

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

Financial Statements

June 30, 2004 and 2003

(With Independent Auditors' Report Thereon)

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

Financial Statements
June 30, 2004 and 2003

Table of Contents

	Page
Independent Auditors' Report	1
Management's Discussion and Analysis (Unaudited)	3
Statements of Net Assets	14
Statements of Revenues, Expenses, and Changes in Net Assets	15
Statements of Cash Flows	16
Notes to Financial Statements	17
Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	32



KPMG LLP
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Independent Auditors' Report

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

We have audited the accompanying financial statements of the Community College of Rhode Island (the College) (a component unit of the State of Rhode Island and Providence Plantations) and its discretely presented component unit, where applicable, as of and for the years ended June 30, 2004 and 2003 as shown on pages 14 through 16. These financial statements are the responsibility of the College's management. Our responsibility is to express an opinion on these financial statements based on our audits. We did not audit the financial statements of the discretely presented component unit. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the discretely presented component unit, is based on the report of the other auditors.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits and the report of other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audits and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the College and of its discretely presented component unit as of June 30, 2004 and 2003, and the respective changes in financial position and cash flows, where applicable, thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As described in note 1, the College adopted, effective July 1, 2003, Statement No. 39 of the Governmental Accounting Standards Board (GASB), *Determining Whether Certain Organizations are Component Units* (an amendment of GASB Statement 14).

In accordance with *Government Auditing Standards*, we have also issued our report dated September 27, 2004 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 grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The Management's Discussion and Analysis on pages 3 through 13 is not a required part of the financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the supplementary information and express no opinion on it.

KPMG LLP

September 27, 2004

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

Required Supplementary Information
Management's Discussion and Analysis
(Unaudited)

June 30, 2004, 2003, and 2002

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, 2004 and the results of operations for the year then ended, with selected comparative information for the years ended June 30, 2003 and 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 the information contained therein. The MD&A 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 2004. 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)

Required Supplementary Information
Management's Discussion and Analysis
(Unaudited)

June 30, 2004, 2003, and 2002

Financial Highlights

The Community College's financial position remained strong as of June 30, 2004. Net assets increased by \$8.0 million over the prior year.

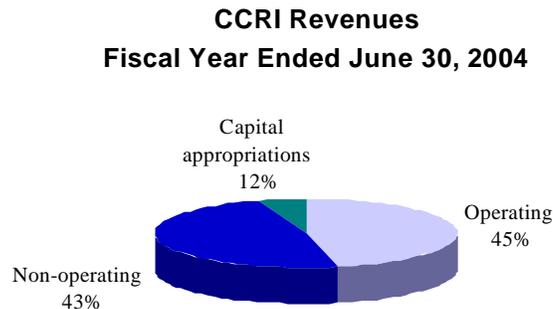
At June 30, 2004, the Community College's assets of \$54.3 million exceeded its liabilities of \$16.8 million by \$37.5 million, an increase over the prior year of \$8.0 million. At June 30, 2003, the Community College's assets of \$47.0 million exceeded its liabilities of \$17.5 million by \$29.5 million, 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, 2004, 2003, and 2002:

	<u>2004</u>	<u>2003</u>	<u>2002</u>
Invested in capital assets, net of related debt	\$ 39.0	31.8	29.8
Restricted, expendable	3.5	3.2	3.3
Unrestricted	<u>(5.0)</u>	<u>(5.5)</u>	<u>(4.6)</u>
Total net assets	<u>\$ 37.5</u>	<u>29.5</u>	<u>28.5</u>

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 2004 revenues before net investment return increased by 12.6% or \$4.8 million. Expenses increased by 5.5%, or \$4.4 million. Fiscal 2003 revenues before net investment return increased by 9.8%, or \$3.4 million. Expenses increased by 5.0%, or \$3.8 million.

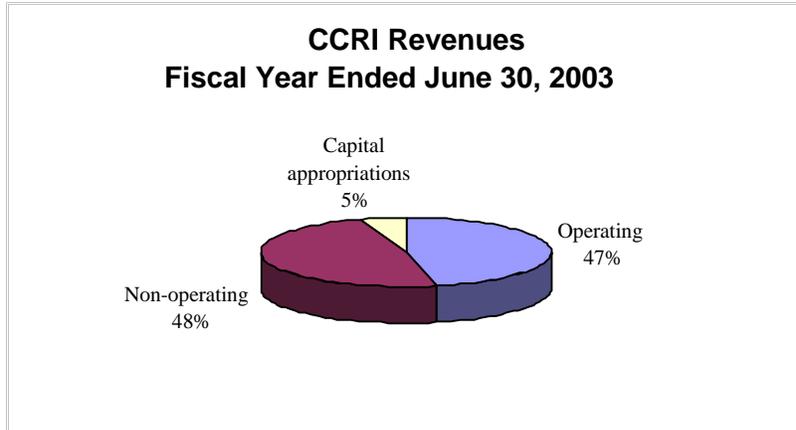
The following chart provides a graphical breakdown of total revenues by category for the fiscal year ending June 30, 2004:



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

Required Supplementary Information
Management's Discussion and Analysis
(Unaudited)

June 30, 2004, 2003, and 2002



Cash flow continued to be adequate for operations with an operating cash balance of \$3.6 million at June 30, 2004, a decrease of \$1.3 million from June 30, 2003. The operating cash balance of \$4.9 million at June 30, 2003, was an increase of \$1.6 million from June 30, 2002.

