



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

Financial Statements

June 30, 2006 and 2005

(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, 2006 and 2005

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KPMG LLP
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Independent Auditors' Report

The 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 Community College) (a component unit of the State of Rhode Island and Providence Plantations) as of and for the years ended June 30, 2006 and 2005, which collectively comprise the Community College's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Community 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 Community 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 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 business-type activities and the discretely presented component unit of the Community College as of June 30, 2006 and 2005, and the respective changes in financial position and, where applicable, cash flows thereof for the years then ended in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 1, 2006, on our consideration of the Community 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 U.S. generally accepted accounting principles. 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 information and express no opinion on it.

KPMG LLP

September 1, 2006

COMMUNITY COLLEGE OF RHODE ISLAND
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Required Supplementary Information
Management's Discussion and Analysis

June 30, 2006

(Unaudited)

Introduction

The following management's 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, 2006 and the results of operations for the year then ended, with selected comparative information for the years ended June 30, 2005 and 2004. 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 15,319 full- and part-time for-credit students in 2006. 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, the Liston Campus in Providence, and the Newport County Campus are the main campuses of the Community College.

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.

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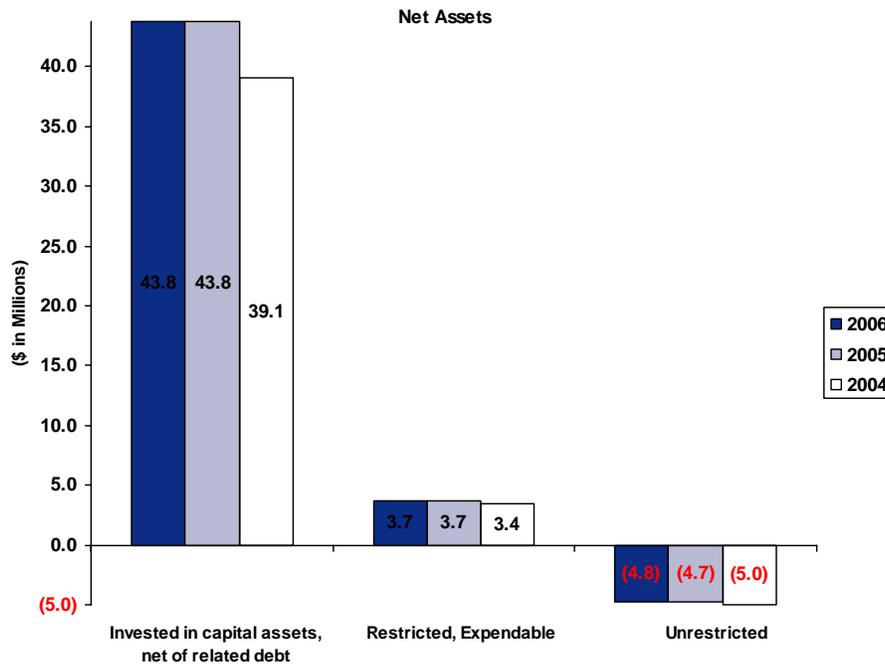
June 30, 2006

(Unaudited)

Financial Highlights

The Community College's financial position remained strong as of June 30, 2006. Net assets decreased by \$(0.2) million from the prior year.

The following chart displays the components of the College's net assets for the fiscal years ended June 30, 2006, 2005, and 2004.



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At June 30, 2006, the Community College's assets of \$61.8 million exceeded its liabilities of \$19.2 million by \$42.6 million, a decrease from the prior year of \$0.2 million. 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. The resulting net assets are summarized into the following categories (in millions) for the fiscal years ended June 30:

| | 2006 | 2005 | 2004 |
|---|-------------|-------------|-------------|
| Invested in capital assets, net of related debt | \$ 43.8 | 43.8 | 39.1 |
| Restricted, expendable | 3.7 | 3.7 | 3.4 |
| Unrestricted | (4.9) | (4.7) | (5.0) |
| Total net assets | \$ 42.6 | 42.8 | 37.5 |

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

Fiscal 2006 operating revenues before net investment return increased by 2.2% or \$0.9 million. Expenses increased by 5.5%, or \$4.9 million. 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.

