ISLAND COLLEGE

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

Notes to the Financial Statements - Continued

June 30, 2009 and 2008

Note 2 - Cash, Cash Equivalents and Investments - Continued

Cash and Cash Equivalents - Continued

Of the 2009 bank balance, \$1,477,508 was covered by federal depository insurance and \$17,148,912 was collateralized with securities held in the College's name by the pledging financial institution. The remaining amount, \$1,279, was uninsured and uncollateralized. These bank balances reflect revised FDIC insurance and guarantee programs in effect during 2009. None of the College's cash deposits were required to be collateralized by law since the deposits are not time deposits. In addition, the five financial institutions doing business with the College exceed the minimum capital standards prescribed by their federal regulator.

For 2008, bank balances of \$242,658 were covered by federal depository insurance and \$14,942,423 was collateralized with securities held in the College's name by the pledging financial institution. The remaining amount, \$1,735,889 was uninsured and uncollateralized.

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

Investments

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

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

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

Notes to the Financial Statements - Continued

June 30, 2009 and 2008

Note 2 - **Cash, Cash Equivalents and Investments - Continued**

Investments - Continued

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

The June 30, 2009 and 2008 investment portfolio concentrations are as follows:

	Foundation 2009	
	Amount	Percentage
Common stocks	\$ 10,024,693	61%
Government securities	5,064,300	31
Cash equivalents	1,277,914	8
	\$ 16,366,907	100%
	Foundation 2008	
	Amount	Percentage
Common stocks	\$ 13,321,037	65%
Government securities	5,944,666	28
Direct financing lease	45,837	1
Cash equivalents	821,701	6
	\$ 20,133,241	100%

Restricted Cash

Restricted cash includes the following at June 30:

	2009	2008
Grant fund	\$ 116,256	\$ 29,116
Loan fund	52,104	435,981
Bonds with trustee	(837)	(837)
	\$ 167,523	\$ 464,260

RHODE ISLAND COLLEGE
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Notes to the Financial Statements - Continued

June 30, 2009 and 2008

Note 3 - Cash Held by State Treasurer

Accrued salaries to be funded from state-appropriated funds totaled \$338,888 and \$701,497 at June 30, 2009 and 2008, respectively. The College has recorded a comparable dollar amount of cash held by the State Treasurer for the benefit of the College. In addition, the College has \$997,474 and \$175,000 on deposit with the State with respect to issuance of bonds on behalf of the College at June 30, 2009 and 2008, respectively.

Note 4 - Accounts Receivable

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

	2009	2008
Student accounts receivable	\$ 2,123,949	\$ 1,766,995
Grants receivable	2,536,037	2,025,478
Other receivables	1,247,076	860,325
	5,907,062	4,652,798
Less allowance for doubtful accounts	(1,529,730)	(1,292,953)
	\$ 4,377,332	\$ 3,359,845

Note 5 - Loans Receivable

Loans receivable include the following at June 30:

	2009	2008
Perkins loans receivable	\$ 5,347,322	\$ 5,028,945
Nursing loans receivable	37,938	39,122
	5,385,260	5,068,067
Less allowance for doubtful accounts	(1,133,091)	(1,081,054)
	\$ 4,252,169	\$ 3,987,013

RHODE ISLAND COLLEGE
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Notes to the Financial Statements - Continued

June 30, 2009 and 2008

Note 6 - Capital Assets

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

	Estimated lives (in years)	2009				Ending balance
		Beginning balance	Additions	Retirements	Reclassifications	
Capital assets not depreciated:						
Construction in progress	—	\$ 2,679,435	7,374,363	—	(534,901)	\$ 9,518,897
Land	—	1,630,968	600,000	—	—	2,230,968
Total not depreciated		4,310,403	7,974,363	—	(534,901)	11,749,865
Capital assets depreciated:						
Land improvements	15 – 25	8,300,903	213,135	—	137,991	8,652,029
Buildings, including improvements	10 – 30	129,009,746	850,145	—	396,910	130,256,801
Furnishings and equipment (including cost of capital leases)	5 – 15	19,708,100	428,345	—	—	20,136,445
Total depreciated		157,018,749	1,491,625	—	534,901	159,045,275
Total capital assets		161,329,152	9,465,988	—	—	170,795,140
Less accumulated depreciation:						
Land improvements		3,502,975	459,205	—	—	3,962,180
Buildings and improvements		55,021,962	3,993,586	—	—	59,015,548
Furnishings and equipment		15,557,226	651,481	—	—	16,208,707
Total accumulated depreciation		74,082,163	5,104,272	—	—	79,186,435
Capital assets, net		\$ 87,246,989	4,361,716	—	—	\$ 91,608,705

