Rhode Island School of Design

Financial Statements
June 30, 2007 and 2006

PRICEWATERHOUSECOOPERS

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Report of Independent Auditors

To the 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, 2007 and 2006, 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 financial statements, the School adopted a new principle of accounting for conditional asset obligations in 2006.

PricewaterhouseCoopers LLP

September 28, 2007

Rhode Island School of Design
Statements of Financial Position
June 30, 2007 and 2006

ASSETS	2007	2006
Cash and cash equivalents	$ 7,740,419	$ 5,310,624
Deposits with trustee	7,293,427	2,826,935
Accounts receivable (net)	3,694,515	2,281,638
Student loans receivable (net)	4,890,708	5,275,004
Pledges receivable (net)	11,914,399	13,131,948
Funds held in trust by others	14,497,723	13,022,682
Inventories	1,427,278	1,996,643
Prepaid expenses and deferred charges	3,810,667	3,004,324
Other investments	17,134,325	38,530,924
Investment in interest rate swap	-	185,933
Long-term investments	367,269,757	293,293,069
Property, plant and equipment (net)	160,247,326	141,954,101
	$ 599,920,544	$ 520,813,825
LIABILITIES		
Accounts payable and accrued liabilities	$ 11,171,762	$ 9,088,725
Deferred income	6,047,389	5,705,082
Agency accounts and other liabilities	102,793	87,956
U.S. Government loan funds	3,677,722	3,602,638
Liability for interest rate swap	4,612	-
Bonds payable	181,139,722	151,898,943
Asset retirement obligation	3,026,384	2,868,610
	$ 205,170,384	$ 173,251,954
NET ASSETS		
Unrestricted net assets		
Board designated funds	$ 21,951,386	$ 20,433,636
Designated for endowment	241,309,612	202,204,837
Other funds	23,452,878	13,156,663
	286,713,876	235,795,136
Temporarily restricted net assets	73,616,392	74,956,615
Permanently restricted net assets	34,419,892	36,810,120
	$ 394,750,160	$ 347,561,871
	$ 599,920,544	$ 520,813,825

The accompanying notes are an integral part of the financial statements

Rhode Island School of Design
Statements.of Activities
for the year ended June 30,2007
(with comparative totals for 2006)

	Unrestricted	Temporarily Restricted	Permanently Restricted	2007 Total	2006 Total
Revenues:					
Tuition and fees	$ 76,455,819			$ 76,455,819	$ 71,693,541
Less: School sponsored financial aid	9,121,389			9,121,389	9,072,397
Donor sponsored financial aid	1,479,199			1,479,199	1,414,185
Net tuition	65,855,231			65,855,231	61,206,959
Campus support services	18,039,325			18,039,325	15,909,649
Total return income and gain used for operations	8,852,416			8,852,416	7,996,382
Gifts, Grants and pledges	1,043,210			1,043,210	958,862
Museum services	1,262,703			1,262,703	1,201,621
Other income	773,097			773,097	945,441
Net assets released from restrictions	14,398,423			14,398,423	7,462,947
	110,224,405			110,224,405	95,681,861
Operating expenses:					
Instruction	34,171,290			34,171,290	33,580,288
Academic support	6,367,019			6,367,019	6,218,975
Campus support services	11,359,931			11,359,931	10,215,203
Institutional support	15,615,947			15,615,947	14,473,668
Museum services	6,714,482			6,714,482	5,922,414
Student services	3,112,614			3,112,614	2,959,483
Plant maintenance	8,746,900			8,746,900	8,415,165
Interest	7,863,599			7,863,599	5,478,182
Depreciation	8,284,805			8,284,805	7,369,814
Research	318,732			318,732	626,280
	102,555,319			102,555,319	95,259,472
Surplus before budgetary designations	7,669,086			7,669,086	422,389
Net budgetary designations (Note 1)	(6,912,668)			(6,912,668)	(383,518)
Operating surplus	$ 756,418			$ 756,418	$ 38,871
Non operating:					
Investment income	$ 140,512	$ 566,467		$ 706,979	$ 769,906
Other investment income	1,147,618			1,147,618	421,421
Net realized and unrealized income/(loss) on interest rate swap	(379,629)			(379,629)	4,855,304
Gain/(loss) on sale/disposal of assets	(12,700)			(12,700)	537,702
Realized and unrealized gain on investments	37,553,323	6,639,623	465,705	44,658,651	23,798,761
Gifts and grants for capital purposes	532,308	5,377,863	1,886,536	7,796,707	19,773,718
Non operating assets allocated for budgetary designations	6,912,668			6,912,668 -	383,518
Net assets released from restrictions		(14,398,423)		(14,398,423)	(7,462,947)
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	43,077,383
Cumulative effect of change in accounting principle (Note 1)				-	(2,364,787)
Total increase in net assets	50,918,740	(1,340,223)	(2,390,228)	47,188,289	40,751,467
Total net assets at the beginning of the year	235,795,136	74,956,615	36,810,120	347,561,871	306,810,404
Total	$ 286,713,876	$ 73,616,392	$ 34,419,892	$ 394,750,160	$ 347,561,871