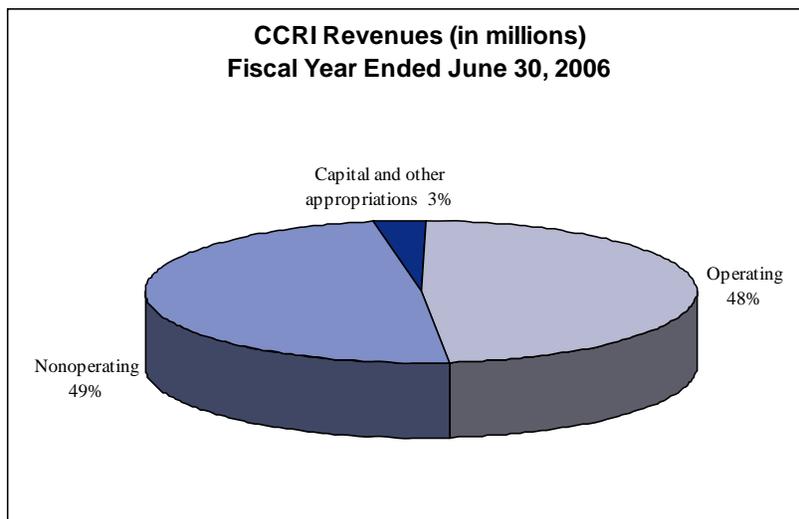
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The following chart provides a graphical breakdown of total revenues by category for the fiscal year ending June 30, 2006:



Cash flow continued to be adequate for operations with an operating cash balance of \$6.0 million at June 30, 2006, an increase of \$1.7 million from June 30, 2005. The operating cash balance of \$4.3 million at June 30, 2005 was an increase of \$0.7 million from June 30, 2004.

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 Community College. Although the Community 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 Community College by the donors. Because these resources held by the Foundation can only be used by or are for the benefit of the Community College, the Foundation is considered a component unit of the Community College and is discretely presented in the Community College's financial statements. Management's discussion and analysis is required to focus on the College, not its component unit.

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The Financial Statements

The financial statements are designed to provide readers with a broad overview of the Community College's finances and are composed 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, nonoperating 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 15 to 17 of this report. The notes to the financial statements can be found on pages 18 - 33 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.

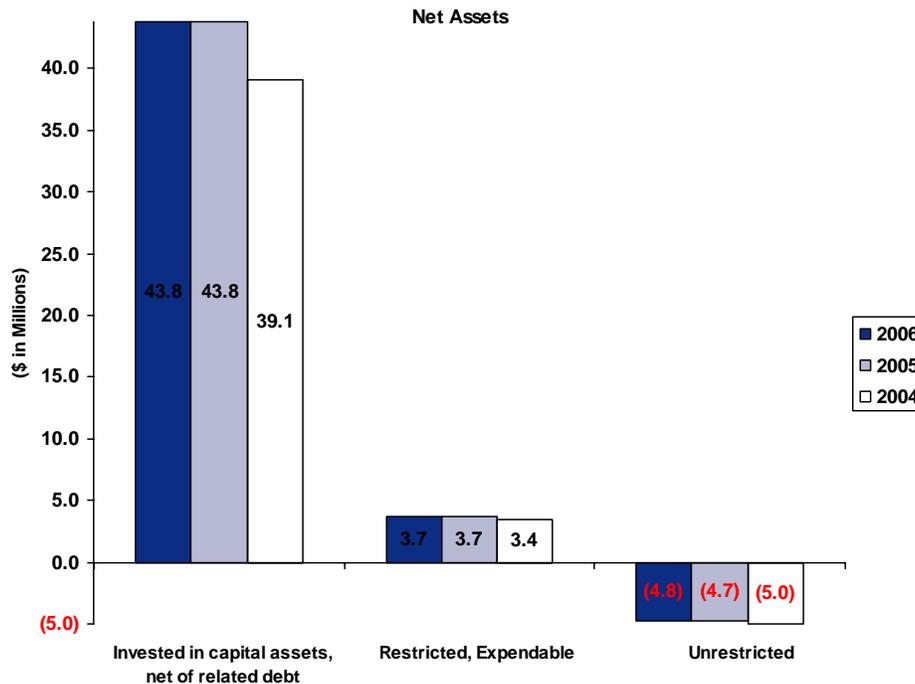
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Financial Analysis

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 \$42.6 million at the close of fiscal year 2006, a decrease of \$(0.2) million over fiscal 2005, and assets exceeded liabilities by \$42.8 million at the close of fiscal year 2005, an increase of \$5.3 million over fiscal 2004, as shown in the chart below:



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

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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.

Bonds, notes and leases payable of \$5.3 million and compensated absences of \$5.8 million are the Community College's largest liabilities.