RHODE ISLAND COLLEGE
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Notes to the Financial Statements - Continued

June 30, 2009 and 2008

Note 6 - Capital Assets - Continued

2008						
	Estimated lives (in years)	Beginning balance	Additions	Retirements	Reclassifications	Ending balance
Capital assets not depreciated:						
Construction in progress		\$ 27,987,045	2,367,439	—	(27,675,049)	\$ 2,679,435
Land		1,630,968	—	—	—	1,630,968
Total not depreciated		29,618,013	2,367,439	—	(27,675,049)	4,310,403
Capital assets depreciated:						
Land improvements	15 – 25	7,009,254	1,087,549	—	204,100	8,300,903
Buildings, including improvements	10 – 30	96,370,703	5,168,094	—	27,470,949	129,009,746
Furnishings and equipment (including cost of capital leases)	5 – 15	18,999,213	889,482	(180,595)	—	19,708,100
Total depreciated		122,379,170	7,145,125	(180,595)	27,675,049	157,018,749
Total capital assets		151,997,183	9,512,564	(180,595)	—	161,329,152
Less accumulated depreciation:						
Land improvements		3,088,594	414,381	—	—	3,502,975
Buildings and improvements		51,533,065	3,488,897	—	—	55,021,962
Furnishings and equipment		14,928,124	809,697	(180,595)	—	15,557,226
Total accumulated depreciation		69,549,783	4,712,975	(180,595)	—	74,082,163
Capital assets, net		\$ 82,447,400	4,799,589	—	—	\$ 87,246,989

RHODE ISLAND COLLEGE
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Notes to the Financial Statements - Continued

June 30, 2009 and 2008

Note 7 - Long-Term Liabilities

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

	2009				
	Beginning balance	Additions	Reductions	Ending balance	Current portion
Leases and bonds payable:					
Lease obligations	\$ 40,911	\$ —	\$ 40,911	\$ —	\$ —
Note payable	1,849,179	—	74,582	1,774,597	78,740
Revenue bonds payable	11,432,551	—	465,931	10,966,620	487,421
Total leases and bonds payable	13,322,641	—	581,424	12,741,217	566,161
Other long-term liabilities:					
Due to State of Rhode Island	19,327,018	—	689,649	18,637,369	716,316
Due to State of Rhode Island-OPEB	297,634	53,492	—	351,126	—
Compensated absences	5,847,430	3,630,156	4,301,515	5,176,071	3,660,366
Net OPEB obligation	188,393	1,018,114	—	1,206,507	—
Total long-term liabilities	<u>\$ 38,983,116</u>	<u>\$ 4,701,762</u>	<u>\$ 5,572,588</u>	<u>\$ 38,112,290</u>	<u>\$ 4,942,843</u>
	2008				
	Beginning balance	Additions	Reductions	Ending balance	Current portion
Leases and bonds payable:					
Lease obligations	\$ 97,405	\$ —	\$ 56,494	\$ 40,911	\$ 40,911
Note payable	1,919,822	—	70,643	1,849,179	74,582
Revenue bonds payable	11,907,353	—	474,802	11,432,551	465,931
Total leases and bonds payable	13,924,580	—	601,939	13,322,641	581,424
Other long-term liabilities:					
Due to State of Rhode Island	20,000,000	—	672,982	19,327,018	689,649
Due to State of Rhode Island-OPEB	—	297,634	—	297,634	—
Compensated absences	5,909,040	3,815,307	3,876,917	5,847,430	3,516,346
Net OPEB obligation	—	188,393	—	188,393	—
Total long-term liabilities	<u>\$ 39,833,620</u>	<u>\$ 4,301,334</u>	<u>\$ 5,151,838</u>	<u>\$ 38,983,116</u>	<u>\$ 4,787,419</u>

RHODE ISLAND COLLEGE
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Notes to the Financial Statements - Continued

June 30, 2009 and 2008

Note 7 - 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	
	2009	2008
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.	\$ 6,343,213	\$ 6,655,420
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.	3,320,000	3,410,000
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.	1,303,407	1,367,132
United States Department of Education Note Payable used to renovate and restore the Sylvan R. Forman Center. The note original amount issued \$2,561,000, carries an interest rate of 5.5% payable in level semi-annual installments of \$87,637 through February 1, 2024.	1,774,597	1,849,179
	\$ 12,741,217	\$ 13,281,731

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.

