

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

Financial Statements

June 30, 2005 and 2004

(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, 2005 and 2004

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 Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	34



KPMG LLP
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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 financial statements of the business-type activities and the discretely presented component unit of the Community College of Rhode Island (the College) (a component unit of the State of Rhode Island and Providence Plantations) as of and for the years ended June 30, 2005 and 2004, which collectively comprise the College's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the College's management. Our responsibility is to express opinions 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the College's internal control over financial reporting. Accordingly, we express no such opinion. 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 opinion.

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 business-type activities and the discretely presented component unit of the College as of June 30, 2005 and 2004, and the respective changes in financial position and, where applicable, cash flows thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 7, 2005, 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 (MD&A) 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

October 7, 2005

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, 2005

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, 2005 and the results of operations for the year then ended, with selected comparative information for the years ended June 30, 2004 and 2003. 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 15,833 full- and part-time for-credit students in 2005. 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 and in Westerly.

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, 2005

Financial Highlights

The Community College's financial position remained strong as of June 30, 2005. Net assets increased by \$5.3 million over the prior year.

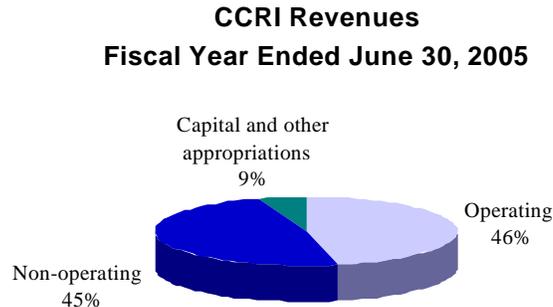
At June 30, 2005, the Community College's assets of \$61.0 million exceeded its liabilities of \$18.2 million by \$42.8 million, an increase over the prior year of \$5.3 million. At June 30, 2004, the Community College's assets of \$54.3 million exceeded its liabilities of \$16.8 million by \$37.5 million, an increase over the prior year of \$8.0 million. The resulting net assets are summarized into the following categories (in millions) for the fiscal years ended June 30, 2005, 2004, and 2003:

	<u>2005</u>	<u>2004</u>	<u>2003</u>
Invested in capital assets, net of related debt	\$ 43.8	39.0	31.8
Restricted, expendable	3.7	3.5	3.2
Unrestricted	(4.7)	(5.0)	(5.5)
Total net assets	<u>\$ 42.8</u>	<u>37.5</u>	<u>29.5</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 2005 operating revenues before net investment return increased by 4.7% or \$1.9 million. Expenses increased by 4.6%, or \$3.9 million. Fiscal 2004 operating revenues before net investment return increased by 10.8% or \$4.4 million. Expenses increased by 5.5%, or \$4.4 million.

The following chart provides a graphical breakdown of total revenues by category for the fiscal year ending June 30, 2005:



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, 2005

Cash flow continued to be adequate for operations with an operating cash balance of \$4.3 million at June 30, 2005, an increase of \$0.7 million from June 30, 2004. The operating cash balance of \$3.6 million at June 30, 2004 was a decrease of \$1.3 million from June 30, 2003.

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 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, 2005

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, 2005

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 \$42.8 million at the close of fiscal year 2005, an increase of \$5.3 million over fiscal 2004, and assets exceeded liabilities by \$37.5 million at the close of fiscal year 2004, an increase of \$8.0 million over fiscal 2003, as shown in the chart below:

Condensed Net Assets
June 30, 2005, 2004, and 2003
(\$ in millions)

	<u>2005</u>	<u>2004</u>	<u>2003</u>
Assets:			
Current assets	\$ 9.4	7.4	8.1
Noncurrent assets	51.6	46.9	38.9
Total assets	<u>61.0</u>	<u>54.3</u>	<u>47.0</u>
Liabilities:			
Current liabilities	10.9	8.6	8.8
Noncurrent liabilities	7.3	8.2	8.7
Total liabilities	<u>18.2</u>	<u>16.8</u>	<u>17.5</u>
Net assets:			
Invested in capital assets, net of related debts	43.8	39.0	31.8
Restricted:			
Expendable	3.7	3.5	3.2
Unrestricted (deficit)	(4.7)	(5.0)	(5.5)
Total net assets	<u>\$ 42.8</u>	<u>37.5</u>	<u>29.5</u>

The largest portion of the Community College's net assets, \$43.8 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, 2005

Bonds and leases payable of \$5.7 million and compensated absences of \$5.3 million are the Community College's largest liabilities.

