Rhode Island School of Design

Financial Statements
June 30, 2008 and 2007

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Report of Independent Auditors

To Board of Trustees of
Rhode Island School of Design:

In our opinion, the accompanying statements of financial position and the related statements of activities and cash flows present fairly, in all material respects, the financial position of Rhode Island School of Design at June 30, 2008 and 2007, 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. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As described in Note 1 to the accompanying financial statements, the School adopted EITF 06-2, "*Accounting for Sabbatical Leave and Other Similar Benefits Pursuant to FASB Statement No. 43*", during the year ended June 30, 2008**.**

PricewaterhouseCoopers LLP

September 17, 2008, except for Note 14, as to which the date is October 17, 2008.

Rhode Island School of Design
Statements of Financial Position
June 30, 2008 and 2007

ASSETS	2008	2007
Cash and cash equivalents	$ 8,431,737	$ 7,740,419
Deposits with trustee	32,603	7,293,427
Accounts receivable (net)	3,167,801	3,694,515
Student loans receivable (net)	5,535,333	4,890,708
Pledges receivable (net)	6,799,481	11,914,399
Funds held in trust by others	14,452,420	14,497,723
Inventories	1,320,198	1,427,278
Prepaid expenses and deferred charges	2,319,699	3,810,667
Other investments	16,780,028	17,134,325
Long-term investments	361,714,360	367,269,757
Property, plant and equipment (net)	192,773,090	160,247,326
	$ 613,326,750	$ 599,920,544
LIABILITIES		
Accounts payable and accrued liabilities	$ 13,873,601	$ 11,171,762
Short term Line of Credit	5,000,000	-
Deferred income	6,460,648	6,047,389
Obligations under a capital lease, current	528,447	-
Agency accounts and other liabilities	101,862	102,793
Obligations under a capital lease, long-term	7,255,922	-
U.S. Government loan funds	3,775,194	3,677,722
Liability for interest rate swap	3,640,602	4,612
Bonds payable	179,396,795	181,139,722
Asset retirement obligation	3,192,835	3,026,384
	223,225,906	205,170,384
NET ASSETS		
Unrestricted net assets		
Board designated funds	27,979,941	21,951,386
Designated for endowment	234,711,785	241,309,612
Other funds	18,662,044	23,452,878
	281,353,770	286,713,876
Temporarily restricted net assets	71,025,691	73,616,392
Permanently restricted net assets	37,721,383	34,419,892
	390,100,844	394,750,160
	$ 613,326,750	$ 599,920,544

The accompanying notes are an integral part of the financial statements

Rhode Island School of Design
Statements of Activities
for the year ended June 30,2008
(with comparative totals for 2007)

	Unrestricted	Temporarily Restricted	Permanently Restricted	2008 Total	2007 Total
Revenues:					
Tuition and fees	$ 82,468,343			$ 82,468,343	$ 76,455,819
Less: School sponsored financial aid	9,955,222			9,955,222	9,121,389
Donor sponsored financial aid	1,551,059			1,551,059	1,479,199
Net tuition	70,962,062			70,962,062	65,855,231
Campus support services	19,849,136			19,849,136	18,039,325
Total return income and gain used for operations	10,435,746			10,435,746	8,852,416
Gifts,Grants and pledges	1,020,653			1,020,653	1,043,210
Museum services	1,175,763			1,175,763	1,262,703
Other income	1,073,818			1,073,818	773,097
Net assets released from restrictions	6,513,135			6,513,135	14,398,423
	111,030,313			111,030,313	110,224,405
Operating expenses:					
Instruction	36,691,353			36,691,353	34,171,290
Academic support	7,503,190			7,503,190	6,367,019
Campus support services	12,429,236			12,429,236	11,359,931
Institutional support	15,981,667			15,981,667	15,615,947
Museum services	7,548,707			7,548,707	6,714,482
Student services	3,062,543			3,062,543	3,112,614
Plant maintenance	9,731,057			9,731,057	8,746,900
Interest	6,946,016			6,946,016	7,863,599
Depreciation	9,073,214			9,073,214	8,284,805
Research	392,076			392,076	318,732
	109,359,059			109,359,059	102,555,319
Surplus before budgetary designations	1,671,254			1,671,254	7,669,086
Net budgetary designations (Note 1)	132,975			132,975	(6,912,668)
Operating surplus	$ 1,804,229			$ 1,804,229	$ 756,418
Non operating:					
Investment income	$ 112,200	$ 461,593		$ 573,793	$ 706,979
Other investment income	94,716			94,716	1,147,618
Net realized and unrealized loss on interest rate swap	(4,379,059)			(4,379,059)	(379,629)
Gain/(loss) on sale/disposal of assets	-			-	(12,700)
Realized and unrealized gain/(loss) on investments	(2,499,141)	356,872	904,903	(1,237,366)	44,658,651
Loss on early extinguishment of debt	(1,836,712)			(1,836,712)	-
Gifts and grants for capital purposes	272,102	3,103,969	2,396,588	5,772,659	7,796,707
Non operating assets allocated for budgetary	(132,975)			(132,975)	6,912,668
designations				-	
Net assets released from restrictions		(6,513,135)		(6,513,135)	(14,398,423)
Increase in net assets from nonoperating activities	(8,368,869)	(2,590,701)	3,301,491	(7,658,079)	46,431,871
Increase in net assets before change in accounting principle	(6,564,640)	(2,590,701)	3,301,491	(5,853,850)	47,188,289
Cumulative change in accounting principle (see Note 1)	1,204,534			1,204,534	
Total increase in net assets	(5,360,106)	(2,590,701)	3,301,491	(4,649,316)	47,188,289
Total net assets at the beginning of the year	286,713,876	73,616,392	34,419,892	394,750,160	347,561,871
Total	$ 281,353,770	$ 71,025,691	$ 37,721,383	$ 390,100,844	$ 394,750,160