RHODE ISLAND COLLEGE
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Notes to the Financial Statements - Continued

June 30, 2009 and 2008

Note 7 - Long-Term Liabilities - Continued

Bonds and Notes Payable - Continued

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:			
2010	\$ 566,161	553,884	1,120,045
2011	582,040	534,196	1,116,236
2012	600,034	513,550	1,113,584
2013	621,417	491,504	1,112,921
2014	644,942	467,640	1,112,582
2015-2019	3,670,289	1,730,692	5,400,981
2020-2024	4,641,334	864,040	5,505,374
2025-2029	965,000	188,663	1,153,663
2030-2031	450,000	20,475	470,475
	<u>\$ 12,741,217</u>	<u>5,364,644</u>	<u>18,105,861</u>

Interest costs for the years ended June 30, 2009 and 2008, were \$571,755 and \$675,662, 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. The State annually appropriates funds to the College to be used for debt service on these bonds.

Related Party Transactions

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

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

RHODE ISLAND COLLEGE
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Notes to the Financial Statements - Continued

June 30, 2009 and 2008

Note 7 - **Long-Term Liabilities - Continued**

Related Party Transactions - Continued

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

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

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

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Year ending June 30:			
2010	\$ 716,316	892,110	1,608,426
2011	756,316	859,368	1,615,684
2012	799,649	824,335	1,623,984
2013	842,982	787,335	1,630,317
2014	889,649	748,368	1,638,017
2015-2019	5,174,912	3,036,563	8,211,475
2020-2024	6,511,579	1,701,263	8,212,842
2025-2026	2,945,966	241,998	3,187,964
	<u>\$ 18,637,369</u>	<u>9,091,340</u>	<u>27,728,709</u>

Interest costs for the years ended June 30, 2009 and 2008 were \$923,343 and \$903,780, respectively.

Also, in November 2006 the voters of Rhode Island approved \$72.8 million general obligation bonds, refunding bonds, and temporary notes consisting of \$65.0 million for the construction of a new college of pharmacy building at the University of Rhode Island and \$7.8 million for renovation to the former Department of Children, Youth, and Families Facilities at the College. As of June 30, 2009, \$6,959,718 in funding was received by the College. For 2008, \$1.56 million in funding was received by the College.

RHODE ISLAND COLLEGE

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Notes to the Financial Statements - Continued

June 30, 2009 and 2008

Note 8 - Grant Refundable

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

Note 9 - Restricted Net Assets

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

	<u>2009</u>	<u>2008</u>
Restricted – expendable:		
Retirement of general long-term debt	\$ (25,763)	33,059
Renewal and replacements	1,612,486	1,339,999
College funds	365,278	212,671
Capital project programs	175,158	175,158
	<u>\$ 2,127,159</u>	<u>1,760,887</u>

Note 10 - Unrestricted Net Assets

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.

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.

RHODE ISLAND COLLEGE
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Notes to the Financial Statements - Continued

June 30, 2009 and 2008

Note 11 - **Contingencies - Continued**

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.

Note 12 - **Operating Expenses**

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

	2009	2008
Compensation and benefits	\$ 87,383,418	87,741,011
Supplies and services	23,292,957	20,546,219
Depreciation and amortization	5,104,273	4,712,975
Scholarships and fellowships	5,350,557	4,696,757
	\$ 121,131,205	117,696,962

Note 13 - **State Appropriations**

Direct Appropriations

Pursuant to the 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 re-appropriations made by the Governor for fiscal year 2009. 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 entities under its direction, including the College.

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

RHODE ISLAND COLLEGE

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Notes to the Financial Statements - Continued

June 30, 2009 and 2008

Note 13 - State Appropriations - Continued

State Capital Plan Funds

The Rhode Island Capital Plan Fund was modeled on a financial technique originating in the State of Delaware. Each year the State reserves 2% of its general revenues to fund a Budget Reserve and Cash Stabilization Fund. This process continues annually until the fund reaches 3% of total resources. Once that point is achieved, excess revenues are transferred to a Capital Plan Fund. This Fund is used for capital expenditures and for debt reduction. The technique is a "pay-as-you-go" process that avoids increasing the State's debt burden. Higher education has received off-budget allocations through this program since fiscal year 1995.