Condensed Revenues, Expenses, and Changes in Net Assets
Years ended June 30, 2005, 2004, and 2003
(\$ in millions)

	<u>2005</u>	<u>2004</u>	<u>2003</u>
Operating revenues:			
Tuition and auxiliary, net	\$ 27.9	26.2	24.5
Scholarships, grants, and contracts	12.8	12.5	11.2
Other	3.3	3.3	2.2
Total operating revenues	<u>44.0</u>	<u>42.0</u>	<u>37.9</u>
Operating expenses:			
Salaries and benefits	64.0	60.0	57.7
Operating expenses	15.3	15.3	13.7
Scholarships, grants, and contracts	7.0	7.1	6.5
Depreciation and amortization	2.4	2.4	2.5
Total operating expenses	<u>88.7</u>	<u>84.8</u>	<u>80.4</u>
Net operating loss	<u>(44.7)</u>	<u>(42.8)</u>	<u>(42.5)</u>
Nonoperating revenues (expenses):			
State and other appropriations	41.9	40.5	39.6
Gifts from Foundation	0.2	0.1	—
Net investment income	0.1	0.1	—
Other nonoperating expenses, net	(0.2)	(0.3)	(0.2)
Net nonoperating revenues	<u>42.0</u>	<u>40.4</u>	<u>39.4</u>
Loss before other revenues, expenses, gains, or losses	(2.7)	(2.4)	(3.1)
Capital gifts and appropriations	<u>8.0</u>	<u>10.4</u>	<u>4.1</u>
Increase in net assets	<u>\$ 5.3</u>	<u>8.0</u>	<u>1.0</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, 2005

Operating Revenues

Total operating revenues for fiscal 2005 were \$44.0 million, an increase of \$2.0 million from the prior year. Total operating revenues for fiscal 2004 were \$42.0 million, an increase of \$4.1 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 9.1% and 6% in fiscal years 2005 and 2004, respectively.
- Federal, state, and private grant and contract activity increased \$0.3 million in fiscal year 2005 and \$1.3 million in fiscal year 2004.

Operating Expenses

Operating expenses in fiscal 2005 totaled \$88.7 million, an increase of \$3.9 million from the prior year, and \$84.8 million in fiscal year 2004, an increase of \$4.4 million from the prior year. Of this total, \$52.9 million or 59.6% was used for instruction and student support in 2005 (\$50.9 million or 60.0% in 2004). Depreciation expense totaled \$2.4 million in fiscal years 2005 and 2004. Significant changes in operating expenses resulted from:

- Sponsored program expenses were \$0.1 million higher in fiscal year 2005 (\$0.5 million in 2004) than the previous year due to an increase in grant and contract activity.
- The cost of student aid decreased by \$0.3 million in fiscal year 2005 (\$0.2 million in fiscal year 2004) as a result of changes in the number and amount of awards.
- Salaries and benefits increased by \$4.0 million in fiscal year 2005 (\$2.3 million in fiscal year 2004).

Nonoperating Revenues

Total nonoperating revenues for fiscal year 2005 are \$42.0 million, including the state and other appropriation of \$41.9 million. This is an increase of \$1.6 million from the prior year. Total nonoperating revenues for fiscal year 2004 are \$40.4 million, including the state appropriation of \$40.5 million. This is an increase of \$1.0 million from the prior year.

Other

Capital appropriations of \$7.4 million in fiscal year 2005 (\$9.9 million in fiscal year 2004) 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, 2005

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 2005-2009 plan for the Community College totals \$61.5 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 2005, the Community College expended \$6.7 million on plant related projects (\$9.6 million in fiscal year 2004). 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, 2005 and 2004, the Community College had \$49.5 million and \$45.1 million invested in capital assets, net of accumulated depreciation of \$37.7 million and \$35.3 million, respectively. Depreciation charges totaled \$2.4 million during fiscal years 2005 and 2004. These represent increases of \$4.4 million and \$0.0 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, 2005, 2004, and 2003
(\$ in millions)

	2005	2004	2003
Land and improvements	\$ 1.5	1.5	1.0
Buildings and improvements	35.3	30.1	31.5
Construction in progress	10.9	12.8	4.4
Furniture, fixtures, and equipment	1.8	0.7	1.0
Total	\$ 49.5	45.1	37.9

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, 2005

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

- Various capital projects, including construction cost of the Newport campus, amounting to \$2.6 million at CCRI were funded by State appropriations to the Rhode Island Capital Fund, as compared to \$0.3 million in fiscal year 2004. Construction in progress cost of the Newport campus from general obligation bonds amounted to \$4.3 million, as compared to \$4.4 million in fiscal year 2004.
- The Banner project increased by \$0.3 million for fiscal year 2005 and fiscal year 2004.