The accompanying notes are an integral part of the financials statements.

Rhode Island School of Design
Statements of Activities
for the year ended June 30,2007

	Unrestricted	Temporarily Restricted	Permanently Restricted	2007 Total
Revenues:				
Tuition and fees	$ 76,455,819			$ 76,455,819
Less: School sponsored financial aid	9,121,389			9,121,389
Donor sponsored financial aid	1,479,199			1,479,199
Net tuition	65,855,231			65,855,231
Campus support services	18,039,325			18,039,325
Total return income and gain used for operations	8,852,416			8,852,416
Gifts, Grants and pledges	1,043,210			1,043,210
Museum services	1,262,703			1,262,703
Other income	773,097			773,097
Net assets released from restrictions	14,398,423			14,398,423
	110,224,405			110,224,405
Operating expenses:				
Instruction	34,171,290			34,171,290
Academic support	6,367,019			6,367,019
Campus support services	11,359,931			11,359,931
Institutional support	15,615,947			15,615,947
Museum services	6,714,482			6,714,482
Student services	3,112,614			3,112,614
Plant maintenance	8,746,900			8,746,900
Interest	7,863,599			7,863,599
Depreciation	8,284,805			8,284,805
Research	318,732			318,732
	102,555,319			102,555,319
Surplus before budgetary designations	7,669,086			7,669,086
Net budgetary designations (Note 1)	(6,912,668)			(6,912,668)
Operating surplus	$ 756,418			$ 756,418
Non operating:				
Investment income	$ 140,512	$ 566,467		$ 706,979
Other investment income	1,147,618			1,147,618
Net realized and unrealized income/(loss) on interest rate swap	(379,629)			(379,629)
Gain/(loss) on sale/disposal of assets	(12,700)			(12,700)
Realized and unrealized gain on investments	37,553,323	6,639,623	465,705	44,658,651
Gifts and grants for capital purposes	532,308	5,377,863	1,886,536	7,796,707
Non operating assets allocated for budgetary designations	6,912,668			6,912,668
				-
Net assets released from restrictions		(14,398,423)		(14,398,423)
Change in classification of net asset categories (Note 2)	4,268,222	474,247	(4,742,469)	-
Increase in net assets from nonoperating activities prior to cumulative effect if change in accounting principle	50,162,322	(1,340,223)	(2,390,228)	46,431,871
Cumulative effect of change in accounting principle (Note 1)				-
Total increase in net assets	50,918,740	(1,340,223)	(2,390,228)	47,188,289
Total net assets at the beginning of the year	235,795,136	74,956,615	36,810,120	347,561,871
Total	$ 286,713,876	$ 73,616,392	$ 34,419,892	$ 394,750,160

The accompanying notes are an integral part of the financials statements.

Rhode Island School of Design
Statements of Cash Flows
for the years ended June 30, 2008 and 2007