During fiscal years 2009 and 2008, the State allocated \$ 1,526,642 and \$2,019,125, respectively, to the College for asset protection.

State Contributed Capital

In October 2006, the College, URI and CCRI in collaboration with the Governor's Office, and the Board of Governors for Higher Education, submitted a proposal for supporting the creative use of technology in higher education in Rhode Island. This proposed plan seeks to integrate technology and education to improve the education of pre-service and in-service teachers in science, technology, engineering and mathematics (STEM). The proposal was approved on October 6, 2006 and provided for \$11,750,000 in funding to be spent over a three-year period for the system. The College's share of this funding is \$5,000,000. During fiscal years 2009 and 2008, the College recorded approximately \$2,100,000 and \$228,000 respectively in these funds.

In 2009, the College recorded approximately \$6,200,000 in contributed capital for renovations to the former Department of Children, Youth and Family facilities.

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

	<u>2009</u>	<u>2008</u>
Direct appropriations	\$ 39,895,044	\$ 44,346,721
State capital plan funds	1,526,642	2,019,125
State contributed capital	8,333,873	1,814,332
	<u>\$ 49,755,559</u>	<u>\$ 48,180,178</u>

RHODE ISLAND COLLEGE

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Notes to the Financial Statements - Continued

June 30, 2009 and 2008

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, the Alternate Retirement Plan (ARP), which was established by the Rhode Island Board of Governors (Board) who is also responsible for amending it. Eligible employees who have reached the age of 30, and who have two years of service are required to participate in either the Teachers' Insurance and Annuity Association, the Metropolitan Life Insurance Company, or Variable Annuity Life Insurance Company retirement plan. The Board establishes and amends contribution rates. Eligible employees must contribute at least 5% of their gross biweekly earnings. These contributions may be made on a pre-tax basis. The College contributes 9% of the employee's gross biweekly earnings. The total expenditures by the College for such annuity contracts amounted to approximately \$2,905,000 and \$2,880,000 during fiscal years ending 2009 and 2008, respectively.

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

The payroll expense of College employees covered by the System was approximately \$13,377,000 and \$12,947,000 for the years ended June 30, 2009 and 2008, respectively. The College's total payroll expense for the years ended June 30, 2009 and 2008 was approximately \$62,608,000 and \$62,857,000, respectively.

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

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Notes to the Financial Statements - Continued

June 30, 2009 and 2008

Note 14 - Pension and Early Retirement Plans - Continued

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

Covered employees in the System were required to contribute 8.75% of salaries paid in 2009 and 2008 while the College was required to pay 21.64% and 20.27% of salaries paid for the years ending June 30, 2009 and 2008, respectively. In addition, the College is required to contribute 5.62% and 3.91% for post-retirement health benefits in 2009 and 2008, respectively. Employees contributed approximately \$1,170,000 and \$1,243,000 during the years ended June 30, 2009 and 2008, respectively. The College's contributions to the System for the years ended June 30, 2009, 2008, and 2007 were approximately \$2,897,000, \$2,961,000, and \$2,611,000, respectively, representing 100% of the required contribution for each of the three years.

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

Note 15 - Other Post Employment Benefits

(a) Rhode Island Retiree Health Care Benefit Plan

Plan Description

The College participates in a State administered defined benefit post-employment health care plan known as the Rhode Island Retiree Health Care Benefits Plan (RIRHCBP), an agent multiple employer plan.

The RIRHCBP is reported in an internal service fund of the State using the accrual basis of accounting. The fund reports all employer and retiree (plan member) contributions to the plan. Contributions are recognized when made. Benefits (health care claims) and refunds are recognized when due and payable in accordance with the terms of the plan. A liability for incurred but not reported claims is determined based on past claims payment trends and is included in the State's financial statements. Working premium rates are determined by the State each fiscal year after consultation

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Notes to the Financial Statements - Continued

June 30, 2009 and 2008

Note 15 - **Other Post Employment Benefits - Continued**

Plan Description - Continued

with an employee benefits consultant and are designed to fund current claims incurred during the fiscal year as well as the costs of administering the plan. For the year ended June 30, 2009, the Plan operated on a pay as you go basis and no provision has been made to fund future benefits to be provided to RIRHCBP members. RIRHCBP does not issue a stand-alone financial report.

