

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

Financial Statements

June 30, 2003

(With Independent Auditors' Report Thereon)

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

Table of Contents

	Page
Independent Auditors' Report	1
Management's Discussion and Analysis (Unaudited)	3
Statement of Net Assets	12
Statement of Revenues, Expenses, and Changes in Net Assets	13
Statement of Cash Flows	14
Notes to Financial Statements	15
Independent Auditors' Report on Compliance and on Internal Control over Financial Reporting in Accordance with <i>Government Auditing Standards</i>	32



600 Fleet Center
50 Kennedy Plaza
Providence, RI 02903-2321

Independent Auditors' Report

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

We have audited the accompanying statement of net assets of the Community College of Rhode Island (the College) (a component unit of the State of Rhode Island and Providence Plantations) as of June 30, 2003, and the related statements of revenues, expenses, and 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.

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 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. 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 audit provides 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 the College as of June 30, 2003, and the changes in its financial position and its cash flows thereon for the year 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 5, 2003 on our consideration of the College's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. 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 on pages 3 to 11 is not a required part of the financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the supplementary information and express no opinion on it.

KPMG LLP

September 5, 2003

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

Management's Discussion and Analysis

June 30, 2003

(Unaudited)

Introduction

The following management discussion and analysis (MD&A) provides management's view of the financial position of the Community College of Rhode Island (the Community College) as of June 30, 2003 and the results of operations for the year then ended, with selected comparative information for the year ended June 30, 2002. The purpose of the MD&A is to assist readers in understanding the accompanying financial statements by providing an objective and understandable analysis of the Community College's financial activities based on currently known facts, decisions, and conditions. This analysis has been prepared by management, which is responsible for the completeness and fairness of this information, consists of highly summarized information, and should be read in conjunction with the Community College's financial statements and notes thereto, which follow this section.

The Community College is New England's largest, public, two-year college with an average enrollment of 15,540 full- and part-time students in 2003. The mission of the Community College is to provide all Rhode Island residents with open access to post-secondary education by providing an ambitious array of both academic transfer and occupational programs. In addition, the Community College develops educational and training programs for local businesses and industries to further the state's economic development objectives. The Community College is also open to out-of-state residents.

The Community College offers a variety of academic programs to prepare students for transfer to four-year colleges or universities. In addition, technical career programs are offered primarily to equip students with the skills needed to obtain employment in Rhode Island businesses, industries, and service agencies. The Community College offers extensive community programming as well. It opens its facilities for public use, sponsors programs on issues of public concern, and offers workshops and seminars for businesses, for government agencies and for individuals seeking to improve their skills or enhance their lives.

Community College courses are offered in a variety of locations across the state. The Knight Campus in Warwick, the Flanagan Campus in Lincoln, and the Providence Campus are the main campuses of the Community College. Classes are also offered at satellite facilities at Newport Hospital.

The Rhode Island Junior College state system was established by an act of the Rhode Island General Assembly in 1960. In 1980, the Rhode Island Board of Regents for Education approved a change in the name of the Community College from Rhode Island Junior College to the Community College of Rhode Island to reflect the true mission of the institution. The Board of Governors for Higher Education became the governing body for the Community College in 1981.

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

Management's Discussion and Analysis

June 30, 2003

(Unaudited)

Financial Highlights

The Community College's financial position remained strong as of June 30, 2003. Net assets increased by \$1.1 million over the prior year.

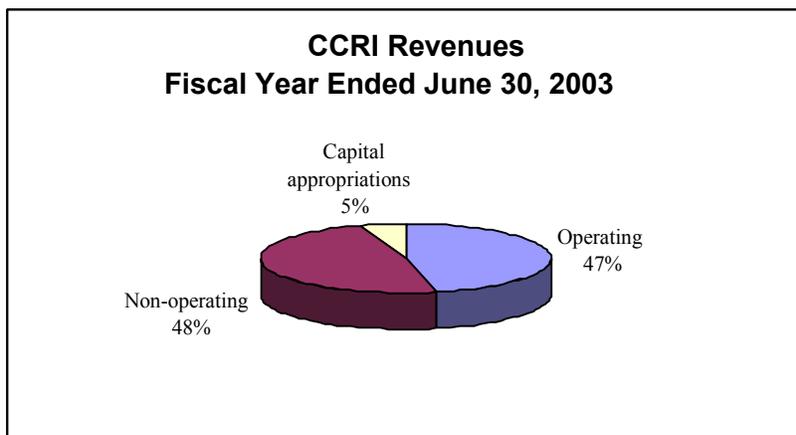
At June 30, 2003, the Community College's assets of \$47.0 million exceeded its liabilities of \$17.5 million by \$29.5 million, an increase over the prior year of \$1.1 million. The resulting net assets are summarized into the following categories (in millions) for the fiscal years ended June 30, 2003 and June 30, 2002:

	2003	2002
Invested in capital assets, net of related debt	\$ 31.8	29.8
Restricted, expendable	3.2	3.3
Unrestricted	(5.4)	(4.6)
Total net assets	\$ 29.6	28.5

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

Fiscal 2003 revenues before net investment return increased by 9.8%, or \$3.4 million. Expenses increased by 5.0%, or \$3.8 million.

The following chart provides a graphical breakdown of total revenues by category for the fiscal year ending June 30, 2003:



Cash flow continued to be adequate for operations with an operating cash balance of \$4.9 million at June 30, 2003, an increase of \$1.6 million from June 30, 2002.

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

Management's Discussion and Analysis

June 30, 2003

(Unaudited)

Overview of the Financial Statements

The financial statements focus on the Community College as a whole, rather than upon individual funds or activities and have two primary components: 1) the financial statements and 2) the notes to the financial statements.

The Financial Statements

The financial statements are designed to provide readers with a broad overview of the Community College's finances and are comprised of three basic statements. These statements present financial information in a form similar to that used by private institutions of higher education and corporations.

The *Statement of Net Assets* presents information on all of the Community College's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Community College is improving or deteriorating. Other factors are also relevant to assessing the Community College's overall financial health. These include; the trend, quality, and retention and size of student enrollments; diversification of revenue streams; management of costs; and condition of facilities.

The *Statement of Revenues, Expenses and Changes in Net Assets* shows how the Community College's net assets changed during the most recent fiscal year. This statement reports total operating revenues and expenses, non-operating revenues and expenses, and capital additions and deletions. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will result in cash flows only in future fiscal periods (e.g. the payment for accrued compensated absences, or the receipt of amounts due from students and others for services rendered).