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

Rhode Island School of Design
Statements of Activities
for the year ended June 30,2006

	Unrestricted	Temporarily Restricted	Permanently Restricted	2006 Total
Revenues:				
Tuition and fees	$ 71,693,541			$ 71,693,541
Less: University sponsored financial aid	9,072,397			9,072,397
Donor sponsored financial aid	1,414,185			1,414,185
Net tuition	61,206,959			61,206,959
Campus support services	15,909,649			15,909,649
Total return income and gain used for operations	7,996,382			7,996,382
Gifts, Grants and pledges	958,862			958,862
Museum services	1,201,621			1,201,621
Other income	945,441			945,441
Net assets released from restrictions	7,462,947			7,462,947
	95,681,861			95,681,861
Operating expenses:				
Instruction	33,580,288			33,580,288
Academic support	6,218,975			6,218,975
Campus support services	10,215,203			10,215,203
Institutional support	14,473,668			14,473,668
Museum services	5,922,414			5,922,414
Student services	2,959,483			2,959,483
Plant maintenance	8,415,165			8,415,165
Interest	5,478,182			5,478,182
Depreciation	7,369,814			7,369,814
Research	626,280			626,280
	95,259,472			95,259,472
(Deficit) Surplus before budgetary designations	422,389			422,389
Net budgetary designations (Note 1)	(383,518)			(383,518)
Operating surplus	$ 38,871			$ 38,871
Non operating:				
Investment income	$ 252,800	$ 517,106		$ 769,906
Other investment income	421,421			421,421
Net realized and unrealized income on interest rate swap	4,855,304			4,855,304
Gain on sale of assets	537,702			537,702
Realized and unrealized gain on investments	18,518,186	4,228,284	1,052,291	23,798,761
Gifts and grants for capital purposes	1,478,968	17,033,045	1,261,705	19,773,718
Non operating assets allocated for budgetary designations	383,518			383,518
Net assets released from restrictions		(7,462,947)		(7,462,947)
Increase in net assets from nonoperating activities	26,447,899	14,315,488	2,313,996	43,077,383
Cumulative effect of change in accounting principle (Note 1)	(2,364,787)			(2,364,787)
Total increase in net assets	24,121,983	14,315,488	2,313,996	40,751,467
Total net assets at the beginning of the year	211,673,153	60,641,127	34,496,124	306,810,404
Total net assets at the end of the year	$ 235,795,136	$ 74,956,615	$ 36,810,120	$ 347,561,871

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, 2007 and 2006

	2007	2006
Cash flows from operating activities:		
Change in net assets	$ 47,188,289	$ 40,751,467
Adjustments to reconcile change in net assets to net cash used by operating activities:		
Gain on investments	(51,457,752)	(29,962,881)
Net realized and unrealized loss on interest rate swap	190,545	(5,304,209)
Net gain on funds held in trust by others.	(1,475,041)	(630,333)
Depreciation and amortization	8,390,584	7,519,409
Donations in Kind	-	(7,120,000)
(Gain)/loss on Sale of Asset	12,700	(537,702)
Cumulative effect of change in accounting principle	-	2,364,787
Contributions restricted for long-term purposes	(4,861,609)	(6,827,666)
Change in ARO	157,774	-
Increase in U.S. Government loan funds	75,084	158,095
Changes in operating assets and liabilities:		
Increase in accounts receivable	(1,112,877)	(76,008)
(Increase) Decrease in pledges receivable	1,217,549	(862,090)
(Increase) Decrease in inventories	569,365	(547,151)
(Increase) Decrease in prepaid expenses and deferred charges and other assets	(806,343)	105,852
Increase (Decrease) in accounts payable and accrued expenses	1,053,364	(260,700)
Increase in agency accounts & other liabilities	14,837	16,766
Increase in deferred income	342,307	800,495
Net cash (used for) provided by operating activities	(501,224)	(411,869)
Cash flows for investing activities:		
Purchase of buildings and equipment	(25,561,057)	(68,773,288)
Proceeds from sale of asset	-	1,019,088
(Increase) Decrease in deposits with trustee	(4,466,492)	65,884,031
Student loans granted	(1,667,830)	(1,873,360)
Collection of student loans	2,052,126	2,306,754
Note receivable granted	(300,000)	-
Purchase of investments	(365,428,018)	(184,760,299)
Sale of investments	364,305,681	178,014,668
Net cash used in investing activities	(31,065,590)	(8,182,406)
Cash flows from financing activities:		
Payments on long-term debt	(10,365,000)	(1,650,000)
Proceeds from issuance of long term debt	39,500,000	-
Contributions restricted for long-term purposes	4,861,609	6,827,666
Net cash provided by financing activities	33,996,609	5,177,666
Net increase in cash and cash equivalents	2,429,795	(3,416,609)
Cash and cash equivalents at beginning of the year	5,310,624	8,727,233
Cash and cash equivalents at end of the year	$ 7,740,419	$ 5,310,624