Debt

At June 30, 2005 and 2004, the Community College had \$5.7 million and \$6.1 million in debt outstanding.

Summary Schedule of Debt
June 30, 2005, 2004, and 2003
(\$ in millions)

	2005	2004	2003
Capital lease obligations	\$ 1.8	1.8	1.9
Bonds	3.9	4.3	4.2
Total	\$ 5.7	6.1	6.1

Debt repayments made during 2005 and 2004 were \$0.04 million and \$4.1 million, respectively.

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 5 to the financial statements.

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, 2005

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, decreased from 5.7% in June of 2003 to 5.2% in June of 2004 and to 4.8% in June of 2005, according to the Federal Reserve Bank of Boston. This compares to a decrease from 6.4% to 5.6%, and 5.0%, respectively, on a national level. Rhode Island's job growth rate for the first six months of 2005 of 1.4% also trails the national average of 1.6% 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 struggles with allocating limited resources across diverse state funded agencies and mandates. State appropriation support to the College has declined from 59% of the total unrestricted budget in 2003 to 55% in 2005. To some extent these dollars have been made up through student tuition and fees; growing from 41% of the College budget in 2003 to 45% in 2005. There is a revenue resource problem that has resulted in freezing positions, capital projects and operating budgets in fiscal year 2005 and will continue to some extent in 2006. Despite the reduction in state resources the current financial plans indicate that the College will be able to maintain its present level of services at all main campuses.

The Legislature has committed to the continuation of funding the RI Asset Protection program for the next several years and also proposed an annual increase in that fund of five percent.

Three unions recently ratified 3-year compensation contracts.

The Community College will open the Newport Campus for the fall 2005 semester.

The Community College remains very competitive economically. Tuition and mandatory fees for residents in fiscal year 2005 were \$2,310 and ranked sixth among the Community College's nine-institution regional peer group. Non-resident tuition and mandatory fees were \$6,262 in fiscal year 2005 and ranked the Community College eighth in its peer group.

The Community College's average enrollment in FY 2005 increased by 525 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 6.56% since FY 2001. 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.

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, 2005

Subsequent Event – Negotiated Wage Settlement

The College's faculty and professional staff association collective bargaining agreements expired on June 30, 2004. Tentative agreements on new contracts were reached and ratified by two unions and formally accepted by the Board of Governors on September 19, 2005. The agreements provide for a salary increase of 3.5% retroactive to July 1, 2004. A medical insurance co-payment will go into effect in fiscal 2006. A tentative agreement with the College's Educational Support Professional Association was reached in early October 2005. The College has estimated the cost of these agreements on 2005 results to be \$1,037,000 and has recorded this expense in the fiscal 2005 financial statements.

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, 2005 and 2004

Assets	2005 Community College of Rhode Island	2004 Community College of Rhode Island	2005 Community College of Rhode Island Foundation	2004 Community College of Rhode Island Foundation
Current assets:				
Cash and cash equivalents (note 2)	\$ 4,332,877	3,617,520	1,282,825	190,525
State capital funds	1,414,312	1,145,536	—	—
Accounts receivable, net (note 3)	3,192,089	2,098,293	21,004	19,592
Inventory and other current assets	492,140	513,442	—	—
Pledges receivable	—	—	36,500	157,469
Total current assets	<u>9,431,418</u>	<u>7,374,791</u>	<u>1,340,329</u>	<u>367,586</u>
Noncurrent assets:				
Restricted cash and cash equivalents (note 2)	1,394,314	1,131,623	—	—
Deposits with bond trustees – restricted	709,279	701,680	—	—
Pledges receivable	—	—	38,000	116,000
Investments (note 2)	—	—	1,230,195	1,198,561
Capital assets, net of accumulated depreciation (notes 4 and 5)	49,501,441	45,131,173	—	—
Total noncurrent assets	<u>51,605,034</u>	<u>46,964,476</u>	<u>1,268,195</u>	<u>1,314,561</u>
Total assets	<u>\$ 61,036,452</u>	<u>54,339,267</u>	<u>2,608,524</u>	<u>1,682,147</u>
Liabilities				
Current liabilities:				
Accounts payable and accrued liabilities	\$ 4,462,834	2,752,249	628,122	16,572
Compensated absences (note 5)	3,326,837	2,859,193	—	—
Due to State Treasurer	1,049,299	557,380	—	—
Students' deposits and unearned revenues	1,322,462	1,672,944	—	—
Funds held for others	311,603	308,021	—	—
Current portion of capital lease obligation (notes 4 and 5)	14,608	10,435	—	—
Current portion of bonds and loans payable (note 5)	401,926	385,160	—	—
Total current liabilities	<u>10,889,569</u>	<u>8,545,382</u>	<u>628,122</u>	<u>16,572</u>
Noncurrent liabilities:				
Compensated absences (note 5)	2,030,618	2,557,547	—	—
Capital lease obligations (notes 4 and 5)	1,806,577	1,821,185	—	—
Bonds and loans payable (note 5)	3,462,999	3,864,856	—	—
Annuity payment payable	—	—	44,070	40,039
Total noncurrent liabilities	<u>7,300,194</u>	<u>8,243,588</u>	<u>44,070</u>	<u>40,039</u>
Total liabilities	<u>\$ 18,189,763</u>	<u>16,788,970</u>	<u>672,192</u>	<u>56,611</u>
Net Assets				
Invested in capital assets, net of related debt	\$ 43,827,410	39,049,537	—	—
Restricted (note 6):				
Expendable	3,718,535	3,472,671	1,789,038	1,438,194
Unrestricted (deficit) (note 7)	(4,699,256)	(4,971,911)	147,294	187,342
	<u>42,846,689</u>	<u>37,550,297</u>	<u>1,936,332</u>	<u>1,625,536</u>
Contingencies (note 8)				
Total net assets	<u>\$ 42,846,689</u>	<u>37,550,297</u>	<u>1,936,332</u>	<u>1,625,536</u>