The *Statement of Cash Flows* is reported on the direct method. The direct method of cash flow reporting portrays net cash flows from operations as major classes of operating receipts (e.g. tuition and fees) and disbursements (e.g. cash paid to employees for services).

The Community College reports its operations as a business – type activity using the economic measurement focus and full accrual basis of accounting. The Community College is a component unit of the State of Rhode Island and Providence Plantations. Therefore, the results of the Community College's operations, its net assets and cash flows are also summarized in the State's Comprehensive Annual Financial Report in its government – wide financial statements.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the financial statements. They also provide information regarding both the accounting policies and procedures the Community College has adopted, as well as additional detail of certain amounts contained in the financial statements.

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

Management's Discussion and Analysis

June 30, 2003

(Unaudited)

Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of the Community College's financial position. In the case of the Community College, assets exceeded liabilities by \$29.6 million at the close of fiscal year 2003, an increase of \$1.1 million over fiscal 2002, as shown in the chart below:

Condensed Net Assets

June 30, 2003 and 2002

(\$ Millions)

	2003	2002
Assets:		
Current assets	\$ 8.1	6.8
Noncurrent assets	38.9	38.5
Total assets	47.0	45.3
Liabilities:		
Current liabilities	8.8	7.5
Noncurrent liabilities	8.7	9.3
Total liabilities	17.5	16.8
Net assets:		
Invested in capital assets, net of related debts	31.8	29.8
Restricted:		
Expendable	3.2	3.3
Unrestricted	(5.4)	(4.6)
Total net assets	\$ 29.6	28.5

The largest portion of the Community College's net assets, \$34.1 million, reflects its investment in capital assets (such as land, buildings, machinery, and equipment), less any related outstanding debt, including capital leases, used to acquire those assets. The Community College uses these capital assets to provide services to students, faculty and administration; consequently, these assets are not available for future spending.

Although the Community College's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. Also, in addition to the debt noted above, which is reflected in the Community College's financial statements, the State of Rhode Island regularly provides financing for certain capital projects through the issuance of general obligation bonds and appropriations from the Rhode Island Capital Fund. Borrowings by the State are not reflected in these financial statements. Additional financing for certain capital projects is provided by the issuance of revenue bonds by the Rhode Island Health and Educational Building Corporation, a quasi-public state agency.

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

Management's Discussion and Analysis

June 30, 2003

(Unaudited)

Bonds and leases payable of \$6.1 million and compensated absences of \$5.6 million are the Community College's largest liabilities.

Condensed Revenues, Expenses, and Changes in Net Assets

Years ended June 30, 2003 and 2002

(\$ Millions)

	2003	2002
Operating revenues:		
Tuition and auxiliary, net	\$ 24.5	22.5
Scholarships, grants, and contracts	11.2	10.3
Other	2.2	1.7
Total operating revenues	37.9	34.5
Operating expenses:		
Salaries and benefits	57.7	54.9
Operating expenses	13.7	13.8
Scholarships, grants, and contracts	6.5	5.5
Depreciation and amortization	2.4	2.3
Total operating expenses	80.3	76.5
Net operating loss	(42.4)	(42.0)
Nonoperating revenues (expenses):		
State appropriations	39.6	40.7
Other nonoperating expenses, net	(0.2)	(0.1)
Net nonoperating revenues	39.4	40.6
Loss before other revenues, expenses, gains, or losses	(3.0)	(1.4)
Capital appropriations	4.1	3.2
Increase in net assets	\$ 1.1	1.8

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

Management's Discussion and Analysis

June 30, 2003

(Unaudited)

Operating Revenues

Total operating revenues for fiscal 2003 were \$37.9 million, an increase of \$3.4 million from the prior year. The most significant sources of operating revenue for CCRI are tuition and fees, grants and contracts, and auxiliary services. Significant changes in operating revenue resulted from:

- The Board of Governors raised student tuition by 6%.
- Federal, state, and private grant and contract activity increased \$0.9 million.

Operating Expenses

Operating expenses totaled \$80.4 million, an increase of \$3.9 million from the prior year. Of this total, \$44.1 million or 54.9% was used for instruction and student support. Depreciation expense totaled \$2.4 million. Significant changes in operating expenses resulted from:

- Sponsored program expenses were \$0.4 million higher than the previous year due to an increase in grant and contract activity.
- The cost of student aid increased by \$0.6 million as a result of increases in the number and amount of awards.
- Salaries and benefits increased by \$2.9 million.

Nonoperating Revenues

Total nonoperating revenues for fiscal year 2003 are \$39.4 million, including the state appropriation of \$39.6 million. This is a decrease of \$1.2 million from the prior year.

Other

Capital appropriations of \$4.1 million represent general obligation funds spent by the state of Rhode Island to construct or acquire capital assets utilized by the Community College.

Capital Asset and Debt Administration

Capital Plan

The Rhode Island Board of Governors for Higher Education submits a running five fiscal year capital improvement plan to the General Assembly and State Executive each year. The plan includes proposed capital asset protection projects for the Community College. The FY 2004-2008 plan for the Community College totals \$49.1 million and includes all projects underway and planned, whether funded or not. This plan forms the basis for discussions on funding the various projects from all available funding sources. During fiscal year 2003, the Community College expended \$4.4 million on plant related projects. The Community College generally has funded its capital plans through a combination of funds received from Community College operations, State of Rhode Island Capital appropriations and general obligation bonds. The execution of the Community College's capital improvement plan is contingent upon approval and sufficient funding from the State.

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

Management's Discussion and Analysis

June 30, 2003

(Unaudited)

Capital Assets

At June 30, 2003, the Community College had \$37.9 million invested in capital assets, net of accumulated depreciation of \$32.9 million. Depreciation charges totaled \$2.4 million for the current fiscal year. These represent increases of \$1.9 million and \$0.2 million, respectively, from 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 Schedule of Net Capital Assets

June 30, 2003 and 2002

(\$ Millions)

	2003	2002
Land and improvements	\$ 1.0	1.0
Buildings and improvements	31.5	32.5
Construction in progress	4.4	1.0
Furniture, fixtures, and equipment	1.0	1.5
Total	\$ 37.9	36.0

Major capital additions completed this year and the source of the resources that funded their acquisition included:

- Various capital projects amounting to \$0.5 million at CCRI were funded by State appropriations to the Rhode Island Capital Fund.
- Leasehold improvements were made to the Quonset Point campus totaling \$0.3 million.