Funding Policy

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

For those who retired on or before September 30, 2008, the State provides two types of subsidies for health care benefits. The Tier I subsidy applies to non-Medicare eligible plans and provides that the State will pay the portion of the cost of post-retirement health care for the retiree and any dependents above the active group rate. The retiree pays the active monthly rate and the State pays the difference between the active group rate and the early retiree rate. This subsidy is not based on years of service and ends at age 65. In addition to the Tier I benefits, the State pays a portion of the cost of post-retirement health care above the Tier I costs for certain retirees meeting eligibility requirements based upon the age and service of the retiree, which is referred to as the Tier II benefit.

RHODE ISLAND COLLEGE
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Notes to the Financial Statements - Continued

June 30, 2009 and 2008

Note 15 - **Other Post Employment Benefits - Continued**

Plan Description

For those who retired on or before September 30, 2008, the fiscal 2009 contributions are as follows:

<u>Retiree Age</u>	<u>Years of Service</u>	<u>Amount of Cost Paid by Retiree</u>
Below 60: (1)	28-34	10%
	35+	0%
Retiree Age from 60 to 65: (1)	10 – 15	50%
	16 – 22	30%
	23 – 27	20%
	28+	0%
Retiree Age Greater than 65: (2)	10 – 15	50%
	16 – 19	30%
	20 – 27	10%
	28+	0%

(1) The monthly premium rate for fiscal year 2009 is \$789.76 for the individual plan. The retiree's cost is then calculated based on a maximum of \$481.28 (the active plan rate).

(2) The monthly premium rate for the Medicare Supplemental plan is \$201.16 for the individual plan, and the monthly premium for the Medicare HMO plan was \$107 for the first six months of fiscal year 2009 and \$115 thereafter. Retirees can choose between the two plans. The retiree's cost is then calculated based on their years-of-service subsidy above.

For anyone who retired after September 30, 2008, age 59 through 64, with a minimum of 20 years of service, the State will pay 80% of the actual cost of health care coverage. The State contributed \$631.81 per month for these retirees during fiscal 2009. For eligible retirees ages 65 or older, the State pays 80% of the cost of the Medicare supplement products as described in Note (2) above.

RHODE ISLAND COLLEGE
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Notes to the Financial Statements - Continued

June 30, 2009 and 2008

Note 15 - **Other Post Employment Benefits - Continued**

Annual Other Postemployment Benefit (OPEB) Cost and Net OPEB Obligation:

The College recognized an expense equal to the annual required contribution of the employer (ARC), which is actuarially determined in accordance with GASBS 45, interest on the net OPEB obligation at the beginning of the fiscal year and the ARC adjustment. 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 ARC for fiscal 2009 was determined based on an actuarial valuation performed as of June 30, 2005. Separate actuarial valuations were not performed at June 30, 2005 for each participating component unit. For fiscal year 2009, the ARC, as a percentage of covered payroll, for participating component units was the same for all active plan members, 6.01% of covered payroll. Beginning with the actuarial valuation performed as of June 30, 2007, separate ARCs and unfunded actuarial accrued liabilities were determined for each participating component unit. The College actually contributed 5.62% of annual covered payroll for fiscal 2009. The College's annual OPEB cost and the net OPEB obligation for fiscal 2009, were as follows:

Annual required contribution (ARC)	\$ 803,994
Plus: Interest on net OPEB obligation at beginning of year	10,614
Less: Adjustment to ARC	<u>9,615</u>
Annual OPEB cost	804,993
Contributions made	<u>751,501</u>
Increase in OPEB obligation	53,492
Net obligation at beginning of year	<u>297,634</u>
Net obligation at end of year	\$ <u>351,126</u>

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Notes to the Financial Statements - Continued

June 30, 2009 and 2008

Note 15 - **Other Post Employment Benefits - Continued**

Annual Other Postemployment Benefit (OPEB) Cost and Net OPEB Obligation - Continued:

The College's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2009 and 2008 (first year of GASB 45 implementation) were as follows:

<u>Fiscal Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
June 30, 2008	\$851,801	65.1%	\$297,634
June 30, 2009	\$804,993	93.3%	\$351,126

Funded Status and Funding Progress:

The funded status of the College's share of the Plan as of June 30, 2007 (the date of the most recent valuation), was as follows:

Actuarial Accrued Liability (AAL)	\$18,715,709
Actuarial Value of Plan Assets	_____
Unfunded Actuarial Accrued Liability (UAAL)	<u>\$18,715,709</u>
Funded ratio (Actuarial Value of Plan Assets / AAL)	0%
Annual Covered Payroll (Active Plan Members)	\$13,377,597
UAAL as a Percentage of Covered Payroll	71.5%

A separate actuarial valuation was performed to determine the actuarial accrued liability for the College, a participating employer.