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.

In May 2002, GASB issued Statement No. 39 of the Governmental Accounting Standards Board (GASB), *Determining Whether Certain Organizations are Component Units (an amendment of GASB Statement 14)*. GASB 39 establishes new criteria for evaluating the need to include component units of the College. The College adopted GASB 39 as of July 1, 2003.

The Community College of Rhode Island Foundation (the Foundation) is a legally separate tax-exempt component unit of the Community College of Rhode Island. The Foundation acts primarily as a fund-raising organization to supplement the resources that are available to the College in support of its programs. The Board of the Foundation is self-perpetuating and primarily consists of graduates and friends of the College. Although the College does not control the timing or the amount of receipts from the Foundation, the majority of resources received or held by the Foundation are restricted to the activities of the College by the donors. Because these resources held by the Foundation can only be used by or are for the benefit of the College, the Foundation is considered a component unit of the College and is discretely presented in the College's financial statements.

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

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

Required Supplementary Information
Management's Discussion and Analysis
(Unaudited)

June 30, 2004, 2003, and 2002

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 financial statements can be found on pages 14 to 16 of this report.

The Community College reports its operations as a business – type activity using the economic measurement focus and full accrual basis of accounting. As a component unit of the State of Rhode Island and Providence Plantations, 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 derived from 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)

Required Supplementary Information
Management's Discussion and Analysis
(Unaudited)

June 30, 2004, 2003, and 2002

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 \$37.5 million at the close of fiscal year 2004, an increase of \$7.9 million over fiscal 2003, and 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, 2004, 2003, and 2002
(\$ in millions)

	<u>2004</u>	<u>2003</u>	<u>2002</u>
Assets:			
Current assets	\$ 7.4	8.1	6.8
Noncurrent assets	46.9	38.9	38.5
Total assets	<u>54.3</u>	<u>47.0</u>	<u>45.3</u>
Liabilities:			
Current liabilities	8.6	8.8	7.5
Noncurrent liabilities	8.2	8.7	9.3
Total liabilities	<u>16.8</u>	<u>17.5</u>	<u>16.8</u>
Net assets:			
Invested in capital assets, net of related debts	39.0	31.8	29.8
Restricted:			
Expendable	3.5	3.2	3.3
Unrestricted	(5.0)	(5.5)	(4.6)
Total net assets	<u>\$ 37.5</u>	<u>29.5</u>	<u>28.5</u>

The largest portion of the Community College's net assets, \$39.1 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)

Required Supplementary Information
Management's Discussion and Analysis
(Unaudited)

June 30, 2004, 2003, and 2002

Bonds and leases payable of \$6.1 million and compensated absences of \$5.4 million are the Community College's largest liabilities.

Condensed Revenues, Expenses, and Changes in Net Assets
Years ended June 30, 2004, 2003, and 2002
(\$ in millions)

	<u>2004</u>	<u>2003</u>	<u>2002</u>
Operating revenues:			
Tuition and auxiliary, net	\$ 26.2	24.5	22.5
Scholarships, grants, and contracts	12.5	11.2	10.3
Other	3.3	2.2	1.7
Total operating revenues	<u>42.0</u>	<u>37.9</u>	<u>34.5</u>
Operating expenses:			
Salaries and benefits	60.0	57.7	54.9
Operating expenses	15.3	13.7	13.8
Scholarships, grants, and contracts	7.1	6.5	5.5
Depreciation and amortization	2.4	2.5	2.3
Total operating expenses	<u>84.8</u>	<u>80.4</u>	<u>76.5</u>
Net operating loss	<u>(42.8)</u>	<u>(42.5)</u>	<u>(42.0)</u>
Nonoperating revenues (expenses):			
State appropriations	40.1	39.6	40.7
Other nonoperating expenses, net	(0.1)	(0.2)	(0.1)
Net nonoperating revenues	<u>40.0</u>	<u>39.4</u>	<u>40.6</u>
Loss before other revenues, expenses, gains, or losses	(2.8)	(3.1)	(1.4)
Capital gifts and appropriations	10.8	4.1	3.2
Increase in net assets	<u>\$ 8.0</u>	<u>1.0</u>	<u>1.8</u>

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

Required Supplementary Information
Management's Discussion and Analysis
(Unaudited)

June 30, 2004, 2003, and 2002

Operating Revenues

Total operating revenues for fiscal 2004 were \$42.0 million, an increase of \$4.1 million from the prior year. 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% in both fiscal years 2004 and 2003.
- Federal, state, and private grant and contract activity increased \$1.3 million in fiscal year 2004 and \$0.9 million in fiscal 2003.