Debt

At year-end, the Community College had \$6.1 million in debt outstanding, a decrease of \$0.1 million from the prior year. The table below summarizes the types of debt instruments.

Summary Schedule of Debt

June 30, 2003 and 2002

(\$ Millions)

	2003	2002
Capital lease obligations	\$ 1.9	1.9
Bonds	4.2	4.3
Total	\$ 6.1	6.2

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

Management's Discussion and Analysis

June 30, 2003

(Unaudited)

Debt repayments of \$0.4 million were made during 2003. The Community College has no independent bonding authority. All bonds must be approved by and arranged through the Rhode Island Board of Governors for Higher Education. All general obligation and revenue bond related indebtedness is reflected on the financial accounts of the entity issuing the bonds. Board of Governors' revenue bonds are rated by Moody's at AAA and by Standard and Poor's at AAA. State of Rhode Island general obligation bonds are rated by Moody's at Aa3, Fitch's at AA, and Standard and Poor's at AA-. More detailed information about the Community College's long-term liabilities is presented in note 6 to the financial statements.

The Community College's cash for operations increased \$1.5 million year to year. Cash received from operations consists primarily of student tuition and fees and sponsored program grants and contracts. Significant sources of cash provided by non-capital financing activities, as defined by GASB, include State appropriations used to fund operating activities.

Economic Factors That Will Affect the Future

The seasonally adjusted unemployment rate for the State of Rhode Island, from which the Community College primarily draws students, increased from 4.5% in June of 2002 to 5.7% in June of 2003, according to the Federal Reserve Bank of Boston. This compares to an increase from 5.9% to 6.4% respectively, on a national level. Historically, in times of economic slowdowns, public colleges/universities have experienced increases in their enrollments as unemployed and underemployed workers seek to update and upgrade their skills. The Community College cannot predict the extent to which enrollment may vary in the current environment.

As with many state governments, Rhode Island faced a significant potential state budget deficit in fiscal year 2003, approximately \$175 million, and a similar budget shortfall is projected for fiscal year 2004. To support their strategic priorities in this financially challenging environment, the Community College and the Board of Governors took the following actions during fiscal 2003:

- Approximately 3% of the FY 2003 tuition increase was directly related to solving this funding shortfall.
- The most difficult action taken was to close CCRI's four satellite locations: Middletown, Woonsocket, Westerly and the Navy Base. Initially it was also planned to close the Newport Hospital satellite and consolidate those programs to the main campuses, however, the Newport Hospital administration significantly reduced CCRI's cost of using that facility thus making it possible for the college to remain there.
- A hiring freeze was imposed on all but critical positions, which were reviewed on a case-by-case basis; the number of visiting lecturers authorized to academic departments was reduced as was the out-of-state travel budget and the part-time support staff budget.
- In addition, outstanding bonds were reviewed for potential refinancing at lower rates. In July 2003, \$6.6 million in bonds were refinanced realizing \$0.2 million in interest savings in FY04.

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

Management's Discussion and Analysis

June 30, 2003

(Unaudited)

Despite the reduction in state funding, the Community College's current financial and capital plans indicate that the infusion of additional financial resources from the foregoing actions will enable it to maintain its present level of services at the three main campuses.

The Community College remains very competitive economically. Tuition and mandatory fees for residents in fiscal year 2003 were \$2,014 and ranked sixth among the Community College's eight institution regional peer group. Non-resident tuition and mandatory fees were \$5,428 in fiscal year 2003 and ranked the Community College eighth in its peer group.

The Community College's average enrollment in FY 2003 increased by 565 over the average enrollments of the prior 5 years. Increases in-state undergraduate student charges at the Community College have been held to an average increase of less than 4.2% since FY 2000. Future Community College enrollments may be affected by a number of factors, including any material increase in tuition, other mandatory charges and any material decrease in State appropriations as well as the state and national economy.

Request for Information

This financial report is designed to provide a general overview of the Community College's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Office of the Controller, Community College of Rhode Island, 400 East Avenue, Warwick, RI 02886.

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

Statement of Net Assets

June 30, 2003

(with comparative financial information for June 30, 2002)

Assets	2003	2002
Current assets:		
Cash and cash equivalents (note 2)	\$ 4,893,862	3,346,158
Cash held by State Treasurer (notes 2 and 3)	55,197	254,516
State capital funds	589,734	380,808
Accounts receivable, net (note 4)	2,041,100	2,100,933
Inventory and other current assets	518,763	710,146
Total current assets	<u>8,098,656</u>	<u>6,792,561</u>
Noncurrent assets:		
Restricted cash and cash equivalents (note 2)	311,620	1,831,858
Deposits with bond trustees – restricted	726,592	711,243
Capital assets, net of accumulated depreciation (notes 5 and 6)	37,894,245	35,954,597
Total noncurrent assets	<u>38,932,457</u>	<u>38,497,698</u>
Total assets	<u>\$ 47,031,113</u>	<u>45,290,259</u>
Liabilities		
Current liabilities:		
Accounts payable and accrued liabilities (note 3)	\$ 3,181,223	2,672,845
Compensated absences (note 6)	2,512,445	1,896,584
Due to State Treasurer	1,069,445	1,143,553
Students' deposits and unearned revenues	1,171,982	1,088,871
Funds held for others	424,784	327,109
Current portion of capital lease obligation (notes 5 and 6)	39,268	41,706
Current portion of bonds and loans payable (note 6)	330,601	288,080
Total current liabilities	<u>8,729,748</u>	<u>7,458,748</u>
Noncurrent liabilities:		
Compensated absences (note 6)	3,037,882	3,495,743
Capital lease obligations (notes 5 and 6)	1,824,201	1,863,469
Bonds and loans payable (note 6)	3,860,684	3,967,688
Total noncurrent liabilities	<u>8,722,767</u>	<u>9,326,900</u>
Total liabilities	<u>\$ 17,452,515</u>	<u>16,785,648</u>
Net Assets		
Invested in capital assets, net of related debt	\$ 31,839,491	29,793,654
Restricted (note 7):		
Expendable	3,220,427	3,281,855
Unrestricted (deficit) (note 8)	(5,481,320)	(4,570,898)
	<u>29,578,598</u>	<u>28,504,611</u>
Contingencies (note 9)		
Total net assets	<u>\$ 29,578,598</u>	<u>28,504,611</u>

See accompanying notes to financial statements.