The accompanying notes are an integral part of the financial statements

Rhode Island School of Design

Notes to the Financial Statements for the Year Ended June 30, 2007 and 2006

1. **Summary of Significant Accounting Policies:**

The financial statements of the Rhode Island School of Design (the "School") have been prepared on the accrual basis of accounting and in accordance with the reporting principles of not-for-profit accounting.

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. In addition, 2007 includes a gift-in-kind, which is also included in net assets released from restriction on the statement of activities, relating to the donation of the first floor of the School's library received during the year ended June 30, 2006 and placed in service in the fall of 2006. Net budgetary designations for 2007 and 2006 are as follows:

	2007	2006
Facilities Use Fee	$ (7,265,822)	$ (6,461,723)
Depreciation	8,284,803	7,369,814
Capitalized Interest Adjustment	250,223	1,548,347
Campaign Expenses	122,335	(3,306,892)
Gift-in-kind released from restriction	(7,120,000)	
Reclassification of expenses related to non-operating income	(1,184,207)	466,936
Net Budgetary Designation	$ (6,912,668)	$ (383,518)

Non Operating

Non operating revenue includes 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, 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, 2007 and 2006. 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. Cash and cash equivalents held by an investment manager and included in the endowment are included in long-term investments

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 7). 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 12) 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 Standards

In March 2005, the FASB issued FIN 47, "Accounting for Conditional Asset Retirement Obligations," which clarifies that the term "conditional asset retirement obligation" as used in SFAS 143 refers to a legal obligation to perform an asset retirement activity when the timing and/or method of settlement are conditional on a future event that may or may not be in the control of the entity. This legal obligation is absolute, despite the uncertainty regarding the timing and/or method of settlement. In addition, the fair value of a liability for the conditional asset retirement obligation should be recognized when incurred (generally upon acquisition, construction or development) if the liability's fair value can be reasonably estimated.

The School adopted FIN 47 effective June 30, 2006. Upon adoption, the School recorded asset retirement obligations of $2,868,610 in the statement of financial position and $2,364,787 as the cumulative effect of a change in accounting principle, included in the statement of activities. The total depreciation and interest accretion costs for the year ended June 30, 2007 is $178,268. The asset retirement obligations will be adjusted on an ongoing basis due to the passage of time, new laws and regulations and revisions to either the timing or amounts of original estimates.

2. Investments:

The cost and market value of investments at June 30, 2007 and 2006 were as follows:

2007	Cost	Market
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

2006	Cost	Market
Pooled and mutual funds	$ 42,316,056	$ 42,316,054
Common and preferred stocks	104,182,008	129,979,910
Fixed income securities	32,693,891	31,172,477
Alternative investments	80,406,683	126,394,758
Split interest agreements	1,960,794	1,960,794
	$ 261,559,432	$ 331,823,993

Investment income for the years ended June 30, 2007 and 2006 was as follows:

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 gains	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

2006	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Interest and dividend income	$ 2,085,062	$ 517,106	-	$ 2,602,168
income	11,620,893	1,379,682	-	13,000,575
Realized gains				
Increase in net unrealized gains	13,061,413	2,848,602	$ 1,052,291	16,962,306
Total investment return	$ 26,767,368	$ 4,745,390	$ 1,052,291	$ 32,565,049

The School earned $51,457,752 of realized and unrealized gains during fiscal year 2007 of which $6,799,101 was utilized in order to meet the spending formula used in operations. In 2006 the School earned $29,962,881 of realized and unrealized gains of which $6,164,120 was utilized to meet the spending formula.