Operating Expenses

Operating expenses in fiscal 2004 totaled \$84.8 million, an increase of \$4.5 million from the prior year, and \$80.4 million in fiscal year 2003, an increase of \$3.9 million from the prior year. Of this total, \$45.6 million or 53.8% was used for instruction and student support in 2004 (\$44.1 million or 54.9% in 2003). Depreciation expense totaled \$2.4 million in fiscal year 2004 and \$2.5 million in 2003. Significant changes in operating expenses resulted from:

- Sponsored program expenses were \$0.6 million higher in fiscal year 2004 (\$0.4 million in 2003) than the previous year due to an increase in grant and contract activity.
- The cost of student aid increased by \$0.2 million in fiscal year 2004 (\$0.6 million in fiscal year 2003) as a result of increases in the number and amount of awards.
- Salaries and benefits increased by \$2.3 million in fiscal year 2004 (\$2.9 million in fiscal year 2003).

Nonoperating Revenues

Total nonoperating revenues for fiscal year 2004 are \$40.0 million, including the state appropriation of \$40.1 million. This is a increase of \$0.6 million from the prior year. 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 \$10.4 million in fiscal year 2004 (\$4.1 million in fiscal year 2003) represent general obligation funds spent by the state of Rhode Island to construct or acquire capital assets utilized by the Community College.

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

Required Supplementary Information
Management's Discussion and Analysis
(Unaudited)

June 30, 2004, 2003, and 2002

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 2004, the Community College expended \$9.7 million on plant related projects (\$4.4 million in fiscal year 2003). 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.

Capital Assets

At June 30, 2004 and 2003, the Community College had \$45.1 million and \$37.9 million invested in capital assets, net of accumulated depreciation of \$35.3 million and \$32.9 million, respectively. Depreciation charges totaled \$2.5 million and \$2.4 million during fiscal years 2004 and 2003, respectively. These represent increases of \$7.2 million and \$(0.1) million, respectively, from 2003 to 2004. 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, 2004, 2003, and 2002
(\$ in millions)

	2004	2003	2002
Land and improvements	\$ 1.5	1.0	1.0
Buildings and improvements	30.1	31.5	32.5
Construction in progress	12.8	4.4	1.0
Furniture, fixtures, and equipment	0.7	1.0	1.5
Total	\$ 45.1	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 \$0.3 million at CCRI were funded by State appropriations to the Rhode Island Capital Fund, as compared to \$0.5 million in fiscal year 2003.
- The cost of the addition at the Providence campus amounting to \$3.4 million was funded through State bonds
- Construction cost of the Newport campus amounted to \$4.8 million and was mostly funded through state bonds

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

Required Supplementary Information
Management's Discussion and Analysis
(Unaudited)

June 30, 2004, 2003, and 2002

Debt

At June 30, 2004 and 2003, the Community College had \$6.1 million in debt outstanding. During fiscal year 2004 the RIHEBC series 1993B bonds were refinanced with RIHBEC series 2003C bonds. The refinancing took place to take advantage of the lower interest rates.

Summary Schedule of Debt
June 30, 2004, 2003, and 2002
(\$ in millions)

	2004	2003	2002
Capital lease obligations	\$ 1.8	1.9	1.9
Bonds	4.3	4.2	4.3
Total	\$ 6.1	6.1	6.2

Additions to debt during the year totaled \$4.2 million. Debt repayments made during 2004 and 2003 were \$4.1 million and \$0.4 million, respectively. Such additions and repayments include the \$2.3 million revenue bonds issued to refinance prior bonds' outstanding balance of \$2.1 million as of June 30, 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 \$0.6 million year to year, as compared to \$1.5 million in the prior 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.

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

Required Supplementary Information
Management's Discussion and Analysis
(Unaudited)

June 30, 2004, 2003, and 2002

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 and to 5.8% in June of 2004, according to the Federal Reserve Bank of Boston. This compares to an increase from 5.9% to 6.4%, and a decrease to 5.6%, respectively, on a national level. Rhode Island's job growth rate for the first six months of 2004 of 0.2% also trails the national average of 0.9% for the period.

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 2004, approximately \$14 million, and a similar budget shortfall of \$24 million is projected for fiscal year 2005. To support their strategic priorities in this financially challenging environment, the Community College and the Board of Governors took the following actions during fiscal 2004:

- FY 2004 tuition and fees were increased by 6.0%.
- 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.