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

Statement of Revenues, Expenses, and Changes in Net Assets

Year ended June 30, 2003

(with comparative financial information for the year ended June 30, 2002)

	<u>2003</u>	<u>2002</u>
Operating revenues:		
Tuition and fees	\$ 23,912,201	21,753,453
Auxiliary enterprises	5,841,788	5,718,130
Less scholarship allowances	<u>(5,205,884)</u>	<u>(4,948,945)</u>
Net student fees	24,548,105	22,522,638
Federal, state, local, and private grants and contracts	11,187,068	10,262,118
Sales and services of education departments	<u>2,186,609</u>	<u>1,742,167</u>
Total operating revenues	<u>37,921,782</u>	<u>34,526,923</u>
Operating expenses (note 10):		
Instruction	37,125,086	35,445,680
Academic support	4,895,270	4,631,725
Student services	7,021,344	6,390,201
Scholarships and fellowships	2,718,727	2,457,509
Public service	939,641	836,193
Operation and maintenance of plant	9,312,743	9,187,251
Institutional support	10,713,937	10,306,184
Depreciation and amortization	2,457,737	2,274,886
Auxiliary enterprises	<u>5,202,519</u>	<u>5,014,835</u>
Total operating expenses	<u>80,387,004</u>	<u>76,544,464</u>
Operating loss	<u>(42,465,222)</u>	<u>(42,017,541)</u>
Nonoperating revenues (expenses):		
State appropriations (note 11)	39,601,401	40,743,150
Net investment income	127,929	135,989
Interest expense	<u>(297,978)</u>	<u>(281,174)</u>
Net nonoperating revenues	<u>39,431,352</u>	<u>40,597,965</u>
Loss before other revenues, expenses, gains, or losses	<u>(3,033,870)</u>	<u>(1,419,576)</u>
Capital appropriations (note 11)	<u>4,107,857</u>	<u>3,200,535</u>
Increase in net assets	1,073,987	1,780,959
Net assets, beginning of year	<u>28,504,611</u>	<u>26,723,652</u>
Net assets, end of year	<u>\$ 29,578,598</u>	<u>28,504,611</u>

See accompanying notes to financial statements.

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

Statement of Cash Flows

Year ended June 30, 2003

(with comparative financial information for the year ended June 30, 2002)

	2003	2002
Cash flows from operating activities:		
Tuition and fees	\$ 18,955,233	16,987,389
Grants and contracts	11,042,784	9,906,598
Payments to suppliers	(11,794,057)	(11,981,723)
Payments to utilities	(1,797,178)	(1,902,835)
Payments to employees	(56,954,791)	(54,404,627)
Payments for scholarships, fellowships, and sponsored programs	(6,525,481)	(5,456,200)
Auxiliary enterprise	5,724,823	5,088,122
Sales and service of educational departments	2,341,887	1,578,453
Other (payments) receipts	(283,034)	945,764
Net cash used by operating activities	(39,289,814)	(39,239,059)
Cash flows from noncapital financing activities:		
State appropriations	39,601,401	40,743,150
Funds held for others	97,675	56,178
Net cash provided by noncapital financing activities	39,699,076	40,799,328
Cash flows from capital and related financing activities:		
Proceeds from capital debt	318,000	—
Capital appropriations	2,930,703	2,070,535
State contributed capital	1,177,154	1,130,000
Purchases of capital assets	(4,397,385)	(3,520,792)
Principal paid on capital debt and leases	(424,189)	(251,934)
Interest paid on capital debt and leases	(297,978)	(281,174)
Deposits with trustee	(15,349)	823
Net cash used by capital and related financing activities	(709,044)	(852,542)
Cash flows from investing activities:		
Interest on investments	127,929	135,989
Net cash provided by investing activities	127,929	135,989
Net (decrease) increase in cash and cash equivalents	(171,853)	843,716
Cash and cash equivalents – beginning of year	5,432,532	4,588,816
Cash and cash equivalents – end of year	\$ 5,260,679	5,432,532
Reconciliation of net operating expenses to net cash used by operating activities:		
Operating loss	\$ (42,465,222)	(42,017,541)
Adjustments to reconcile net loss to net cash used by operating activities:		
Depreciation and amortization	2,457,737	2,274,886
Changes in assets and liabilities:		
Accounts receivable	59,833	(1,029,685)
Inventory and other current assets	191,383	(168,498)
Funds on deposit with the State	(283,034)	945,764
Accounts payable and accrued liabilities	508,378	699,822
Compensated absences	158,000	(7,130)
Students' deposits and unearned revenues	83,111	63,323
Net cash used by operating activities	\$ (39,289,814)	(39,239,059)

See accompanying notes to financial statements.

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

Notes to Financial Statements

June 30, 2003

(1) Summary of Significant Accounting Policies

(a) Organization

The College 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 ten 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.

(b) Basis of Presentation

The accompanying financial statements have been prepared using the economic resources measurement focus and the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America, as prescribed by the Governmental Accounting Standards Board (GASB). Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements have been met.

The College has determined that it functions as a Business Type Activity, as defined by GASB. The significant GASB standards followed by the College are described as follows:

In June 1999, GASB Statement No. 34, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments* was issued. This statement establishes new financial reporting requirements. It establishes that the basic financial statements and required supplementary information (RSI) for general purpose governments should consist of: management’s discussion and analysis, basic financial statements, and required supplementary information.

In November 1999, GASB Statement No. 35, *Basic Financial Statements – and Management’s Discussion and Analysis – for Public Colleges and Universities* was issued. As with Statement No. 34 it became effective with periods beginning after June 15, 2001. This Statement establishes accounting and financial reporting standards for public colleges and universities within the financial reporting guidelines of Statement No. 34. In accordance with this Statement, the College presents statements of net assets, revenues, expenses and changes in net assets, and cash flows on a combined, College wide, basis. The objective of this Statement is to enhance the understandability and usefulness of the external financial reports issued by public colleges and universities.

In June 2001, GASB Statement No. 37, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments: Omnibus* was issued. This statement was implemented simultaneously with Statement No. 34.

In June 2001, GASB Statement No. 38, *Certain Financial Statement Note Disclosures* was issued. This statement was implemented simultaneously with Statement No. 34.

The College adopted GASB Statements 34, 35, 37, and 38 as of July 1, 2001.

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

Notes to Financial Statements

June 30, 2003

The College's policy for defining operating activities in the statement 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) after November 30, 1989.

(c) Net Assets

GASB Statement No. 34 requires that resources be 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.

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.