	2008	2007
Cash flows from operating activities:		
Change in net assets	$ (4,649,316)	$ 47,188,289
Adjustments to reconcile change in net assets to net cash used by operating activities:		
Gain on investments	(7,358,341)	(51,457,752)
Net realized and unrealized loss on interest rate swap	3,635,990	190,545
Increase in funds held in trust by others	45,303	(1,475,041)
Depreciation and amortization	9,155,287	8,390,584
Loss on Sale of Asset	-	12,700
Contributions restricted for long-term purposes	(2,362,089)	(3,417,476)
Contributions of securities for long-term purposes	(2,631,500)	(1,444,133)
Change in asset retirement obligation	166,451	157,774
Increase in U.S. Government loan funds	97,472	75,084
Cumulative effect of change in accounting principle (note 1)	(1,204,534)	
Loss on extinguishment of debt	1,836,712	
Changes in operating assets and liabilities:		
Increase in accounts receivable	526,714	(1,112,877)
(Increase) Decrease in pledges receivable	5,114,918	1,217,549
(Increase) Decrease in inventories	107,080	569,365
Decrease (Increase)in prepaid expenses and deferred charges and other assets	1,490,968	(806,343)
Increase (Decrease) in accounts payable and accrued expenses	1,551,590	1,053,364
Increase (Decrease) in agency accounts & other liabilities	(931)	14,837
Increase in deferred income	413,259	342,307
Net cash provided by operating activities	5,935,033	(501,224)
Cash flows for investing activities:		
Purchase of buildings and equipment	(31,459,826)	(25,561,057)
Decrease(increase) in deposits with trustee	7,260,824	(4,466,492)
Student loans granted	(1,725,550)	(1,667,830)
Collection of student loans	1,080,925	2,052,126
Note Receivable granted	-	(300,000)
Purchase of investments	(412,924,023)	(363,983,885)
Sale of investments	428,823,558	364,305,681
Net cash used in investing activities	(8,944,092)	(29,621,457)
Cash flows from financing activities:		
Net proceeds from short-term borrowing	5,000,000	
Payments on long-term debt	(97,441,712)	(10,365,000)
Proceeds from issuance of long term debt	93,780,000	39,500,000
Contributions restricted for long-term purposes	2,362,089	3,417,476
Net cash provided by financing activities	3,700,377	32,552,476
Net increase in cash and cash equivalents	691,318	2,429,795
Cash and cash equivalents at beginning of the year	7,740,419	5,310,624
Cash and cash equivalents at end of the year	$ 8,431,737	$ 7,740,418

The accompanying notes are an integral part of the financial statements

1. Summary of Significant Accounting Policies:

The financial statements of the Rhode Island School of Design (the "School") have been prepared in accordance with Generally Accepted Accounting Principles in the United States and with the reporting principles of not-for-profit accounting. Certain amounts presented in the prior year financial statements have been reclassified to conform with current year presentation.

Net assets and current activity are classified into three categories; permanently restricted, temporarily restricted and unrestricted net assets. The categories are based on the existence, absence or expiration of donor-imposed restrictions.

- Permanently restricted net assets include the original amounts of gifts, including pledges, trusts, and remainder interests, which are required by donors to be permanently retained. Pursuant to Rhode Island General Law, the School has added sufficient net appreciation to the historical gift amounts based on inflation in order to maintain the purchasing power of the original dollar value of the funds.

- Temporarily restricted net assets include gifts, pledges, trusts and remainder interests, income and gains which can be expended but for which restrictions have not yet been met. Such restrictions include purpose restrictions where donors have specified the purpose for which the net assets are to be spent, or time restrictions imposed by donors or implied by the nature of the gift (capital projects, pledges to be paid in the future and certain life income funds).

- Unrestricted net assets are not subject to donor imposed stipulations, may be designated for specific purpose by action of the Board of Trustees and include realized and unrealized gains on permanently restricted funds not otherwise subject to donor restrictions or to the extent they exceed amounts added to historical gifts pursuant to the Rhode Island General Law.

Operations

Revenues earned and expenses incurred in conducting the programs and services of the School are presented in the financial statements as operating activities. Net revenues and other resources from operating activities are not restricted by donors or other external sources and are, therefore, classified as unrestricted net assets. At the discretion of the School, all or a portion of net assets from operating surpluses/deficits may be designated for budgetary purposes, for capital acquisitions, for student loan funds, for principal payments on debt, or for future use by the Board of Trustees.

Net Budgetary Designations

Net budgetary designations reconcile operating net income or loss to management's internal net operating statement. Adjustments are made for non-expense items such as principal payments on debt and depreciation in excess of funds allocated for capital expenditures. Net budgetary designations also reflect management's decision to utilize or defer a portion of non-operating income to match expenses that are included in operating expenses. This income may be in the form of unrestricted gifts in the current year or from a prior year. It may also include utilization of funds designated by the Board of Trustees in prior years. Net budgetary designations for 2008 and 2007 are as follows:

	2008	2007
Facilities Use Fee	$ (7,540,537)	$ (7,265,822)
Depreciation (excluding capital lease)	8,552,598	8,284,803
Capitalized Interest Adjustment	(1,938,403)	250,223
Campaign Expenses	-	122,335
Capital lease variance	495,750	-
Gift-in-kind released from restriction	-	(7,120,000)
Reclassification of expenses related to non-operating income and capital leases	563,567	(1,184,207)
Net Budgetary Designation	$ 132,975	$ (6,912,668)

Non Operating

Non operating revenue and expenses include all gifts with the exception of those received in the annual fund, change in the value of interest rate swaps, other gains on sales of assets, loss on extinguishment of debt, investment income and realized and unrealized gains on investments to the extent not utilized in operations based on the School's spending policy as described below and amounts designated at the discretion of the School for budgetary purposes.