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

Required Supplementary Information
Management's Discussion and Analysis
(Unaudited)

June 30, 2004, 2003, and 2002

In addition, the College is completing construction on its new campus in Newport and is recruiting faculty and staff for the facility.

In July 2004, the general Assembly amended Rhode Island General Law 16-59-9-Educational Budget and Appropriations, transferring the power to allocate budgets to institutions of public higher education from the Board of Higher Education to the General Assembly. This transfer of budget allocation authority is not anticipated to have a significant financial impact on the College during fiscal year 2005.

Despite the reduction in state funding, the resources required to open the new Newport Campus, and the change in budget allocation authority, the Community College's current financial and capital plans indicate that the infusion of additional financial resources from the foregoing Board and management actions will enable it to maintain its present level of services at all main campuses.

The Community College remains very competitive economically. Tuition and mandatory fees for residents in fiscal year 2004 were \$2,120 and ranked sixth among the Community College's eight institution regional peer group. Non-resident tuition and mandatory fees were \$5,740 in fiscal year 2004 and ranked the Community College eighth in its peer group.

The Community College's average enrollment in FY 2004 increased by 674 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 4.85% 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)

Statements of Net Assets

June 30, 2004 and 2003

Assets	2004 Community College of Rhode Island	2003 Community College of Rhode Island	2004 Community College of Rhode Island Foundation
Current assets:			
Cash and cash equivalents (note 2)	\$ 3,617,520	4,893,862	190,525
Cash held by State Treasurer (notes 2 and 3)	—	55,197	—
State capital funds	1,145,536	589,734	—
Accounts receivable, net (note 4)	2,098,293	2,041,100	19,592
Inventory and other current assets	513,442	518,763	—
Pledges receivable	—	—	157,469
Total current assets	7,374,791	8,098,656	367,586
Noncurrent assets:			
Restricted cash and cash equivalents (note 2)	1,131,623	311,620	—
Deposits with bond trustees – restricted	701,680	726,592	—
Pledges receivable	—	—	116,000
Investments (note 2)	—	—	1,198,561
Capital assets, net of accumulated depreciation (notes 5 to 6)	45,131,173	37,894,245	—
Total noncurrent assets	46,964,476	38,932,457	1,314,561
Total assets	\$ 54,339,267	47,031,113	1,682,147
Liabilities			
Current liabilities:			
Accounts payable and accrued liabilities (note 3)	\$ 2,752,249	3,181,223	16,572
Compensated absences (note 6)	2,859,193	2,512,445	—
Due to State Treasurer	557,380	1,069,445	—
Students' deposits and unearned revenues	1,436,019	1,171,982	—
Deferred revenue from Foundation	236,925	—	—
Funds held for others	308,021	424,784	—
Current portion of capital lease obligation (notes 5 and 6)	10,435	39,268	—
Current portion of bonds and loans payable (note 6)	385,160	330,601	—
Total current liabilities	8,545,382	8,729,748	16,572
Noncurrent liabilities:			
Compensated absences (note 6)	2,557,547	3,037,882	—
Capital lease obligations (notes 5 and 6)	1,821,185	1,824,201	—
Bonds and loans payable (note 6)	3,864,856	3,860,684	—
Annuity payment payable	—	—	40,039
Total noncurrent liabilities	8,243,588	8,722,767	40,039
Total liabilities	\$ 16,788,970	17,452,515	56,611
Net Assets			
Invested in capital assets, net of related debt Restricted (note 7):	\$ 39,049,537	31,839,491	—
Expendable	3,472,671	3,220,427	1,438,194
Unrestricted (deficit) (note 8)	(4,971,911)	(5,481,320)	187,342
	37,550,297	29,578,598	1,625,536
Contingencies (note 9)			
Total net assets	\$ 37,550,297	29,578,598	1,625,536

See accompanying notes to financial statements.