(d) Cash Equivalents

The College considers all highly liquid debt instruments purchased with an original maturity date of three months or less to be cash equivalents.

(e) Inventories

Inventories are stated at the lower of cost (retail inventory method) or market, and consist of bookstore items.

(f) Capital Assets

Real estate assets, including improvements, are generally stated at cost. Furnishings and equipment are stated at cost at date of acquisition or, in the case of gifts, at fair value at date of donation. In accordance with the Board's capitalization policy, vehicles, equipment, computer software for internal use, and works of art and historical treasures with a unit cost of \$5,000 or more are capitalized. Land, building, leasehold, and infrastructure improvements with a unit cost of \$50,000 or more are capitalized. Interest costs on debt related to capital assets is capitalized during the construction period and then depreciated over the life of the project. College capital assets, with the

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

Notes to Financial Statements

June 30, 2003

exception of land and construction in progress are depreciated on a straight-line basis over their estimated useful lives, which range from 5 to 50 years.

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

(g) *Compensated Absences and Salary Reduction Plan*

College employees are granted vacation and sick leave in varying amounts. In the event of termination, an employee is paid for those accumulated vacation and sick days allowable under one of the several union contracts in force or in the case of nonunion personnel, according to State or College policy.

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

Also reported 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 1993, approved by the Board, are also included. These amounts 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.

(h) *Health*

The State of Rhode Island offers one state paid health plan to each of its participating agencies, including the College. The premiums for these plans are divided among the sixteen participants based upon their number of lives (eligible employees). Thus, the College pays 100% for their health care costs and is required to budget for these costs based on the estimated number of lives. The costs are automatically deducted through the payroll system on a bi-weekly basis. Amounts paid by the College to the State for the 2003 and 2002 health premiums were approximately \$6,316,000 and \$4,956,000, respectively.

(i) *Assessed Fringe Benefit Administrative Fund*

In July 2000, the State established the Assessed Fringe Benefit Administrative Fund. The fund will be used to make all payments relating to workers' compensation charges, unemployment compensation payments, and payments to employees for unused leave upon their termination from state service. The State funds this account by assessing a charge against the bi-weekly payrolls of all State agencies, including the College. The fringe benefit assessment rate for fiscal years 2003 and 2002 was 3.8%. The assessed fringe benefit cost for the College was \$1,272,619 for fiscal year 2003 and \$1,217,006 for fiscal year 2002.

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

Notes to Financial Statements

June 30, 2003

(j) *Students' Deposits and Unearned Revenue*

Deposits and advance payments received for tuition and fees related to certain summer programs and tuition received for the following academic year are deferred and are recorded as revenues as earned.

(k) *Student Fees*

Student tuition and fees are presented net of scholarships and fellowships applied to students accounts. Certain other scholarship amounts are paid directly to, or refunded to, the student and are reflected as expenses.

(l) *Tax Status*

The College a component unit of the State of Rhode Island and Providence Plantations and is therefore generally exempt from income taxes under Section 115 of the Internal Revenue Code.

(m) *Use of Estimates*

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(n) *Risk Management*

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

Buildings are fully insured against fire, theft, and natural disaster to the extent that losses exceed \$25,000 per incident.

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.

The College is insured for general liability with an outside carrier. The policy limits are \$1 million per claim and \$2 million in the aggregate, and there is a \$25,000 deductible. This policy does not apply to actions relating to federal/civil rights, eminent domain, and breach of contract. Such claims are insured under the United Educator's Policy for wrongful acts. This policy sets limits of \$1 million per claim and \$1 million for the annual aggregate, and there is a \$100,000 deductible.

(o) *Reclassifications*

Certain amounts as of June 30, 2002 have been reclassified to conform to the presentation as of June 30, 2003.

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

Notes to Financial Statements

June 30, 2003

(2) Cash and Cash Equivalents

The following summary presents the amount of College deposits representing cash and cash equivalents that are fully insured or collateralized with securities held by the College or its agent in the College's name (Category 1), those deposits that are collateralized with securities held by the pledging financial institution's trust department or agent in the College's name (Category 2) and those deposits that are not collateralized (Category 3) at June 30:

2003				
1	2	3	Total bank balance	Carrying amount
\$ 515,139	446,525	5,362,566	6,324,230	5,260,679
2002				
1	2	3	Total bank balance	Carrying amount
\$ 756,614	1,762,341	3,644,609	6,163,564	5,432,532

In accordance with RI General Laws, Chapter 35-10.1, depository institutions holding deposits of the State, its agencies, or governmental subdivisions of the State, shall at a minimum, insure or pledge eligible collateral equal to 100% of time deposits with maturities greater than sixty days. Any of these institutions which do not meet minimum capital standards prescribed by federal regulators will insure or pledge eligible collateral equal to 100% of deposits, regardless of maturities.

(3) Cash Held by State Treasurer

Accounts payable and accrued salaries to be funded from state-appropriated funds totaled \$55,197 and \$254,516 at June 30, 2003 and 2002, respectively. The College has recorded a comparable dollar amount of cash held by the State Treasurer for the benefit of the College, which was subsequently utilized to pay for such liabilities.

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

Notes to Financial Statements

June 30, 2003

(4) Accounts Receivable

Accounts receivable include the following at June 30:

	2003	2002
Student accounts receivable	\$ 1,470,904	1,620,914
Grants receivable	722,901	650,202
Other receivables	506,693	518,453
	2,700,498	2,789,569
Less allowance for doubtful accounts	(659,398)	(688,636)
	\$ 2,041,100	2,100,933

The College anticipates that all of its accounts receivable will be collected within a one-year timeframe.