Gifts and Pledges

Gifts and pledges are recognized as revenue when received. Gifts specified for the acquisition or construction of long-lived assets are released to unrestricted from temporarily restricted net assets when the assets are placed in service.

Unconditional promises to contribute to the School in the future (pledges) are recorded as receivables at the present value of their expected cash flows less an allowance for uncollectibles. The related revenue is assigned to temporarily restricted net assets until collected and any other restrictions are met or permanently restricted net assets if so restricted by the donor.

Investments

The market values of publicly traded investments are determined based upon quoted market prices. The School's alternative investment funds are carried at estimated fair value determined by management, based upon valuations provided by management of the privately held investment funds as of June 30, 2008 and 2007. Alternative investments include limited partnerships, limited liability corporations and offshore investment funds. Because investments in alternative investment funds are not marketable, the estimated value is subject to uncertainty and therefore, may differ significantly from the value that would have been used had a market for such investments existed and such differences could be material.

Cash and Cash Equivalents

The School considers highly liquid investments with maturities of three-months or less when purchased to be cash equivalents. Cash equivalents are stated at cost, which approximates market.

Split Interest Agreements

The School is party to various split interest agreements with regards to irrevocable trusts and other agreements. These agreements include: perpetual trusts, charitable remainder trusts, charitable gift annuities and pooled life income funds. The assets of gift annuities and pooled income funds are included at market value in Other investments on the Statement of Financial Position. The obligations associated with these arrangements are recorded at present value of the aggregate liability to beneficiaries based upon life expectancy. Assets held by an outside trustee are classified as Funds held in trust by others or as Pledges receivable. These assets represent the School's share of the fair market value of the trust assets as of the balance sheet date net of a liability for the present value of estimated future payments to the donors or other beneficiaries, where applicable. Distributions of income from the trusts to the School are recorded as revenue. Split interest agreements and annuity obligations are based on certain assumptions regarding life expectancy, discount rate and rate of return. Circumstances affecting these assumptions can change the estimate of the liabilities in future periods.

Inventories

Inventories are stated at the lower of cost or market. The School uses the first-in, first-out method of accounting for inventory. Inventory consists primarily of items held for resale by the School's store.

Spending Policy

The School operates on a total return concept. Under this concept, income from long-term investments is available for expenditure based on a rate of 5% of the twelve-quarter moving average of the market value of the endowment portfolio. Since the spending formula is based on the total return concept, earnings from realized gains may be utilized when current year income from interest and dividends is less than the authorized spending amount.

Property, Plant and Equipment

Property, plant and equipment is stated at acquisition cost or the fair market value as of the date of the gift, net of accumulated depreciation (See Note 8). Depreciation is computed on a straight-line basis over the following estimated useful lives:

Buildings and improvements	15 - 45 years
Machinery and equipment	5 - 8 years
Furniture and fixtures	5 - 8 years

Expenditures for maintenance, repairs, interest and depreciation are expensed as incurred and allocated to functional classifications of expense (see Note 13) based on actual expenditures or relative square footage. Upon sale or retirement, the cost of the property and the related accumulated depreciation are removed from the respective accounts, and any resulting gains or losses are reflected in operations.

Collections

The School does not capitalize or assign a value to the museum collections. Collections that are acquired through purchases and contributions are not recognized as assets on the statement of financial position. Purchases of collection items are recorded as decreases in unrestricted net assets in the year in which the items are acquired or in permanently restricted net assets if the asset used to purchase items is restricted by donors.

Contributed collection items are not reflected in the financial statements. Proceeds from deaccessions or insurance recoveries are reflected as increases in the appropriate net asset classes

Campus Support Services

Campus support services include the RISD Store, dining halls, residence halls and other on-campus undertakings that provide services to students, faculty and staff for fees directly related but not necessarily equivalent to the costs of the services.

Deferred Income

Deferred income represents tuition and fees received for programs and services to be conducted predominantly in the next fiscal year.

Tax Status

The School is qualified for exemption from Federal income tax under Section 501(c) (3) of the Internal Revenue Code.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States 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.