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, 2005 and 2004

	2005	2004	2005	2004
	Community	Community	Community	Community
	College of	College of	College of	College of
	Rhode Island	Rhode Island	Rhode Island	Rhode Island
	Foundation	Foundation	Foundation	Foundation
Operating revenues:				
Tuition and fees	\$ 28,367,033	26,093,510	—	—
Auxiliary enterprises	6,171,612	6,051,522	—	—
Less scholarship allowances	<u>(6,626,075)</u>	<u>(5,953,004)</u>	<u>—</u>	<u>—</u>
Net student fees	27,912,570	26,192,028	—	—
Federal, state, local, and private grants and contracts	12,771,379	12,540,508	—	—
Sales and services of education departments	3,277,645	3,270,722	—	—
Other operating revenues	—	—	72,482	40,103
Total operating revenues	<u>43,961,594</u>	<u>42,003,258</u>	<u>72,482</u>	<u>40,103</u>
Operating expenses (note 9):				
Instruction	39,748,024	38,536,176	—	—
Academic support	5,305,521	5,307,069	—	—
Student services	7,629,520	7,074,114	—	—
Scholarships and fellowships	2,643,973	2,879,787	29,101	9,298
Public service	1,026,989	855,516	—	—
Operation and maintenance of plant	8,685,179	10,003,560	—	—
Institutional support	15,854,741	12,363,285	43,313	92,328
Depreciation and amortization	2,394,358	2,383,767	—	—
Auxiliary enterprises	5,448,472	5,405,324	—	—
Other operating expenses	—	—	71,125	121,522
Total operating expenses	<u>88,736,777</u>	<u>84,808,598</u>	<u>143,539</u>	<u>223,148</u>
Operating loss	<u>(44,775,183)</u>	<u>(42,805,340)</u>	<u>(71,057)</u>	<u>(183,045)</u>
Nonoperating revenues (expenses):				
State appropriations (note 10)	41,815,612	40,114,596	—	—
Other appropriations	112,500	415,687	—	—
Gifts and contributions	—	—	1,003,342	907,606
Payments between the College and the Foundation	234,248	108,383	(52,734)	(345,308)
Net investment income	135,694	81,824	40,013	159,085
Interest expense	<u>(259,701)</u>	<u>(312,432)</u>	<u>—</u>	<u>—</u>
Net nonoperating revenues	<u>42,038,353</u>	<u>40,408,058</u>	<u>990,621</u>	<u>721,383</u>
(Loss) income before other revenues, expenses, gains, or losses	<u>(2,736,830)</u>	<u>(2,397,282)</u>	<u>919,564</u>	<u>538,338</u>
Capital appropriations (note 10)	7,424,454	9,953,012	—	—
Capital gifts from Foundation	<u>608,768</u>	<u>415,969</u>	<u>(608,768)</u>	<u>(415,969)</u>
Increase in net assets	5,296,392	7,971,699	310,796	122,369
Net assets, beginning of year	<u>37,550,297</u>	<u>29,578,598</u>	<u>1,625,536</u>	<u>1,503,167</u>
Net assets, end of year	<u>\$ 42,846,689</u>	<u>37,550,297</u>	<u>1,936,332</u>	<u>1,625,536</u>