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

Statements of Revenues, Expenses, and Changes in Net Assets

Years ended June 30, 2004 and 2003

	2004	2003	2004
	Community	Community	Community
	College of	College of	College of
	Rhode Island	Rhode Island	Foundation
	Rhode Island	Rhode Island	Rhode Island
Operating revenues:			
Tuition and fees	\$ 26,093,510	23,912,201	—
Auxiliary enterprises	6,051,522	5,841,788	—
Less scholarship allowances	(5,953,004)	(5,205,884)	—
Net student fees	26,192,028	24,548,105	—
Federal, state, local, and private grants and contracts	12,540,508	11,187,068	—
Sales and services of education departments	3,270,722	2,186,609	—
Other operating revenues	—	—	40,103
Total operating revenues	42,003,258	37,921,782	40,103
Operating expenses (note 10):			
Instruction	38,536,176	37,125,086	—
Academic support	5,307,069	4,895,270	—
Student services	7,074,114	7,021,344	—
Scholarships and fellowships	2,879,787	2,718,727	9,298
Public service	855,516	939,641	—
Operation and maintenance of plant	10,003,560	9,312,743	—
Institutional support	12,363,285	10,713,937	92,328
Depreciation and amortization	2,383,767	2,457,737	—
Auxiliary enterprises	5,405,324	5,202,519	—
Other operating expenses	—	—	121,522
Total operating expenses	84,808,598	80,387,004	223,148
Operating loss	(42,805,340)	(42,465,222)	(183,045)
Nonoperating revenues (expenses):			
State appropriations (note 11)	40,114,596	39,601,401	—
Gifts	—	—	907,606
Gifts from Foundation	108,383	—	(345,308)
Net investment income	81,824	127,929	159,085
Interest expense	(312,432)	(297,978)	—
Net nonoperating revenues	39,992,371	39,431,352	721,383
(Loss) income before other revenues, expenses, gains, or losses	(2,812,969)	(3,033,870)	538,338
Capital appropriations (note 11)	10,368,699	4,107,857	—
Capital gifts from Foundation	415,969	—	(415,969)
Increase in net assets	7,971,699	1,073,987	122,369
Net assets, beginning of year	29,578,598	28,504,611	1,503,167
Net assets, end of year	\$ 37,550,297	29,578,598	1,625,536

See accompanying notes to financial statements.

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

Statements of Cash Flows

Years ended June 30, 2004 and 2003

	2004	2003
	Community College of Rhode Island	Community College of Rhode Island
Cash flows from operating activities:		
Tuition and fees	\$ 20,258,612	18,955,233
Grants and contracts	13,019,320	11,042,784
Payments to suppliers	(13,471,364)	(11,794,057)
Payments to utilities	(2,037,140)	(1,797,178)
Payments to employees	(60,924,428)	(56,954,791)
Payments for scholarships, fellowships, and sponsored programs	(7,061,202)	(6,525,481)
Auxiliary enterprise	6,176,043	5,724,823
Sales and service of educational departments	3,007,131	2,341,887
Other payments	(569,883)	(283,034)
Net cash used by operating activities	<u>(41,602,911)</u>	<u>(39,289,814)</u>
Cash flows from noncapital financing activities:		
State appropriations	40,114,596	39,601,401
Gifts from the Foundation	108,383	—
Funds held for others	(116,763)	97,675
Net cash provided by noncapital financing activities	<u>40,106,216</u>	<u>39,699,076</u>
Cash flows from capital and related financing activities:		
Proceeds from capital debt	4,162,773	318,000
Capital appropriations	10,368,699	4,107,857
Capital gifts and grants	415,969	—
Purchases of capital assets	(9,620,695)	(4,397,385)
Principal paid on capital debt and leases	(4,135,891)	(424,189)
Interest paid on capital debt and leases	(312,432)	(297,978)
Deposits with trustee	24,912	(15,349)
Net cash provided by (used by) capital and related financing activities	<u>903,335</u>	<u>(709,044)</u>
Cash flows from investing activities:		
Interest on investments	81,824	127,929
Net cash provided by investing activities	<u>81,824</u>	<u>127,929</u>
Net decrease in cash and cash equivalents	(511,536)	(171,853)
Cash and cash equivalents – beginning of year	<u>5,260,679</u>	<u>5,432,532</u>
Cash and cash equivalents – end of year	<u>\$ 4,749,143</u>	<u>5,260,679</u>
Reconciliation of net operating expenses to net cash used by operating activities:		
Operating loss	\$ (42,805,340)	(42,465,222)
Adjustments to reconcile net loss to net cash used by operating activities:		
Depreciation and amortization	2,383,767	2,457,737
Changes in assets and liabilities:		
Accounts receivable	(57,193)	59,833
Inventory and other current assets	5,321	191,383
Funds on deposit with the State	(1,067,867)	(283,034)
Accounts payable and accrued liabilities	(428,974)	508,378
Compensated absences	(133,587)	158,000
Students' deposits and unearned revenues	500,962	83,111
Net cash used by operating activities	<u>\$ (41,602,911)</u>	<u>(39,289,814)</u>

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, 2004 and 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 effect of interfund activity has been eliminated from these financial statements.

The College's policies for defining operating activities in the statements of revenues, expenses, and changes in net assets are those that generally result from exchange transactions such as the payment received for services and payment made for the purchase of goods and services. Certain other transactions are reported as nonoperating activities in accordance with GASB Statement No. 35. These nonoperating activities include the College's operating and capital appropriations from the State of Rhode Island, net investment income, gifts, and interest expense.

The College has elected not to adopt the pronouncements issued by the Financial Accounting Standards Board (FASB) after November 30, 1989.