New Accounting Pronouncements

EITF 06-2, "Accounting for Sabbatical Leave and Other Similar Benefits Pursuant to FASB Statement No. 43- *Accounting for Compensated Absences*" was effective for fiscal years beginning after December 15, 2006. Upon adoption of EITF 06-2, the School concluded that sabbatical leaves for members of the faculty require the faculty to demonstrate that their professional development benefits the School. Since the sabbatical is considered a condition of employment, the expense should be recognized when incurred. The adoption of EITF 06-2 in 2008, resulted in a one-time reversal of previously recorded accrued expenses of $1,205,504, which is included in the Statement of Activities as a cumulative change in accounting principle.

In July 2006, the national conference of commissioners on Uniform State Laws (NCCUSL) released the Uniform Prudent Management of Institutional Funds Act (UPMIFA) of 2006. This is a modernized version of the Uniform Management of Institutional Funds Act of 1972 (UMIFA). The state of Rhode Island has not yet adopted UPMIFA. In August 2008, the FASB issued Staff Position (FSP) 117-1, *Endowments of Non-for-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act, and Enhanced Disclosures*, which provides guidance on the net asset classification of donor-restricted endowment funds subject to UPMIFA. This Position also expands required disclosures about an organizations endowment, including both donor restricted and board-designated funds, whether or not the organization is subject to UPMIFA. The FSP is effective for fiscal years ending after December 15, 2008

In September 2006, the FASB issued Statement No. 157 *Fair Value Measurements.* This Statement defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosure about fair value measurements. This Statement is effective for the fiscal years beginning after November 15, 2007.

In February 2007, the FASB issued Statement No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities Including an amendment of FASB Statement No. 115.* This Statement permits all entities to choose, at specified election dates to measure eligible items at fair value (the "fair value option"). Unrealized gains and losses on items for which the fair value option has been elected would be reported in the Statements of Activities. This Statement is effective for fiscal years beginning after November 15, 2007.

In March 2008, the FASB issued Statement No. 161, *Disclosures about Derivative Instruments and Hedging Activities.* This Statement amends and expands the disclosure requirements in FASB Statement No. 133, *Accounting for Derivative Instruments and Hedging Activities.* This Statement requires that organizations provide disclosure in a tabular format of the Statements of Financial Position captions in which derivatives are reported and the fair value amounts of derivative instruments reported in those captions. Similar disclosures are required for the location and amounts of gains and losses reported in the Statements of Activities. This Statement is effective for the fiscal years beginning after November, 15, 2008.

In June 2006, the FASB issued interpretation No.48, "Accounting for Uncertainty in Income Taxes- an interpretation of FASB Statement 109" (FIN 48). FIN 48 addresses the accounting for uncertainty in income taxes recognized in an entity's financial statements and prescribes a threshold of more-likely-than-not for recognition and derecognition of tax provisions taken or expected to be taken in a tax return. FIN 48 also provides guidance on measurement, classification, interest and penalties, and disclosure. FIN 48 was effective for the School on July 1, 2007.

Management is evaluating the impact of implementing theses pronouncements on the School's financial statements.

2. Investments:

The cost and market value of investments at June 30, 2008 and 2007 were as follows:

	Cost	Market
2008		
Pooled and mutual funds	$ 16,000,815	$ 16,000,925
Common and preferred stocks	107,280,270	123,952,415
Fixed income securities	35,467,041	35,772,455
Alternative investments	133,173,755	201,271,851
Split interest agreements	1,496,742	1,496,742
	$ 293,418,623	$ 378,494,388

	Cost	Market
2007		
Pooled and mutual funds	$ 15,290,042	$ 15,289,822
Common and preferred stocks	125,279,636	161,757,666
Fixed income securities	34,115,804	32,891,621
Alternative investments	109,138,507	172,347,075
Split interest agreements	2,117,898	2,117,898
	$ 285,941,887	$ 384,404,082

Investment income for the years ended June 30, 2008 and 2007 was as follows:

2008	**Unrestricted**	**Temporarily Restricted**	**Permanently Restricted**	**Total**
Interest and dividend income	$1,952,239	$461,593	-	$2,413,832
Realized gains	17,962,809	1,877,059	$ 904,903	20,744,771
Decrease in net unrealized appreciation	(11,866,243)	(1,520,187)	-	(13,386,430)
Total investment return	$8,048,805	$818,465	$904,903	$9,772,173

2007	**Unrestricted**	**Temporarily Restricted**	**Permanently Restricted**	**Total**
Interest and dividend income	$2,193,827	$566,467	-	$2,760,294
Realized gains	20,192,329	3,067,789	-	23,260,118
Increase in net unrealized appreciation	24,160,095	3,571,834	$465,705	28,197,634
Total investment return	$46,546,251	$7,206,090	$465,705	$54,218,046

The School earned $7,358,341 of realized and unrealized gains during fiscal year 2008 all of which was utilized in order to meet the spending formula used in operations. Additionally, another $663,573 was withdrawn from previously accumulated unrestricted realized gains in order to meet the spending formula. In 2007 the School earned $51,457,752 of realized and unrealized gains of which $6,799,101 was utilized to meet the spending formula.