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, 2005 and 2004

	2005	2004
	Community	Community
	College of	College of
	Rhode Island	Rhode Island
	<u> </u>	<u> </u>
Cash flows from operating activities:		
Tuition and fees	\$ 20,816,860	20,258,612
Grants and contracts	11,885,569	13,019,320
Payments to suppliers	(12,962,225)	(13,471,364)
Payments to utilities	(2,311,514)	(2,037,140)
Payments to employees	(61,896,103)	(60,924,428)
Payments for scholarships, fellowships, and sponsored programs	(7,008,054)	(7,061,202)
Auxiliary enterprise charges	6,236,215	6,176,043
Sales and service of educational departments	3,578,670	3,007,131
Other payments	(268,776)	(569,883)
	<u> </u>	<u> </u>
Net cash used by operating activities	(41,929,358)	(41,602,911)
Cash flows from noncapital financing activities:		
State appropriations	41,815,612	40,114,596
Other appropriations	112,500	415,687
Gifts from the Foundation	234,248	108,383
Funds held for others	3,582	(116,763)
	<u> </u>	<u> </u>
Net cash provided by noncapital financing activities	42,165,942	40,521,903
Cash flows from capital and related financing activities:		
Proceeds from capital debt	—	4,162,773
Capital appropriations	7,424,454	9,953,012
Capital gifts and grants	608,768	415,969
Purchases of capital assets	(6,764,626)	(9,620,695)
Principal paid on capital debt and leases	(395,526)	(4,135,891)
Interest paid on capital debt and leases	(259,701)	(312,432)
Deposits with trustee	(7,599)	24,912
	<u> </u>	<u> </u>
Net cash provided by capital and related financing activities	605,770	487,648
Cash flows from investing activities:		
Interest on investments	135,694	81,824
	<u> </u>	<u> </u>
Net cash provided by investing activities	135,694	81,824
Net increase (decrease) in cash, restricted cash and cash equivalents	978,048	(511,536)
Cash, restricted cash and cash equivalents – beginning of year	4,749,143	5,260,679
Cash, restricted cash and cash equivalents – end of year	<u>\$ 5,727,191</u>	<u>4,749,143</u>
Reconciliation of net operating expenses to net cash used by operating activities:		
Operating loss	\$ (44,775,183)	(42,805,340)
Adjustments to reconcile net loss to net cash used by operating activities:		
Depreciation and amortization	2,394,358	2,383,767
Changes in assets and liabilities:		
Accounts receivable	(1,093,796)	(57,193)
Inventory and other current assets	21,302	5,321
Funds on deposit with the State	223,143	(1,067,867)
Accounts payable and accrued liabilities	1,710,585	(428,974)
Compensated absences	(59,285)	(133,587)
Students' deposits and unearned revenues	(350,482)	500,962
	<u> </u>	<u> </u>
Net cash used by operating activities	\$ (41,929,358)	(41,602,911)

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, 2005 and 2004

(1) Summary of Significant Accounting Policies

(a) Organization

The College is New England's largest public, two-year college that offers an array of academic transfer and occupational programs as well as educational and training programs for local businesses and industries. The College is supported by the State of Rhode Island, and is part of the system of public higher education that includes Rhode Island College and the University of Rhode Island, with which articulation agreements exist for student transfer within the system.

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 public members appointed by the Governor, as well as 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. These nonoperating activities include the College's operating and capital appropriations from the State of Rhode Island, net investment income, gifts, and interest expense.

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

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

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

Notes to Financial Statements

June 30, 2005 and 2004

In March 2003, GASB issued Statement No. 40 of the Governmental Accounting Standards Board (GASB), *Deposit and Investment Risk Disclosures*. GASB 40 establishes and modifies disclosure requirements related to investment risks and deposit risks, and applies to all state and local governments. The College adopted GASB 40 as of July 1, 2004. The College's GASB 40 disclosures are presented in note 2. Except for custodial credit risk disclosure, the College's GASB 40 disclosures do not contemplate the other disclosures under GASB 40. Comparative disclosures will be made in subsequent years.

The 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.

During the years ended June 30, 2005 and 2004, the Foundation distributed \$661,502 and \$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*

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

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

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

Unrestricted: All other categories of net assets. Unrestricted net assets may be designated by 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, 2005 and 2004

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 (first in, first out 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 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.