RHODE ISLAND COLLEGE
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Notes to the Financial Statements - Continued

June 30, 2009 and 2008

Note 15 - **Other Post Employment Benefits - Continued**

Funded Status and Funding Progress - Continued:

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

Actuarial Methods and Assumptions:

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

The Annual Required Contributions for fiscal year 2009 was determined based on the June 30, 2005 valuation. The most recent actuarial valuation was performed as of June 30, 2007. The Unfunded Actuarial Accrued Liability (UAAL) was amortized by a level (principal and interest combined) percent of payroll contribution for each component unit employer. The UAAL was determined using the actuarial value of assets and actuarial accrued liability calculated as of the valuation date. The UAAL is being amortized over the remainder of a closed 30-year (or shorter) period from June 30, 2006.

Plan changes effective for employees retiring after October 1, 2008 have been reflected in the actuarial valuation performed as of June 30, 2007 and June 30, 2005.

The individual entry-age actuarial cost method is used to determine the annual required contribution amounts and the annual net OPEB obligation. The actuarial assumptions include a 3.566% discount rate based upon the average rate of return during the 10 years ended June 30, 2008 for short term investments of the State's General Fund; an annual healthcare cost trend rate of 12% progressively declining to 4.5% after 10 years for the 2005 valuation; and a salary growth rate ranging from

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Notes to the Financial Statements - Continued

June 30, 2009 and 2008

Note 15 - **Other Post Employment Benefits - Continued**

Actuarial Methods and Assumptions - Continued:

8.25% in the first year of service to 4.75% in year 15 and beyond for the 2005 valuation. In the June 30, 2007 valuation the health care cost trend assumption was changed to a rate of 10% progressively declining to 4.5% after 8 years and the salary growth assumption was changed to a rate of 9.00% in the first year of service to 4.5% in year 15 and beyond. Other changes in assumptions between the 2005 and 2007 valuations include changes in the assumed rates of termination, rates of retirement, percent married, and retiree health care election rates. These assumptions changes were based on the experience study for the Employees' Retirement System of Rhode Island as well as anticipated experience changes in conjunction with the adopted plan changes.

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events in the future. Examples include assumptions about employment, mortality and healthcare cost trends. Actuarial valuations are subject to continual revision as actual results are compared to past expectations and new estimates are formulated about the future.

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

Plan description:

The College contributes to the Rhode Island Board of Governors for Higher Education (Board) health care insurance retirement program (Plan), medical coverage only, for eligible employees who participate in the Board's Alternate Retirement Plan (ARP) (Note 13) and per union contracts. The Board established an agent multiple-employer defined benefit healthcare plan effective July 1, 1998 for all of its subject entities including the College.

RHODE ISLAND COLLEGE
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Notes to the Financial Statements - Continued

June 30, 2009 and 2008

Note 15 - **Other Post Employment Benefits - Continued**

Plan description - Continued:

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

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

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

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

RHODE ISLAND COLLEGE
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Notes to the Financial Statements - Continued

June 30, 2009 and 2008

Note 15 - Other Post Employment Benefits - Continued

Plan description - Continued:

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

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

Funding Policy:

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

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

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

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

College employees covered by this program contributed \$ 241,008 and \$87,531, during fiscal years 2009 and 2008, respectively. Employer contributions to the program were \$604,412 and \$558,100 during fiscal years 2009 and 2008, respectively.

RHODE ISLAND COLLEGE
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Notes to the Financial Statements - Continued

June 30, 2009 and 2008

Note 15 - **Other Post Employment Benefits - Continued**

Funding Policy - Continued:

College membership in the Board's Plan consisted of the following at June 30, 2007, the date of the latest actuarial valuation:

Retirees and beneficiaries receiving benefits	147
Active Board plan members	<u>574</u>
Total	<u>721</u>

Annual Other Postemployment Benefit (OPEB) Cost and Net OPEB Obligation:

The College recognized an expense equal to the annual required contribution of the employer (ARC), which is actuarially determined in accordance with GASB Statement 45, interest on the net OPEB obligation at the beginning of the fiscal year and the ARC adjustment. 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. For fiscal year 2009, the College's annual OPEB cost (expense) was \$1,622,526 for the Plan resulting in a net OPEB obligation of \$1,206,507.