Investment management fees and UBIT expenses (netted from interest and dividend income) totaled $2,453,024 and $1,960,543 in 2008 and 2007, respectively.

Certain net assets are pooled for investment income purposes. The unit market value at June 30, 2008 and 2007 was $311.70 and $307.30 respectively. The market value of long-term investments as stated in the Statement of Financial Position represents the value of pooled endowment at June 30, 2008 and 2007.

At June 30, 2007, the School reclassified certain gains/additions from prior years between Restricted and Temporary and Unrestricted assets. These changes are a result of corrections to prior period misclassifications.

3. Accounts Receivable:

Accounts receivable consisted of the following at June 30:

	2008	2007
Government grants	$ 182,890	$ 720,848
Computer loan programs	1,295,649	1,238,802
Student tutition and fees	1,059,422	897,517
Notes receivable from related party	600,000	600,000
Interest receivable	-	341,043
Other	452,848	222,885
Total	$ 3,590,809	$4,021,095
Less: allowance for uncollectible accounts	(423,008)	(326,580)
Total	$ 3,167,801	$3,694,515

4. Pledges Receivable:

Pledges at June 30 are expected to be realized in the following periods:

	2008	2007
In one year or less	$ 3,139,971	$ 3,811,536
Between one year and five years, net of discount	5,003,216	5,515,902
Five years and over, net of discount	2,170,500	3,525,572
Total	$10,313,687	$12,853,010
Less: allowance for uncollectible pledges	(3,514,206)	(938,611)
Pledges receivable, net	$ 6,799,481	$11,914,399

Discount to present value was calculated using a discount factor based on US Treasury note rates for the respective pledges. The discount was $416,049 and $477,884 for 2008 and 2007 respectively.

5. Student Loan Funds:

The School participates in the Federal Perkins Loan Program. Under existing laws, Perkins loan funds of the United States Government are ultimately refundable to the extent funds are available from the program and are, therefore, shown as a liability on the Statement of Financial Position. Due to the significant restrictions of this program, it is not practical to determine the fair value of such amounts.

Student loans receivable is shown net of an allowance for uncollectible accounts of $440,086 and $375,223 at June 30, 2008, and 2007, respectively.

6. Bonds Payable and Other Debt:

	2008	2007
Rhode Island Health and Education Building Corporation Series 2001, Range 3.5%-5%, original issue $27,890,000	$27,607,817	$27,659,244
Rhode Island Health and Education Building Corporation Series 2004A, Range3.24%-3.85% original issue $28,500,000	-	28,500,000
Rhode Island Health and Education Building Corporation Series 2004B, Range 3.079%-3.85% original issue $27,000,000	-	26,650,000
Rhode Island Health and Education Building Corporation Series 2004D, Range 3.0%-5.625% original issue $58,435,000	58,008,978	58,830,478
Rhode Island Health and Education Building Corporation Series 2006A, Range 3.30%-3.75% original issue $31,550,000	-	31,550,000
Rhode Island Health and Education Building Corporation Series 2006B, Range 3.179%-3.75% original issue $7,950,000	-	7,950,000
Rhode Island Health and Education Building Corporation Series 2008A, Range 1.25%-2.60% original issue $61,930,000	61,930,000	-
Rhode Island Health and Education Building Corporation Series 2008B, Range1.25%-2.60% original issue $31,850,000	31,850,000	-
Total	$179,396,795	$181,139,722

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As of June 30, 2008 and 2007 the unamortized discount on 2001 Bonds amounted to $82,183 and $85,756 respectively, which is being amortized over the life of the bond using the effective interest basis.

As of June 30, 2008 and 2007 the unaccreted premium on 2004D Bonds amounted to $1,363,918 and $1,285,478 respectively, which is being accreted over the life of the bond using the effective interest basis.