(5) Capital Assets

Capital assets consist of the following at June 30:

		2003		
	Estimated lives (in years)	Beginning balance	Additions	Ending balance
Capital assets net being depreciated:				
Land	—	\$ 1,040,837	—	1,040,837
Construction in progress	—	944,563	3,493,610	4,438,173
Total net being depreciated		1,985,400	3,493,610	5,479,010
Capital assets being depreciated:				
Buildings, including improvements	10-50	60,938,969	794,758	61,733,727
Furnishings and equipment (including cost of capital leases)	5-15	3,523,830	109,017	3,632,847
Total being depreciated		64,462,799	903,775	65,366,574
Less accumulated depreciation:				
Building, including improvements	—	28,416,852	1,896,563	30,313,415
Furnishings and equipment	—	2,076,750	561,174	2,637,924
Total accumulated depreciation		30,493,602	2,457,737	32,951,339
Total being depreciated		33,969,197	(1,553,962)	32,415,235
Capital assets, net		\$ 35,954,597	1,939,648	37,894,245

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

Notes to Financial Statements

June 30, 2003

	2002				
	<u>Estimated lives (in years)</u>	<u>Beginning balance</u>	<u>Additions</u>	<u>Reclassifi- cations</u>	<u>Ending balance</u>
Capital assets net being depreciated:					
Land	—	\$ 1,040,837	—	—	1,040,837
Construction in progress	—	14,734,358	731,893	(14,521,688)	944,563
Total net being depreciated		<u>15,775,195</u>	<u>731,893</u>	<u>(14,521,688)</u>	<u>1,985,400</u>
Capital assets being depreciated:					
Buildings, including improvements	10-50	43,704,894	2,712,387	14,521,688	60,938,969
Furnishings and equipment (including cost of capital leases)	5-15	3,447,319	76,511	—	3,523,830
Total being depreciated		<u>47,152,213</u>	<u>2,788,898</u>	<u>14,521,688</u>	<u>64,462,799</u>
Less accumulated depreciation:					
Building, including improvements	—	26,792,222	1,624,630	—	28,416,852
Furnishings and equipment	—	1,426,494	650,256	—	2,076,750
Total accumulated depreciation		<u>28,218,716</u>	<u>2,274,886</u>	<u>—</u>	<u>30,493,602</u>
Total being depreciated		<u>18,933,497</u>	<u>514,012</u>	<u>14,521,688</u>	<u>33,969,197</u>
Capital assets, net		<u>\$ 34,708,692</u>	<u>1,245,905</u>	<u>—</u>	<u>35,954,597</u>

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

Notes to Financial Statements

June 30, 2003

(6) Long-Term Liabilities

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

	2003				
	<u>Beginning balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending balance</u>	<u>Current portion</u>
Leases and bonds payable:					
Lease obligations	\$ 1,905,175	—	41,706	1,863,469	39,268
Revenue bonds payable	3,855,768	—	208,080	3,647,688	219,977
Loans payable	<u>400,000</u>	<u>318,000</u>	<u>174,403</u>	<u>543,597</u>	<u>110,624</u>
Total leases and bonds payable	6,160,943	318,000	424,189	6,054,754	369,869
Other long-term liabilities:					
Compensated absences	<u>5,392,327</u>	<u>158,000</u>	<u>—</u>	<u>5,550,327</u>	<u>2,512,445</u>
Total long-term liabilities	<u>\$ 11,553,270</u>	<u>476,000</u>	<u>424,189</u>	<u>11,605,081</u>	<u>2,882,314</u>
	2002				
	<u>Beginning balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending balance</u>	<u>Current portion</u>
Leases and bonds payable:					
Lease obligations	\$ 1,950,026	—	44,851	1,905,175	41,706
Revenue bonds payable	4,062,851	—	207,083	3,855,768	200,080
Loans payable	<u>400,000</u>	<u>—</u>	<u>—</u>	<u>400,000</u>	<u>88,000</u>
Total leases and bonds payable	6,412,877	—	251,934	6,160,943	329,786
Other long-term liabilities:					
Compensated absences	<u>5,399,457</u>	<u>—</u>	<u>7,130</u>	<u>5,392,327</u>	<u>1,896,584</u>
Total long-term liabilities	<u>\$ 11,812,334</u>	<u>—</u>	<u>259,064</u>	<u>11,553,270</u>	<u>2,226,370</u>

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

Notes to Financial Statements

June 30, 2003

Loans and Bonds Payable

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

	2003			Ending balance
	Beginning balance	Additions	Retirements	
Loans payable:				
Leasehold improvement loan for Quanset Point Facility	\$ —	318,000	11,457	306,543
Energy Revolving Loan Fund with a final maturity in 2007	400,000	—	162,946	237,054
Revenue bonds payable:				
Rhode Island Health and Education Building Corporation Various Purpose Educational Facilities Issue, Series 1993 B. The bonds, which carry interest rates ranging from 4.6% to 5.6%, are due in varying installments, plus interest, with final maturity in 2023	2,424,768	—	53,080	2,371,688
3% Series A Revenue Bonds of 1997 (refunding) payable to the United States Government. The United States bonds are due in varying semi- annual installments from \$22,500 to \$37,500, plus interest, through April 1, 2010	545,000	—	60,000	485,000
7.75% Series A Revenue Bonds of 1977 (Student Center) payable to the United States Government. The bonds are due in varying annual installments from \$30,000 to \$105,000, plus interest, until April 1, 2008. The Federal government reimburses the College for approximately 60% of the aggregate interest charge annually averaged over the term of bond issue	545,000	—	80,000	465,000
3% Series A Revenue Bonds of 1977 (Student Center) payable to the United States Government. The bonds are due in varying semiannual installments from \$5,000 to \$12,500, plus interest, through April 1, 2018	341,000	—	15,000	326,000
	<u>\$ 4,255,768</u>	<u>318,000</u>	<u>382,483</u>	<u>4,191,285</u>

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

Notes to Financial Statements

June 30, 2003

The following is a summary of changes in the College's long-term debt for the year ended June 30, 2002:

	2002			Ending balance
	Beginning balance	Additions	Retirements	
Loans payable:				
Energy Revolving Loan Fund with a final maturity in 2007	\$ 400,000	—	—	400,000
Revenue bonds payable:				
Rhode Island Health and Education Building Corporation Various Purpose Educational Facilities Issue, Series 1993 B. The bonds, which carry interest rates ranging from 4.6% to 5.6%, are due in varying installments, plus interest, with final maturity in 2003	2,481,852	—	57,084	2,424,768
3% Series A Revenue Bonds of 1977 (refunding) payable to the United States Government. The bonds are due in varying semiannual installments from \$22,500 to \$37,500, plus interest, through April 1, 2010	605,000	—	60,000	545,000
7.75% Series A Revenue Bonds of 1977 (Student Center) payable to the United States Government. The bonds are due in varying annual installments from \$30,000 to \$105,000, plus interest, until April 1, 2008. The Federal government reimburses the College for approximately 60% of the aggregate interest charge annually averaged over the term of bond issue	620,000		75,000	545,000
3% Series A Revenue Bonds of 1977 (Student Center) payable to the United States Government. The bonds are due in varying semiannual installments from \$5,000 to \$12,500, plus interest, through April 1, 2018	356,000		15,000	341,000
	<u>\$ 4,462,852</u>	<u>—</u>	<u>207,084</u>	<u>4,255,768</u>

The College entered into an agreement on November 19, 2002 for the use of the Quonset Point facility. As part of the lease agreement, CCRI is liable to pay for the cost of leasehold improvements up to \$318,000. This will be paid off over five years with a lump sum of \$118,000 due at the end of the five year term.