Annual required contribution (ARC)	\$1,391,418
Plus: Interest on net OPEB obligation at beginning of year	14,909
Plus: Adjustment to ARC	<u>216,199</u>
Annual OPEB cost	1,622,526
Contributions made	<u>604,412</u>
Increase in OPEB obligation	1,018,114
Net obligation at beginning of year	<u>188,393</u>
Net obligation at end of year	<u>\$1,206,507</u>

RHODE ISLAND COLLEGE
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Notes to the Financial Statements - Continued

June 30, 2009 and 2008

Note 15 - Other Post Employment Benefits - Continued

Annual Other Postemployment Benefit (OPEB) Cost and Net OPEB Obligation - Continued:

The College's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2009 and 2008 (first year of GASB 45 implementation) were as follows:

<u>Fiscal Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
June 30, 2008	\$ 746,493	74.8%	\$188,393
June 30, 2009	\$1,622,526	37.1%	\$1,206,507

Funded Status and Funding Progress:

The funded status of the College's share of the plan as of June 30, 2007 (the date of the most recent valuation), was as follows:

Actuarial Accrued Liability (AAL)	\$17,565,979
Actuarial Value of Plan Assets	-
Unfunded Actuarial Accrued Liability (UAAL)	<u>\$17,565,979</u>
Funded ratio (Actuarial Value of Plan Assets / AAL)	0%
Annual Covered Payroll (Active Plan Members)	\$32,134,352
UAAL as a Percentage of Covered Payroll	54.7%

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

Notes to the Financial Statements - Continued

June 30, 2009 and 2008

Note 15 - **Other Post Employment Benefits - Continued**

Funded Status and Funding Progress - Continued:

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

Actuarial Methods and Assumptions

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

In the June 30, 2007 actuarial valuation, the individual entry age actuarial cost method was used to determine the annual required contribution (ARC) and the annual net OPEB obligation. The actuarial assumptions included a 3.566% discount rate, rate of annual salary increases of 4.5 percent, an annual healthcare cost trend rate of 10 percent initially, reduced by decrements to an ultimate rate of 4.5 percent in 2016 and includes a 4.5 percent inflation assumption. The discount rate was calculated based upon the average rate of return during the 10 years ended June 30, 2008 for short term investments of the State General Fund. The College's unfunded actuarial accrued liability \$17,565,979 is being amortized over an open period of 29 years using the level percentage of projected payroll amortization method.

Plan changes effective for employees retiring after June 30, 2008 have been reflected in the actuarial valuation performed as of June 30, 2007.

RHODE ISLAND COLLEGE

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Required Supplementary Information

June 30, 2009

(Unaudited)

Schedules of Funding Progress – OPEB

RIRHCB Plan

<u>Actuarial valuation date</u>	<u>Actuarial value of assets (a)</u>	<u>Actuarial accrued liability (b)</u>	<u>Unfunded (b-a)</u>	<u>Funded ratio (a/b)</u>	<u>Covered payroll (c)</u>	<u>Unfunded liability as percentage of payroll</u>
6/30/2007	\$ —	\$18,715,709	\$18,715,709	0%	\$13,377,597	140%

Board of Governors Plan

<u>Actuarial valuation date</u>	<u>Actuarial value of assets (a)</u>	<u>Actuarial accrued liability (b)</u>	<u>Unfunded (b-a)</u>	<u>Funded ratio (a/b)</u>	<u>Covered payroll (c)</u>	<u>Unfunded liability as percentage of payroll</u>
6/30/2007	\$ —	\$17,565,979	\$17,565,979	0%	\$32,134,352	55%

Prior to the valuation performed at June 30, 2007, separate actuarial valuations were not performed to determine the actuarial accrued liability for Rhode Island College, a participating employer.

The above information is related to only Rhode Island College.



**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***

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

We have audited the financial statements of Rhode Island College (the "College") as of and for the year ended June 30, 2009, and have issued our report thereon dated September 30, 2009, which included a reference to the report of the other auditors who audited the discretely presented component units. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

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

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Rhode Island College's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing an opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the College's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the College's internal control over financial reporting.

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

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

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 the College in a separate letter dated September 30, 2009.

This report is intended solely for the information and use of the Board of Governors for Higher Education, management of Rhode Island College, 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

September 30, 2009