Rhode Island Health and Educational Building Corporation (RIHEBC)

RIHEBC Bonds (Series 2001) are due in principal amounts and sinking fund requirements ranging from $55,000 in 2008 to $645,000 in 2020 for serial bonds and a payment of $4,445,000 for term bonds due in 2026 and a final payment of $18,280,000 for term bonds due in 2031. RIHEBC Bonds (Series 2004D) are due in principal amounts and sinking fund requirements ranging from $900,000 in 2007 to $9,155,000 in 2035 for serial bonds and a payment of $10,510,000 for term bonds due in 2028 and a final payment of $7,555,000 for term bonds due in 2031. RIHEBC Bonds (Series 2008A and Series 2008B) are due in principal amounts and mandatory redemption requirements ranging from $1,800,000 in 2008 to $13,945,000 in 2036. The Municipal Bond Assurance Association insures redemption of Series 2001 bonds. XL Capital Assurance insures redemption the Series 2004D bonds. Series 2008 A and Series 2008 B bonds are backed by a direct-pay letter of credit with Bank of America. Series 2001 Bonds maturing on and after June 1, 2011 are subject to redemption prior to maturity at a redemption price of 100% to 102% of the principal amounts plus accrued interest through the date of redemption. Series 2004D Bonds maturing on and after August 15, 2014 are subject to redemption prior to maturity at a redemption price of 100% of the principal amounts plus accrued interest through the date of redemption. Series 2008A and Series 2008B Bonds can be optionally redeemed on any interest payment date (the first business day of each month) at par plus accrued interest.

The School has pledged as collateral all revenue received in each fiscal year up to an amount equal to the debt service on the bonds due during the fiscal year.

Mandatory annual principal payment due for the next five years and thereafter are as follows:

	RIHEBC
2009	$ 2,800,000
2010	2,855,000
2011	2,940,000
2012	3,055,000
2013-2037	166,465,000
	$ 178,115,000

Estimated fair value of debt was approximately $179,720,655 and $183,519,544 at June 30, 2008 and 2007, respectively. Cash paid for interest on long-term debt for the years ended June 30, 2008 and 2007 was $7,724,780 and $7,697,390, respectively.

The School capitalizes the interest cost related to outstanding debt on qualifying assets. Interest costs capitalized for the years ended June 30, 2008 and 2007 totaled $1,434,359 and $120,427, respectively.

Bond issuance costs are capitalized and amortized over the life of the bond. Unamortized bond issuance costs were $1,989,762 and $3,382,970 for the years ended June 30, 2008 and 2007, respectively.

During the year ended June 30, 2008, the School issued $61,930,000 and $31,850,000 in Series 2008 A and Series 2008 B respectively. The proceeds from these issuances was used to repay principal balances of the Series 2004 A, Series 2004 B, Series 2006 A and Series 2006 B bond issuances. This repayment resulted in a realized loss of $1,836,712, which is included as a non-operating loss on the Statement of Activities

During 2004 the School entered into various interest rate swap agreements to manage the interest cost and variable rate risk associated with its outstanding debt. The interest rate swap agreements were not entered into for trading or speculative purposes. Under the terms of these agreements, the School pays a fixed rate, determined at inception, to a third party who in turn pays a variable rate on these respective notional principal amounts to the bondholders.

The School records interest rate swaps at the estimated value at which the swaps could be settled as of June 30, 2008 and 2007. The unrealized depreciation that was recognized for the swaps was $3,635,990 and $190,545 for the years ending June 30, 2008 and 2007, respectively. Net payments or receipts under the swap agreements along with the change in fair value of the swaps are included in non-operating revenues on the statement of activities. During 2008 and 2007 the School incurred a realized loss on the swaps of $726,852 and $189,085, respectively.

The estimated fair value of the swap instruments represent the estimated cost to the School to cancel the agreements at the reporting date, which is based on option pricing models that consider risks and market factors.

The following schedule presents the notional principal amounts of the School's interest swaps at June 30, 2008.

Maturity	Original Notional Amount	Fair Value at June 30, 2008
Dec. 1, 2009	$ 31,550,000	$ 400,145
Aug. 15, 2011	9,250,000	137,192
Aug. 15, 2025	27,000,000	1,425,394
Aug. 15, 2034	28,500,000	3,351,631
Aug. 15, 2034	28,500,000	(1,673,760)
		$ 3,640,602

In June 2008, the School entered into a line of credit agreement with Bank of America. Under the terms of the agreement the School may borrow up to $5,000,000. Interest on borrowings under the line of credit is based on either Prime or LIBOR at the discretion of the School at the time of borrowing. The line of credit expires in June 2009. The amount outstanding on the line of credit at June 30, 2008 was $5,000,000 at an interest rate of 2.98%.

7. Capital Leases

In June 2007, the School entered into a capital lease for a building. The original lease term was 119 months with an initial obligation and net asset value of $7,809,235. Interest is computed using the incremental borrowing rate of 4.27%. The amount outstanding on this capital lease was $7,784,369 at June 30, 2008.

Minimum annual lease payments due for the building over the next five years and thereafter are as follows:

2009	$ 919,455
2010	988,596
2011	1,026,042
2012	1,073,128
2013-2017	6,123,464
	$ 10,130,685

8. Property, Plant and Equipment

Property, plant and equipment included the following at June 30, 2008.