Investment management fees (netted from interest and dividend income) totaled $1,960,543 and $1,848,477 in 2007 and 2007, respectively.

Certain net assets are pooled for investment income purposes. The unit market value at June 30, 2007 and 2006 was $307.30 and $264.56 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, 2007 and 2006.

During 2007, management performed a review of its net asset balances related to the reinvestment of investment gains under state law and determined a computational error occurred in the allocation of realized and unrealized gains to permanently restricted net assets. Accordingly, this was corrected in 2007 and management has reduced permanently restricted net assets by $4,742,469 as a change in classification between net asset balances on the Statement of Activities and increased unrestricted net assets by $4,268,222 and temporarily restricted net assets by $474,247. Restatement of the financial statements was not necessary as this change in classification is immaterial to the financial statements taken as a whole.

Included in total investments are split interest agreements of $2,117,898 and $1,960,794 for 2007 and 2006 respectively. There are corresponding liabilities included in accounts payable and accrued liabilities of $1,528,597 and $ 1,537,841 for 2007 and 2006 respectively.

3. Accounts Receivable:

Accounts receivable consisted of the following at June 30:

	2007	2006
Government grants	$ 720,848	$ 10,949
Computer loan programs	1,238,802	1,139,638
Student tutition and fees	897,517	794,095
Notes receivable from related party	600,000	300,000
Interest receivable	341,043	33,850
Other	222,885	359,499
Total	$ 4,021,095	$ 2,638,031
Less: allowance for uncollectible accounts	(326,580)	(356,393)
Total	$ 3,694,515	$ 2,281,638

4. Pledges Receivable:

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

	2007	2006
In one year or less	$ 3,811,536	$ 4,099,684
Between one year and five years, net of discount	5,515,902	6,834,722
Five years and over, net of discount	3,525,572	3,299,923
Total	$ 12,853,010	$ 14,234,329
Less: allowance for uncollectible pledges	(938,611)	(1,102,381)
Pledges receivable, net	$ 11,914,399	$ 13,131,948

Discount to present value was calculated using a discount factor based on US Treasury note rates for the respective pledges. The discount was $477,884 and $623,269 for 2007 and 2006 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 $375,223 and $383,630 at June 30, 2007, and 2006, respectively.

6. **Bonds Payable:**

	2007	2006
Rhode Island Health and Education Building Corporation Series 2001, Range 3.5%-5%, original issue $27,890,000	$ 27,659,244	$ 27,705,670
Rhode Island Health and Education Building Corporation Series 2004A, Range3.24%-3.85% original issue $28,500,000	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	26,825,000
Rhode Island Health and Education Building Corporation Series 2004C, Range 3.11%-4.95% original issue $10,675,000	-	9,250,000
Rhode Island Health and Education Building Corporation Series 2004D, Range 3.0%-5.625% original issue $58,435,000	58,830,478	59,618,273
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	-
Total	$ 181,139,722	$ 151,898,943

As of June 30, 2007 and 2006 the unamortized discount on 2001 Bonds amounted to $85,756 and $89,329 respectively, which is being amortized over the life of the bond using the effective interest basis.

As of June 30, 2007 and 2006 the unaccreted premium on 2004D Bonds amounted to $1,285,478 and $1,183,272 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 2004A) are due in principal amounts and sinking fund requirements ranging from $3,300,000 in 2031 to $8,750,000 in 2034 for tax-exempt term bonds. RIHEBC Bonds (Series 2004B) are due in principal amounts and sinking fund requirements ranging from $200,000 in 2007 to $2,375,000 in 2025 for tax-exempt term bonds. 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 2006 A) are due in principal amounts and sinking fund requirements ranging from $1,000,000 in 2027 to $ 13,950,000 for tax-exempt term bonds. RIHEBC Bonds (Series 2006 B) are due in principal amounts and sinking fund requirements ranging from $ 1,450,000 in 2007 to $1,725,000 in 2011 for tax-exempt term bonds. Series 2006 A and Series

2006 B Bonds are subject to redemption prior to maturity on any interest payment date at the redemption price of 100% of the principal amount.

The Municipal Bond Insurance Association insures redemption of Series 2001 bonds. XL Capital Assurance insures redemption of all the 2004 bonds and Series 2006B bonds. Series 2006 A bonds are insured by CIFG Assurance North 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 2004A and 2004B bonds maturing on and after August 15, 2015 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 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.