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

Notes to Financial Statements

June 30, 2005 and 2004

(h) Health

The State offers one state paid health plan to each of its participating agencies, including the College. The premiums for these plans are divided among the sixteen participants based upon their number of lives (eligible employees). Certain non-union employees (classified and non-classified) contribute up to 5% of the cost of their health plans. The College pays 100% for their health care costs for those employees who do not contribute to their health plans 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 2005 and 2004 health premiums were approximately \$7,683,000 and \$6,879,000, 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 year 2005 was 4.1% and for fiscal year 2004 was 3.8%. The assessed fringe benefit cost for the College was \$1,440,133 for fiscal year 2005 and \$1,307,028 for fiscal year 2004.

(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.

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

Notes to Financial Statements

June 30, 2005 and 2004

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

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 such as computer equipment, valuable papers, fine arts, contractor's equipment, and miscellaneous property at various limits of insurance and deductibles.

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

(2) Cash, Cash Equivalents and Investments

(a) Overall Deposits and Investments Descriptions

Deposits and investments of the College at June 30, 2005 consist of:

Investment type	Fair value
Cash or deposit	\$ 4,806,716
U.S. Treasury bills	1,629,754
Total deposits and investments	\$ <u>6,436,470</u>

(b) Custodial Credit Risk

Custodial credit risk is the risk that in the event of a bank failure, the College's deposits may not be returned to it. The Rhode Island Board of Governors for Higher Education has a policy stressing preservation of principal and limiting deposits to federally insured and other financially secure accounts.

Deposits and investments in excess of the insured amount are uninsured and uncollateralized. Deposits and investments at June 30, 2005 amounted to \$6,436,470 (\$3,298,217 of \$4,749,143 at June 30, 2004) of which \$5,816,180 was exposed to custodial risk as uninsured and uncollateralized.

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

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

Notes to Financial Statements

June 30, 2005 and 2004

these institutions that do not meet minimum capital standards prescribed by federal regulators will insure or pledge eligible collateral equal to 100% of deposits, regardless of maturities.

(c) **Investments and Maturities Inferring Risk**

The College's investments and maturities inferring risk at June 30, 2005 consist of:

Investment type	Fair value	Investment maturities (in years)			
		Less than 1	1 to 5	6 to 10	More than 10
Debt securities:					
U.S. Treasuries	\$ 1,629,754	1,629,754	—	—	—
	\$ 1,629,754	1,629,754	—	—	—

(d) **Investments**

Foundation investments are presented in the financial statements at fair market value. A summary of investments at June 30, 2005 and 2004 is as follows:

	2005	2004
Investments at market value are as follows:		
Equities	\$ 781,974	824,952
Fixed income	188,815	368,175
Cash and cash equivalents	259,406	5,434
Total	\$ 1,230,195	1,198,561

(3) **Accounts Receivable**

Accounts receivable include the following at June 30:

	2005	2004
Student accounts receivable	\$ 2,397,946	1,563,496
Grants receivable	615,706	550,064
Other receivables	876,365	648,523
	3,890,017	2,762,083
Less allowance for doubtful accounts	(697,928)	(663,790)
	\$ 3,192,089	2,098,293

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

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

Notes to Financial Statements

June 30, 2005 and 2004

(4) Capital Assets

Capital assets consist of the following at June 30:

	Estimated lives (in years)	2005			Ending balance
		Beginning balance	Additions	Reclassi- fications	
Capital assets not being depreciated:					
Land	—	\$ 1,490,837	—	—	1,490,837
Construction in progress	—	12,842,163	5,825,698	(7,796,779)	10,871,082
Total net being depreciated		<u>14,333,000</u>	<u>5,825,698</u>	<u>(7,796,779)</u>	<u>12,361,919</u>
Capital assets being depreciated:					
Buildings, including improvements	10-50	62,359,251	218,438	6,923,166	69,500,855
Furnishings and equipment (including cost of capital leases)	5-15	<u>3,774,028</u>	<u>720,490</u>	<u>873,613</u>	<u>5,368,131</u>
Total being depreciated		<u>66,133,279</u>	<u>938,928</u>	<u>7,796,779</u>	<u>74,868,986</u>
Less accumulated depreciation:					
Building, including improvements		32,241,321	2,001,950	—	34,243,271
Furnishings and equipment		<u>3,093,785</u>	<u>392,408</u>	—	<u>3,486,193</u>
Total accumulated depreciation		<u>35,335,106</u>	<u>2,394,358</u>	<u>—</u>	<u>37,729,464</u>
Total being depreciated		<u>30,798,173</u>	<u>(1,455,430)</u>	<u>7,796,779</u>	<u>37,139,522</u>
Capital assets, net		<u>\$ 45,131,173</u>	<u>4,370,268</u>	<u>—</u>	<u>49,501,441</u>