In May 2002, GASB issued Statement No. 39 of the Governmental Accounting Standards Board (GASB), *Determining Whether Certain Organizations are Component Units (an amendment of GASB Statement 14)*. GASB 39 establishes new criteria for evaluating the need to include component units of the College. The College adopted GASB 39 as of July 1, 2003.

Community College of Rhode Island Foundation (the Foundation) is a legally separate tax-exempt component unit of the College. The Foundation acts primarily as a fund-raising organization to supplement the resources that are available to the College in support of its programs. The Board of the Foundation is self-perpetuating and primarily consists of graduates and friends of the College. Although the College does not control the timing or the amount of receipts from the Foundation, the majority of resources, received or held by the Foundation are restricted to the activities of the College by the donors. Because these resources held by the Foundation can only be used by or are for the benefit of the College, the Foundation is considered a component unit of the College and is discretely presented in the College's financial statements.

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

Notes to Financial Statements

June 30, 2004 and 2003

During the year ended June 30, 2004, the Foundation distributed \$761,277 to the College for both restricted and unrestricted purposes.

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

Complete financial statements for the Foundation can be obtained from: Mullin Scorpio Cerilli, 222 Richmond Street, Suite 401, Providence, RI 02903.

(c) ***Net Assets***

GASB Statement No. 34 requires that, for accounting purposes, 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 using 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

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

Notes to Financial Statements

June 30, 2004 and 2003

construction period and then depreciated over the life of the project. College capital assets, with the exception of land and construction in progress are depreciated on a straight-line basis over their estimated useful lives, which range from 5 to 50 years.

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

(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 2004 and 2003 health premiums were approximately \$6,879,000 and \$6,316,000, 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 2004 and 2003 was 3.8%. The assessed fringe benefit cost for the College was \$1,307,028 for fiscal year 2004 and \$1,272,619 for fiscal year 2003.

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

Notes to Financial Statements

June 30, 2004 and 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 reported as deferred revenues.

(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. Such estimates and assumptions 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 and contents are insured against fire, theft, and natural disaster to the extent that losses exceed \$100,000 per incident and do not exceed \$500 million. A separate inland marine policy insures specifically listed high value property items covering but not limited to computer equipment, valuable papers, fine arts, contracts equipment and miscellaneous property at various limits of insurance and deductibles.

All vehicles are owned by the State, which insures them for liability through an outside carrier. The policy is a loss retrospective program where premiums can be adjusted for claims incurred. Worker's compensation, unemployment, and employee health and life insurance claims are self-insured and managed by the State.

The College is insured for general liability with policy limits of \$1 million per claim and \$3 million in the aggregate with a \$25,000 deductible. Coverage under the General Liability Policy extends to employed health care providers, excluding physicians who have separate coverage. This policy does not apply to actions relating to federal/civil rights, eminent domain, and breach of contract. Such claims are insured under a separate policy for wrongful acts with limits of \$2 million per claim and \$2 million for the annual aggregate with \$100,000 deductible. Crime coverage for College employees is carried with a limited of \$1 million and a deductible of \$100,000. The College also maintains an excess liability insurance policy with a limit of \$25 million.

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

Notes to Financial Statements

June 30, 2004 and 2003

(2) Cash, Cash Equivalents and Investments

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:

2004				
1	2	3	Total bank balance	Carrying amount
\$ 511,203	1,749,730	3,298,217	5,559,150	4,749,143
2003				
1	2	3	Total bank balance	Carrying amount
\$ 515,139	446,525	5,362,566	6,324,230	5,260,679

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.

Foundation investments are presented in the financial statements at fair market value. A summary of investments, invested primarily in mutual funds, at June 30, 2004 are as follows:

Investments at market value are as follows:

Mutual funds:

Fidelity Stock Funds	\$ 824,952
Fidelity Bond Funds	368,175
Fidelity Short-Term Fund	5,434
Total	\$ 1,198,561

(3) Cash Held by State Treasurer

Cash held by State Treasurer of \$0 and \$55,197 at June 30, 2004 and 2003, respectively, was subsequently used to pay accounts payable and accrued salaries.