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
2008	$ 2,605,000
2009	2,725,000
2010	2,830,000
2011	2,940,000
2012-2037	168,840,000
	$ 179,940,000

Estimated fair value of debt was approximately $183,519,544 and $153,635,220 at June 30, 2007 and 2006, respectively. Cash paid for interest on long-term debt for the years ended June 20, 2007 and 2006 was $7,697,390 and $5,672,372, respectively.

The School capitalizes the interest cost related to outstanding debt on qualifying assets. Interest costs capitalized for the years ended June 30, 2007 and 2006 totaled $120,427 and $1,083,363, respectively.

Bond issuance costs are capitalized and amortized over the life of the bond. Unamortized bond issuance costs were $3,382,970 and $2,724,478 for the years ended June 30, 2007 and 2006, respectively.

During 2004 the School entered into various interest 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 swaps at the estimated value at which the swaps could be settled as of June 30, 2007 and 2006. The unrealized (appreciation) and depreciation that was recognized for the swaps was $190,545 and ($5,304,647) for the years ending June 30, 2007 and 2006, 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

2007 and 2006 the School incurred a realized loss on the swaps of $189,085 and $449,343, respectively.

The estimated fair value of the interest rate swaps was computed by a third-party. The value of the swap instruments represents 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 their fair values at June 30, 2007.

Bond Issue	Maturity	Original Notional Amount	Fair Value at June 30, 2007
Series 2006B	Aug. 15, 2011	$ 9,250,000	$ 19,672
Series 2004B	Aug. 15, 2025	27,000,000	(24,350)
Series 2004A	Aug. 15, 2034	28,500,000	996,199
Series 2004A	Aug. 15, 2034	28,500,000	(986,909)
Total Liability			$ 4,612

7. Property, Plant and Equipment

Property, plant and equipment included the following at June 30, 2007.

	2007	2006
Land and buildings:		
Educational plant	$ 89,567,942	$ 63,090,729
Dormitories and refectory	83,820,730	83,079,587
Administrative and other	17,874,735	17,552,173
Residences	935,350	884,426
Construction in progress	20,345,434	25,006,309
Land	6,130,556	6,130,556
Total	$ 218,674,747	$ 195,743,780
Furniture, fixtures and equipment	35,133,049	32,059,343
Total	$ 253,807,796	$ 227,803,123
Less: accumulated depreciation	(93,560,470)	(85,849,022)
	$ 160,247,326	$ 141,954,101

Costs of $2,934,906 and $1,905,233 were accrued for capital expenditures at June 30, 2007 and 2006 respectively.

8. Museum:

Revenues

The Museum realized service revenue of $1,262,703 and $1,201,621 as well as $1,164,158 and $1,059,217 of total return income and gain and $1,621,908 and $276,692 of gifts and grants for the years ended June 30, 2007, and 2006 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 $1,329,901 and $677,332 for acquisitions during 2007 and 2006 respectively.

9. 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 $3,234,275 and $3,185,582 for the years ended June 30, 2007 and 2006 respectively.

10. Commitments and Contingencies:

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, 2007 the School had no outstanding commitment related to the acquisition of new property, and will pay $2,969,986 over the next sixteen years as payments in lieu of taxes. Final Augmented Voluntary Payments of $3,204,000 were made in fiscal year 2006. Payments in lieu of taxes of $163,174 and $160,763 were made in fiscal 2007 and 2006, respectively.

Certain of the School's investments in privately held funds included unfunded commitments. As of June 30, 2007, unfunded commitments totaled $9,346,145.

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.

11. Related Party Note:

During fiscal 2007, the School issued a secured note in the amount of $300,000 to a related party in accordance with IRS Regulation 1.7872.5T(c)(1)(i). The total outstanding notes from a related party are $600,000 and $300,000 for the years ended June 30, 2007 and 2006 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 $379,629 and ($4,855,304) were made during the years ended June 30, 2007 and 2006, 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.

12. Functional Expenses: Total expenses of the School by functional classification are as follows:

	2007	2006
Instruction	$ 43,716,808	$ 42,984,912
Campus Support Services	24,136,113	16,917,243
Institutional Support	15,782,052	16,183,731
Museum Servcies	8,042,504	7,791,770
Academic Support	7,197,544	7,370,790
Student Support	3,361,566	3,384,746
Research	318,732	626,280
Total	$ 102,555,319	$ 95,259,472

13. Subsequent Events:

On August 15, 2007, several liquid mercury droplets were identified on a corridor floor of a RISD building. Costs related to the cleanup and remediation of the building are on going and currently estimated to be approximately $200,000 which were properly classified as expense in the operating results of fiscal year 2007.