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

Notes to Financial Statements

June 30, 2005 and 2004

	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		<u>5,479,010</u>	<u>8,853,990</u>	<u>14,333,000</u>
Capital assets being depreciated:				
Buildings, including improvements Furnishings and equipment (including cost of capital leases)	10-50	61,733,727	625,524	62,359,251
	5-15	<u>3,632,847</u>	<u>141,181</u>	<u>3,774,028</u>
Total being depreciated		<u>65,366,574</u>	<u>766,705</u>	<u>66,133,279</u>
Less accumulated depreciation:				
Building, including improvements Furnishings and equipment		30,313,415	1,927,906	32,241,321
		<u>2,637,924</u>	<u>455,861</u>	<u>3,093,785</u>
Total accumulated depreciation		<u>32,951,339</u>	<u>2,383,767</u>	<u>35,335,106</u>
Total being depreciated		<u>32,415,235</u>	<u>(1,617,062)</u>	<u>30,798,173</u>
Capital assets, net		<u>\$ 37,894,245</u>	<u>7,236,928</u>	<u>45,131,173</u>

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

Notes to Financial Statements

June 30, 2005 and 2004

(5) Long-Term Liabilities

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

	2005				
	Beginning balance	Additions	Reductions	Ending balance	Current portion
Leases and bonds payable:					
Lease obligations	\$ 1,831,620	—	10,435	1,821,185	14,608
Revenue bonds payable	3,742,278	—	272,128	3,470,150	282,297
Loans payable	507,738	—	112,963	394,775	119,629
Total leases and bonds payable	6,081,636	—	395,526	5,686,110	416,534
Other long-term liabilities:					
Compensated absences	5,416,740	—	59,285	5,357,455	3,326,837
Total long-term liabilities	\$ 11,498,376	—	454,811	11,043,565	3,743,371
	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, 2005 and 2004

Loans and Bonds Payable

The following is a summary of changes in the College's long-term debt for the years ended June 30, 2005 and 2004:

	June 30	
	2005	2004
Loans payable:		
Leasehold improvement loan for Quonset Point Facility	\$ 232,488	270,684
Energy Revolving Loan Fund with a final maturity in 2007	162,287	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	221,262	305,125
Rhode Island Health and Education Building Corporation Various Purpose Educational Facilities Issue, Series 2003C	2,317,888	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	355,000	420,000
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	290,000	380,000
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	286,000	306,000
	<u>\$ 3,864,925</u>	<u>4,250,016</u>

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.

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

Notes to Financial Statements

June 30, 2005 and 2004

Revenue Bonds Payable

In July 1993, Rhode Island Health and Educational Building Corporation (the Corporation) issued the Facility Revenue and Refunding Bonds which included the \$14,281,069 Various Purpose Educational Facilities Issue – Series 1993 B. The proceeds from this issue were used to defease the outstanding obligations of the College, URI and RIC relative to previous Series A and B issues of 1990 and 1992, respectively, and to fund the acquisition of library capital, and various capital renovations to existing buildings at the three institutions. 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 (URI), and Rhode Island College (RIC). 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.

On July 17, 2003, the Corporation issued the Facility Revenue Refunding Bonds, 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. These bonds are secured by all educational and general revenues derived by the College, except auxiliary enterprise revenues.

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.

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

Notes to Financial Statements

June 30, 2005 and 2004

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:			
2006	\$ 401,926	230,358	632,284
2007	414,842	217,610	632,452
2008	411,817	201,352	613,169
2009	200,357	103,478	303,835
2010	203,899	97,879	301,778
2011-2015	714,389	415,672	1,130,061
2016-2020	797,881	271,338	1,069,219
2021-2024	719,814	74,259	794,073
	<u>\$ 3,864,925</u>	<u>1,611,946</u>	<u>5,476,871</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, 2005:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Year ending June 30:			
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	85,564	70,841	156,405
2011-2015	470,948	310,423	781,371
2016-2020	571,119	210,357	781,476
2021-2024	565,557	58,349	623,906
	<u>\$ 1,821,185</u>	<u>946,388</u>	<u>2,767,573</u>

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

Notes to Financial Statements

June 30, 2005 and 2004

(6) Restricted Net Assets

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

	2005	2004
Restricted – expendable:		
Grant programs	\$ 97,038	102,171
Auxiliary enterprises	2,654,919	2,506,647
Capital projects	966,578	863,853
	\$ 3,718,535	3,472,671

(7) Unrestricted Net Assets

Management anticipates that the deficit in unrestricted net assets as of June 30, 2005 will be eliminated through future operating and nonoperating revenues, including state appropriation.