		2008	2007
Land and buildings:			
Educational plant		$ 93,055,569	$ 89,567,942
Dormitories and refectory		84,987,434	83,820,730
Leased assets		7,809,235	-
Administrative and other		18,256,180	17,874,735
Residences		935,350	935,350
Construction in progress		46,781,554	20,345,434
Land		6,130,556	6,130,556
	Total	$ 257,955,878	$ 218,674,747
Furniture, fixtures and equipment		37,284,444	35,133,049
	Total	$ 295,240,322	$ 253,807,796
Less: Accumulated depreciation		(102,467,232)	(93,560,470)
		$ 192,773,090	$ 160,247,326

Costs of $5,289,689 and $2,934,906 were accrued for capital expenditures at June 30, 2008 and 2007, respectively.

9. Museum:

Revenues

The Museum realized service revenue of $1,175,763 and $1,262,703 as well as $1,220,271 and $1,164,158 of total return income and gain and $1,248,836 and $1,621,908 of gifts and grants for the years ended June 30, 2008, and 2007, respectively.

Collections

The majority of the School's collection resides in the museum and consists of artifacts of historical significance, art objects and books that are held for educational, research and curatorial purposes. Each of the items are cataloged, preserved and cared for and activities verifying their existence and assessing their condition are performed periodically. The collections are subject to a policy that requires proceeds from their sales to be used to acquire other items for collections. The School expended $1,606,506 and $1,329,901 for acquisitions during 2008 and 2007, respectively.

10. Retirement and Pension Plans:

The School participates in the Teachers Insurance and Annuity Association (TIAA), College Retirement Equities Fund (CREF) and Fidelity 403(b) retirement plan for eligible faculty, administrative and staff employees. The School made contributions to the TIAA-CREF retirement plan of approximately $3,212,541 and $3,234,275 for the years ended June 30, 2008 and 2007 respectively.

11. <u>Commitments and Contingencies</u>:

During fiscal year 2003, the School entered into an agreement with the City of Providence to provide a financial contribution in lieu of taxes on newly acquired properties as specified by the agreement. As of June 30, 2008 the School had no outstanding commitment related to the acquisition of new property, and $2,804,364 over the next seventeen years as payments in lieu of taxes. Final Augmented Voluntary Payments of $3,204,000 were made in fiscal year 2006.

Certain of the School's investments in privately held funds included unfunded commitments. As of June 30, 2008, unfunded commitments totaled $10,142,039.

In conducting its activities, the School from time to time is the subject of various claims and also has claims against others. In management's opinion, the ultimate resolution of such claims would not have a material adverse or favorable effect on the financial position of the School.

The school has four established employee bargaining units (Full-Time Faculty, Part-Time Faculty, Public Safety Officers and Museum Guards) and is currently negotiating a contract renewal with one of them.

12. <u>Related Party Note</u>:
The total outstanding secured notes from related parties in accordance with IRS Regulation 1.7872.5T(c)(1)(i) are $600,000 for the years ended June 30, 2008 and 2007, respectively.

Certain members of the School's Board are executives with institutions which provide services to the School. A small portion of the School's cash balances are held at a bank at which a member of the School's Board serves as President. A member of the School's Board is an Executive at the counterparty to the School's investment in interest rate swaps to which net (receipts) and payments of $4,379,059 and $379,629 were made during the years ended June 30, 2008 and 2007, respectively. The procurement of these services is performed in accordance with the School's established policies and procedures. Management and the Board of Trustees report and monitor related party transactions in accordance with the School's conflict of interest policy.

13. <u>Functional Expenses:</u> Total expenses of the School by functional classification are as follows:

	2008	2007
Instruction	$ 46,479,026	$ 43,716,808
Campus Support Services	25,770,163	24,136,113
Institutional Support	16,148,438	15,782,052
Museum Servcies	8,912,260	8,042,504
Academic Support	8,337,044	7,197,544
Student Support	3,320,046	3,361,566
Research	392,076	318,732
Total	$ 109,359,053	$ 102,555,319

14. Subsequent Events

The School invests a portion of excess cash with Commonfund for Short Term Investments("STF"), a bank comingled fund using Wachovia Bank N.A as Trustee, and sponsored by The Commonfund for Nonprofits. On September 27, 2008 the Trustee terminated the STF and restricted redemptions from STF pending an orderly liquidation of its assets. As of October 9, 2008, the School has received distributions of $7,369,577 and has a remaining outstanding balance of $8,717,523. The timing and amount of future distributions is dependent on the sale or maturity of the STF's underlying investments, and the liquidity of markets into which those investments may be sold. At June 30, 2008, the School classified its $4,698,692 investment in STF as a cash equivalent; subsequent to September 27, 2008 management has reclassified its STF balance as an investment.