In fiscal 2001, the College entered into a loan agreement with the Energy Revolving Loan Fund for a loan of \$400,000. This loan was transferred from the Energy Revolving Loan Fund to the University and College Fund on March 21, 2001.

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

Notes to Financial Statements

June 30, 2003

In July 1993, the Rhode Island Health and Educational Building Corporation (the Corporation) issued Facility Revenue and Refunding Bonds comprised of a \$21,410,000 Auxiliary Enterprise Revenue Issue – Series 1993 A, and \$14,281,069 Various Purpose Educational Facilities Issue – Series 1993 B. The College only participated in the Series 1990 B issue.

Also in July 1993, the Corporation entered into a Loan and Trust Agreement (Agreement) with the Board of Governors for Higher Education acting for the College, the University of Rhode Island, and Rhode Island College. Generally, the Agreement provides for the Corporation's issue of the bonds and a loan of the proceeds by the Corporation to the institutions and the payment by the institutions to the Corporation of loan payments at least equal to all amounts necessary to make the payments on the bonds when due and payable for a period of 30 years.

The 1977 Series bonds are issued under a trust indenture and are collateralized by a pledge of revenues from the facilities financed. Under the terms of the trust indenture, net revenues from the facilities financed have been reserved for payment of interest, retirement of bonds, and maintenance of facilities.

During the year, the College received an interest subsidy of \$49,226 from the United States Department of Housing and Urban Development. This subsidy has been netted against expenditures in the debt service fund.

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.

In November 1996, the Rhode Island voters approved the issuance of \$40.6 million of General Obligation Bonds to fund the upgrade of telecommunications technology at all three state-supported institutions of higher education. The bonds provide funding over five years with \$29.0 million for the University of Rhode Island, \$7.6 million for Rhode Island College and \$4.0 million for the Community College of Rhode Island.

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

Notes to Financial Statements

June 30, 2003

Principal and interest on loans 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:			
2004	\$ 330,601	239,868	570,469
2005	339,101	227,230	566,331
2006	353,083	213,724	566,807
2007	279,575	198,894	478,469
2008	243,976	185,571	429,547
2009-2013	860,525	540,866	1,401,391
2014-2018	759,826	366,267	1,126,093
2019-2023	830,827	164,417	995,244
2024	193,771	5,087	198,858
	<u>\$ 4,191,285</u>	<u>2,141,924</u>	<u>6,333,209</u>

Lease Obligations

The College entered into a capital lease agreement on June 28, 1990 for the acquisition of land and building with a total cost of \$2,000,000, plus \$430,000 of bond acquisition costs. The principal payable under the new lease is \$2,000,000.

The following schedule summarizes future minimum payments under noncancelable leases at June 30, 2003:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Year ending June 30:			
2004	\$ 39,268	116,685	155,953
2005	36,900	119,053	155,953
2006	34,608	121,345	155,953
2007	32,396	123,557	155,953
2008	30,266	125,687	155,953
2009-2013	383,055	399,243	782,298
2014-2018	501,934	280,125	782,059
2019-2023	652,793	129,185	781,978
2024	152,249	3,996	156,245
	<u>\$ 1,863,469</u>	<u>1,418,876</u>	<u>3,282,345</u>

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

Notes to Financial Statements

June 30, 2003

(7) 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 comprised of the following and June 30:

	2003	2002
Restricted – expendable:		
Grant programs	\$ —	3,076
Auxiliary enterprises	913,693	817,428
Capital projects	2,306,734	2,461,351
	\$ 3,220,427	3,281,855

(8) Unrestricted Net Assets

Management expects that the deficit in unrestricted net assets as of June 30, 2003 and 2002 will be eliminated through future operating and nonoperating revenues.

(9) Contingencies

Various lawsuits are pending or threatened against the College which arose from the ordinary course of operations. In the opinion of management, no litigation is now pending, or threatened, which would materially affect the College's financial position.

The College receives significant financial assistance from federal and state agencies in the form of grants. Expenditures of funds under these programs require compliance with the grant agreements and are subject to audit. Any disallowed expenditures resulting from such audits become a liability of the College. In the opinion of management such adjustments, if any, are not expected to materially affect the financial condition of the College.

The College, along with RIC and URI, has begun a technology modernization of core administrative systems with PeopleSoft administrative systems. The PeopleSoft procurement effort was effectuated systemwide through the Office of Higher Education and is being financed over a seven year period beginning in fiscal year 2000 at a total cost of approximately \$8.5 million, of which the College's share is approximately \$2.5 million.

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

Notes to Financial Statements

June 30, 2003

(10) Operating Expenses

The College's operating expenses, on a natural classification basis, are comprised of the following and June 30:

	2003	2002
Compensation and benefits	\$ 57,693,169	54,917,092
Supplies and services	13,710,617	13,896,286
Depreciation and amortization	2,457,737	2,274,886
Scholarships and fellowships	6,525,481	5,456,200
	\$ 80,387,004	76,544,464

(11) State Appropriations

Direct Appropriations

Pursuant to the Rhode Island General Law 16-59-9, the legislature-enacted budget reflects the budget passed by the General Assembly and signed by the Governor as well as any re-appropriations made by the Governor for fiscal 2002. Once the State budget is established, the Board approves the allocation of the State appropriation to the College, RIC, URI, and the Office of Higher Education. The Board also approves the unrestricted and restricted original allocations for the fiscal year.

The original and supplemental appropriations are acted upon by a vote of the Board. As part of the College's annual budget allocation process for general funds, the Board allocates specific amounts in the budget which are internally allocated for the following categories: (1) salaries and wages; (2) operating expenditures; and (3) outlays for personnel costs, utilities, out-of-state travel, repairs, capital, and student aid, as well as the overall total budget allocation. Any increases or decreases in the specific allocations, including any transfers among those line items not specifically allocated are reported to the Board for its approval at the mid-year financial review at which time the final allocation is authorized.

State Capital Plan Funds

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

Funds appropriated by the State legislature to the College in fiscal 2003 and 2002 are to be expended specifically on asset protection projects.