(8) 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, 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.

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

Notes to Financial Statements

June 30, 2005 and 2004

(9) Operating Expenses

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

	2005	2004
Compensation and benefits	\$ 64,024,777	59,986,519
Supplies and services	15,309,588	15,377,110
Depreciation and amortization	2,394,358	2,383,767
Scholarships and fellowships	7,008,054	7,061,202
	\$ 88,736,777	84,808,598

(10) State Appropriations

Direct Appropriations

Pursuant to 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 2005. The Board reviews and approves the unrestricted and restricted budgets and makes recommendations to the Governor and General Assembly for revisions to the current year's budget and the ensuing year's budget for the College, URI, RIC, and the Office of Higher Education.

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

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 2005 and 2004 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, 2005 and 2004

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 \$41,788 and \$3,775,804 on architectural, engineering, construction, and various state building fees during fiscal 2005 and 2004, 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 2005 and 2004, the College spent \$4,281,698 and \$4,803,201, respectively, on architectural, engineering, construction, and various state building fees.

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

	2005	2004
Direct appropriations	\$ 41,815,612	40,114,596
State Capital Plan Funds	2,594,000	1,101,986
State contributed capital	4,330,454	8,851,026
	\$ 48,740,066	50,067,608

(11) Pension and Early Retirement Plans

Certain employees of the College (principally faculty and administrative personnel) are covered by individual annuity contracts under a defined contribution retirement plan. Eligible employees who have reached the age of 30, and who have two (2) years of service are required to participate in either the Teachers' Insurance and Annuity Association, the Metropolitan Life Insurance Company, or Variable Annuity Life Insurance Company retirement plan. Eligible employees must contribute at least 5% of their gross biweekly earnings. These contributions may be made on a pre-tax basis. The College contributes 9% of the employee's gross biweekly earnings. The total expenditures by the College for such annuity contracts amounted to approximately \$2,167,000 and \$2,049,000 during the 2005 and 2004, respectively.

In 1998, the Rhode Island Board of Governors for Higher Education established a health care insurance retirement program (medical coverage only), effective July 1, 1998. This health benefit applies to employees who participate in the Rhode Island Board of Governors defined contribution retirement plan noted above. Active employees who are covered by the Board of Governors retiree medical plan contribute 0.25% of their regular salary. To be eligible for coverage the retiree must have worked a minimum of 10 years for the Board of Governors/College and must be 60 years of age, unless they have 28 years of service. Depending on the years of service and the retiree's age the Board of Governors will pay from 50% to 100% medical insurance premium while the retiree will contribute from 50% to 0%. Employees covered by this program contributed \$88,915 and \$121,043 during fiscal years 2005 and 2004, respectively.

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

Notes to Financial Statements

June 30, 2005 and 2004

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 \$8,321,000 and \$8,323,000 for the years ended June 30, 2005 and 2004, respectively. The College's total payroll expense for the years ended June 30, 2005 and 2004 was approximately \$34,566,000 and \$32,702,000, 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 2005 and 2004 while the College was required to pay 11.51% and 9.60% of salaries paid for the years ending June 30, 2005 and 2004, respectively. In addition, the College is required to contribute 2.11% and 1.30% for post-retirement health benefits in 2005 and 2004, respectively. Employees contributed approximately \$728,000 during the years ended June 30, 2005 and 2004. The College's contributions to the System for the years ended June 30, 2005, 2004, and 2003 were approximately \$958,000, \$799,000, and \$650,000, respectively, representing 100% of the required contribution for each of the three years.

(12) Subsequent Event – Negotiated Wage Settlement

The College's faculty and professional staff association collective bargaining agreements expired on June 30, 2004. Tentative agreements or new contracts were reached and ratified by both unions and formally accepted by the Board of Governors on September 19, 2005. The agreements provide for a salary increase of 3.5%, retroactive to July 1, 2004. A medical insurance co-payment will go into effect in fiscal 2006. A tentative agreement with the College's Educational Support Professional Association was reached in early October 2005. The College has estimated the cost of these agreements on 2005 results to be \$1,037,000 and has recorded this expense in the fiscal 2005 financial statements.



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**Report on Compliance and on Internal Control Over Financial
Reporting 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 the business-type activities and the discretely presented component unit of the Community College of Rhode Island (the College) (a component unit of the State of Rhode Island and Providence Plantations) as of and for the year ended June 30, 2005, which collectively comprise the College's basic financial statements, and have issued our report thereon dated October 7, 2005, which included a reference to the report of the other auditor. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

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

Internal Control Over Financial Reporting

In planning and performing our audit, we considered 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

October 7, 2005