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

Notes to Financial Statements

June 30, 2004 and 2003

(4) Accounts Receivable

Accounts receivable include the following at June 30:

	2004	2003
Student accounts receivable	\$ 1,563,496	1,470,904
Grants receivable	550,064	722,901
Other receivables	648,523	506,693
	2,762,083	2,700,498
Less allowance for doubtful accounts	(663,790)	(659,398)
	\$ 2,098,293	2,041,100

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:

		2004		
	Estimated lives (in years)	Beginning balance	Additions	Ending balance
Capital assets not being depreciated:				
Land	—	\$ 1,040,837	450,000	1,490,837
Construction in progress	—	4,438,173	8,403,990	12,842,163
Total net being depreciated		5,479,010	8,853,990	14,333,000
Capital assets being depreciated:				
Buildings, including improvements	10-50	61,733,727	625,524	62,359,251
Furnishings and equipment (including cost of capital leases)	5-15	3,632,847	141,181	3,774,028
Total being depreciated		65,366,574	766,705	66,133,279
Less accumulated depreciation:				
Building, including improvements		30,313,415	1,927,906	32,241,321
Furnishings and equipment		2,637,924	455,861	3,093,785
Total accumulated depreciation		32,951,339	2,383,767	35,335,106
Total being depreciated		32,415,235	(1,617,062)	30,798,173
Capital assets, net		\$ 37,894,245	7,236,928	45,131,173

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

Notes to Financial Statements

June 30, 2004 and 2003

	2003			
	Estimated lives (in years)	Beginning balance	Additions	Ending balance
Capital assets not 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

(6) Long-Term Liabilities

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

	2004				
	Beginning balance	Additions	Reductions	Ending balance	Current portion
Leases and bonds payable:					
Lease obligations	\$ 1,863,469	1,831,620	1,863,469	1,831,620	10,435
Revenue bonds payable	3,647,688	2,331,153	2,236,563	3,742,278	272,197
Loans payable	543,597	—	35,859	507,738	112,963
Total leases and bonds payable	6,054,754	4,162,773	4,135,891	6,081,636	395,595
Other long-term liabilities:					
Compensated absences	5,550,327	—	133,587	5,416,740	2,859,193
Total long-term liabilities	\$ 11,605,081	4,162,773	4,269,478	11,498,376	3,254,788

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

Notes to Financial Statements

June 30, 2004 and 2003

	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	400,000	318,000	174,403	543,597	110,624
Total leases and bonds payable	6,160,943	318,000	424,189	6,054,754	369,869
Other long-term liabilities:					
Compensated absences	5,392,327	158,000	—	5,550,327	2,512,445
Total long-term liabilities	\$ 11,553,270	476,000	424,189	11,605,081	2,882,314

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

Notes to Financial Statements

June 30, 2004 and 2003

Loans and Bonds Payable

The following is a summary of changes in the College's long-term debt for the year ended June 30, 2004:

	30-Jun	
	<u>2004</u>	<u>2003</u>
Loans payable:		
Leasehold improvement loan for Quonset Point Facility	\$ 270,684	306,543
Energy Revolving Loan Fund with a final maturity in 2007	237,054	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	305,125	2,371,688
Rhode Island Health and Education Building Corporation Various Purpose Educational Facilities Issue, Series 2003C	2,331,153	—
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	420,000	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	380,000	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	306,000	326,000
	<u>\$ 4,250,016</u>	<u>3,884,742</u>

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

Notes to Financial Statements

June 30, 2004 and 2003

Loans Payable

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.

Revenue Bonds Payable

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 of these bonds were used to defease the outstanding obligations of the College, RIC and URI relative to previous Series A and Series B issues of 1993 and to finance the cost of debt issuance. These bonds are secured by all educational and general revenues derived by the College, except auxiliary enterprise revenues.

In November 2000, the Rhode Island voters approved the issuance of \$36.9 million general obligation bonds to fund improvements at the College, URI, RIC. The bonds provides funding until 2008 with \$10.9 million to fund construction of a building for the Newport campus of CCRI, \$22 million to fund the major renovations and upgraded 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.

In November 1998, the Rhode Island voters approved the issuance of \$6.6 million general obligation bonds to fund an addition to the Liston Campus.

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 proceeds from both issues were used to defease outstanding obligations of the College, URI and RIC relative to previous Series A and B issues during 1990 and 1992, respectively. The College only participated in the Series 1990 B issue.

Certain of the proceeds were deposited with an Escrow Trustee pursuant to two separate escrow agreements with the Corporation and the Board of Governors solely for the payment of prior bonds. As such, neither the assets on deposit with the Escrow Trustee nor the bonds defeased are included in the accompanying statement of net assets. During fiscal 2003, the funds on deposit with the Escrow Trustee were used to liquidate in full the unpaid balance of prior bonds. The 1993 proceeds were also used to fund the acquisition of library capital, to fund various capital renovations to existing buildings at the three institutions, to fund the cost of a surety bond, to fund a debt service reserve fund, and to pay certain expenses incurred in connection with the issuance of the bonds.

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

Notes to Financial Statements

June 30, 2004 and 2003

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.

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:			
2005	\$ 385,160	241,655	626,815
2006	401,926	230,358	632,284
2007	414,842	217,610	632,452
2008	411,763	201,352	613,115
2009	200,357	103,478	303,835
2010-2014	764,910	440,359	1,205,269
2015-2019	791,896	304,556	1,096,452
2020-2024	879,162	114,233	993,395
	<u>\$ 4,250,016</u>	<u>1,853,601</u>	<u>6,103,617</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.