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

Notes to Financial Statements

June 30, 2003

State Contributed Capital

In November 1996, the Rhode Island voters approved the issuance of \$40.6 million General Obligation Bonds to fund the upgrade of telecommunication technologies at the three state-supported institutions of higher education. The bonds provide funding with \$29 million slated for URI, \$7.6 million for RIC, and \$4 million for the College. The project calls for cabling, infrastructure improvements to accommodate the new technology, installation of network systems, voice and video equipment, and work stations. Also approved in November 1996 was the issuance of \$33.8 million general obligation bonds for higher education facilities. The bonds provided URI with \$9.8 million for the renovations of Ballentine, Green and Ranger halls, \$9.5 million to RIC for the construction of a performing arts classroom facility, and \$14.5 million to the College for the construction of a five-level addition to its Knight Campus megastructure. The project was completed in fiscal 2002.

In November 1998, the Rhode Island voters approved the issuance of \$6.6 million general obligation bonds to fund an addition to the Listen Campus. From the proceeds of this issue, the College spent \$2,838,443 and \$96,250 on architectural, engineering, and various state building fees during fiscal 2003 and 2002, respectively.

In November 2000, the Rhode Island voters approved the issuance of \$36.9 million General Obligation Bonds to fund improvements to the College, URI, and RIC. The bonds provides funding until 2008 with \$10.9 million to fund the construction of a building for the Newport campus of the College, \$22 million to fund the major renovations and upgrades of student residence halls and surrounding landscape at URI and \$4.0 million to fund the renovations and upgrades of student residence halls and surrounding landscape at RIC. During fiscal years 2003 and 2002, the College spent \$56,540 and \$635,643, respectively, on architectural, engineering, and various state building fees.

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

	2003	2002
Direct appropriations	\$ 39,601,401	40,743,150
State Capital Plan Funds	1,177,154	1,130,000
State contributed capital	2,930,703	2,070,535
	\$ 43,709,258	43,943,685

(12) Pension and Early Retirement Plans

Certain employees of the College (principally faculty and administrative personnel) are covered by individual annuity contracts with the Teachers' Insurance and Annuity Association (TIAA). Total expenditures by the College for such annuity contracts amounted to approximately \$2,034,000 and \$1,924,000 during the 2003 and 2002, respectively.

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

Notes to Financial Statements

June 30, 2003

Other employees of the College (principally civil service personnel) participate in the Employees' Retirement System of the State of Rhode Island (the System), a multiple-employer, cost-sharing, public employee retirement system. The plan provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. The level of benefits provided to state employees is established by Chapter 36-10 of the General Laws which is subject to amendment by the general assembly. The System issues a publicly available financial report that includes financial statements and required supplementary information for plans administered by the system. The report may be obtained by writing to the Employees' Retirement System, 40 Fountain Street, Providence, RI 02903. The payroll expense of College employees covered by the System was approximately \$8,463,000 and \$7,964,000 for the years ended June 30, 2003 and 2002, respectively. The College's total payroll expense for the years ended June 30, 2003 and 2002 were approximately \$32,134,000 and \$31,091,000, respectively.

All full-time employees of the College who are not covered by TIAA annuity contracts are eligible to participate in the System. Employees who retire at or after age 60 with 10 years of credited service, or at any age with 28 years of credited service, are entitled to a retirement benefit. Benefits are equal to various percentages of annual earnings, ranging from 1.7% to 3.0%, for each of the first 35 years of service, to a maximum benefit of 80.0% of final average salary after 35 years of service. Final average salary is defined as the average of the three highest consecutive years of earned salary. The System also provides certain death and disability benefits. Benefits are established by State statutes.

Employer and employee required contributions to the System are established by the State of Rhode Island and are based on percentages established by the State of Rhode Island and are based on percentages of covered employees' gross salaries, which are calculated annually by the fund's actuaries. Covered employees in the System were required to contribute 8.75% of salaries paid in 2003 and 2002 while the College was required to pay 7.68% and 5.59% of salaries paid for the years ending June 30, 2003 and 2002, respectively. In addition, the College is required to contribute 1.17% and 0.86% for post-retirement health benefits in 2003 and 2002. Employees contributed approximately \$741,000 and \$697,000 during the years ended June 30, 2003 and 2002, respectively. The College's contributions to the System for the years ended June 30, 2003, 2002 and 2001 were approximately \$650,000 \$445,000 and \$609,000, respectively, representing 100% of the required contribution for each of the three years.

(13) Related Party – Community College of Rhode Island Foundation

The Community College of Rhode Island College Foundation (the Foundation) is an independent nonprofit organization and, in accordance with generally accepted accounting principles, its financial statements are not consolidated with those of the College. The Board of Governors does not appoint a voting majority of the Foundation's Board, nor is the College able to impose its will on the Foundation. Accordingly, the College is not financially accountable for the Foundation.

In May 2002, GASB issued Statement No. 39, *Determining Whether Certain Organizations are Component Units*. GASB 39 establishes new criteria for evaluating the need to include the Foundation as a component unit of the College. The Foundation appears to meet this revised criteria and, accordingly, is expected to be included as a component in the future. The College will adopt GASB 39 as of July 1, 2003.

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

Notes to Financial Statements

June 30, 2003

(14) Subsequent Events

On July 17, 2003, the Rhode Island Higher Education Building Corporation issued Auxiliary Enterprise Revenue Issue, Series 2003 B Bonds, par amount \$20,785,000 and Educational and General Revenue Issue, Series 2003 C Bonds, par amount \$13,165,000. The proceeds from these bonds were used to defease the outstanding obligations of the College, URI, and RIC relative to the previous Series A and Series B issues of 1993 and to finance the cost of debt issuance. The College only participated in the 1993 Series B issue.



600 Fleet Center
50 Kennedy Plaza
Providence, RI 02903-2321

Independent Auditors' Report on Compliance and on Internal
Control over Financial Reporting in Accordance with
Government Auditing Standards

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

We have audited the financial statements of Community College of Rhode Island (a component unit of the State of Rhode Island and Providence Plantations) (the College) as of and for the years ended June 30, 2003, and have issued our report thereon dated September 5, 2003. 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.

Compliance

As part of obtaining reasonable assurance about whether the College's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, 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 that are required to be reported under *Government Auditing Standards*.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the College's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on internal control over financial reporting.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses.

We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving internal control over financial reporting that we have reported to management of the College in a separate letter dated September 5, 2003.



This report is intended for the information of management, the Board of Governors for Higher Education and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

September 5, 2003