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

Notes to Financial Statements

June 30, 2004 and 2003

The following schedule summarizes future minimum payments under noncancelable leases at June 30, 2004:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Year ending June 30:			
2005	\$ 10,435	75,031	85,466
2006	14,608	74,780	89,388
2007	15,304	74,481	89,785
2008	15,304	74,156	89,460
2009	82,781	73,001	155,782
2010-2014	455,644	325,871	781,515
2015-2019	546,773	234,343	781,116
2020-2024	690,771	89,756	780,527
	<u>\$ 1,831,620</u>	<u>1,021,419</u>	<u>2,853,039</u>

(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 as of June 30:

	<u>2004</u>	<u>2003</u>
Restricted – expendable:		
Grant programs	\$ 102,171	—
Auxiliary enterprises	1,882,590	913,693
Capital projects	1,487,910	2,306,734
	<u>\$ 3,472,671</u>	<u>3,220,427</u>

(8) Unrestricted Net Assets

Management expects that the deficit in unrestricted net assets as of June 30, 2004 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.

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

Notes to Financial Statements

June 30, 2004 and 2003

The College, along with RIC and URI, is undergoing a technology modernization of core administrative systems. While URI and RIC are implementing PeopleSoft administrative systems, the College is implementing Banner/SCT administrative systems. The College's Banner/SCT procurement effort is being financed over a three-year period beginning in fiscal year 2003 at a total cost of approximately \$3.0 million, of which the College's share is approximately \$1.5 million.

(10) Operating Expenses

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

	2004	2003
Compensation and benefits	\$ 59,986,519	57,693,169
Supplies and services	15,377,110	13,710,617
Depreciation and amortization	2,383,767	2,457,737
Scholarships and fellowships	7,061,202	6,525,481
	\$ 84,808,598	80,387,004

(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 2004. 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.

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

Notes to Financial Statements

June 30, 2004 and 2003

Funds appropriated by the State legislature to the College in fiscal 2004 and 2003 are to be expended specifically on asset protection projects.

State Contributed Capital

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 \$3,775,804 and \$2,838,250 on architectural, engineering, and various state building fees during fiscal 2004 and 2003, 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 2004 and 2003, the College spent \$4,803,201 and \$56,540, respectively, on architectural, engineering, and various state building fees.

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

	2004	2003
Direct appropriations	\$ 40,114,596	39,601,401
State Capital Plan Funds	1,517,672	1,177,154
State contributed capital	8,851,027	2,930,703
	\$ 50,483,295	43,709,258

(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 \$2,049,000 and \$2,034,000 during the 2004 and 2003, respectively.

Employees covered by the Board of Governors retiree medical plan contributed 0.25% of their gross salaries, or approximately \$121,043 and \$116,314 during fiscal years 2004 and 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 \$8,323,000 and \$8,463,000 for

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

Notes to Financial Statements

June 30, 2004 and 2003

the years ended June 30, 2004 and 2003, respectively. The College's total payroll expense for the years ended June 30, 2004 and 2003 was approximately \$32,702,000 and \$32,134,000, 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 2004 and 2003 while the College was required to pay 9.60% and 7.68% of salaries paid for the years ending June 30, 2004 and 2003, respectively. In addition, the College is required to contribute 1.30% and 1.17% for post-retirement health benefits in 2004 and 2003. Employees contributed approximately \$728,000 and \$741,000 during the years ended June 30, 2004 and 2003, respectively. The College's contributions to the System for the years ended June 30, 2004, 2003, and 2002 were approximately \$799,000, \$650,000, and \$445,000, respectively, representing 100% of the required contribution for each of the three years.

(13) Subsequent Event

In July 2004, the Rhode Island General Assembly amended Rhode Island General Law 16-59-9 – Educational Budget and Appropriations, transferring the power to allocate budgets to institutions of public higher education from the Board of Higher Education to the General Assembly.



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**Independent Auditors' Report on Internal Control Over Financial Reporting and
on Compliance and Other Matters Based on an Audit of Financial Statements
Performed in Accordance with *Government Auditing Standards***

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) and its discretely presented component unit, where applicable, as of and for the years ended June 30, 2004 and 2003, and based on our audit and the report of other auditors, have issued our report thereon dated September 27, 2004. Our report refers to the College's adoption, effective July 1, 2003, of Statement No. 39 of the Governmental Accounting Standards Board (GASB), *Determining Whether Certain Organizations are Component Units (an amendment of GASB Statement 14)*. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audits, 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 an opinion on internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable 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 caused by error or fraud 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. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

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 grant agreements, noncompliance with which could have a direct and material effect on the

determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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 27, 2004