Condensed Revenues, Expenses and Changes in Net Assets

Years ended June 30, 2006, 2005, and 2004

(Dollars in millions)

| | <u>2006</u> | <u>2005</u> | <u>2004</u> |
|---|-----------------|---------------|---------------|
| Operating revenues: | | | |
| Tuition and auxiliary, net | \$ 28.6 | 27.9 | 26.2 |
| Scholarships, grants, and contracts | 13.1 | 12.8 | 12.5 |
| Other | 3.2 | 3.3 | 3.3 |
| Total operating revenues | <u>44.9</u> | <u>44.0</u> | <u>42.0</u> |
| Operating expenses: | | | |
| Salaries and benefits | 67.9 | 64.0 | 60.0 |
| Operating expenses | 16.2 | 15.3 | 15.3 |
| Scholarships, grants, and contracts | 7.0 | 7.0 | 7.1 |
| Depreciation and amortization | 2.5 | 2.4 | 2.4 |
| Total operating expenses | <u>93.6</u> | <u>88.7</u> | <u>84.8</u> |
| Net operating loss | <u>(48.7)</u> | <u>(44.7)</u> | <u>(42.8)</u> |
| Nonoperating revenues (expenses): | | | |
| State and other appropriations | 45.4 | 41.9 | 40.5 |
| Gifts from Foundation | 0.1 | 0.2 | 0.1 |
| Net investment income | 0.3 | 0.1 | 0.1 |
| Other nonoperating expenses, net | (0.2) | (0.2) | (0.3) |
| Net nonoperating revenues | <u>45.6</u> | <u>42.0</u> | <u>40.4</u> |
| Loss before other revenues, expenses, gains, or losses | (3.1) | (2.7) | (2.4) |
| Capital gifts and appropriations | 2.8 | 8.0 | 10.4 |
| Increase (decrease) in net assets | <u>\$ (0.3)</u> | <u>5.3</u> | <u>8.0</u> |

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Operating Revenues

Total operating revenues for fiscal 2006 were \$44.9 million, an increase of \$0.9 million from the prior year. Total operating revenues for fiscal 2005 were \$44.0 million, an increase of \$2.0 million from the prior year. The most significant sources of operating revenue for the Community College 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 6.9% and 9.1% in fiscal years 2006 and 2005, respectively.
- Federal, state, and private grant and contract activity increased \$0.3 million in fiscal year 2006 and \$0.3 million in fiscal year 2005.

Operating Expenses

Operating expenses in fiscal 2006 totaled \$93.6 million, an increase of \$4.9 million from fiscal 2005, and \$88.7 million in fiscal year 2005, an increase of \$3.9 million from the fiscal 2004. Of this total, \$56.3 million or 60% was used for instruction and student support in 2006 (\$52.7 million or 59.4% in 2005). Depreciation expense totaled \$2.5 million in fiscal years 2006 and \$2.4 million in fiscal year 2005. Significant changes in operating expenses resulted from the opening of the Newport Campus in the fall of 2005 and the result of salary increases related to negotiated contract settlements.

Nonoperating Revenues

Total nonoperating revenues for fiscal year 2006 are \$45.6 million, including the state and other appropriation of \$45.4 million. This is an increase in total nonoperating revenues of \$3.6 million from the prior year. Total nonoperating revenues for fiscal year 2005 are \$42.0 million, including the state appropriation of \$41.8 million. This is an increase of \$1.6 million from the prior year.

Other

Capital gifts and appropriations of \$2.8 million in fiscal year 2006 (\$8.0 million in fiscal year 2005) represent general obligation funds spent by the state of Rhode Island to construct or acquire capital assets utilized by the Community College as well as other appropriations and capital gifts from the Foundation.

Due to the nature of public higher education, institutions incur a loss from operations. State appropriations to the Community College, reported as nonoperating revenue, are the primary resource for offsetting the loss from operations.

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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 2006-2010 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 2006, the Community College expended \$2.1 million on plant related projects (\$6.8 million in fiscal year 2005). 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, 2006 and 2005, the Community College had \$49.0 million and \$49.5 million invested in capital assets, net of accumulated depreciation of \$40.2 million and \$37.7 million, respectively. These represent a decrease of \$(0.5) million and an increase of \$2.5 million, respectively, from the prior year. Depreciation charges totaled \$2.5 million during fiscal year 2006 and \$2.4 million during fiscal year 2005. 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, 2006, 2005, and 2004

(Dollars in millions)

| | 2006 | 2005 | 2004 |
|------------------------------------|-------------|-------------|-------------|
| Land and improvements | \$ 1.5 | 1.5 | 1.5 |
| Buildings and improvements | 45.4 | 35.3 | 30.1 |
| Construction in progress | — | 10.9 | 12.8 |
| Furniture, fixtures, and equipment | 2.1 | 1.8 | 0.7 |
| Total | \$ 49.0 | 49.5 | 45.1 |

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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 \$2.2 million at the Community College were funded by State appropriations to the Rhode Island Capital Fund and Government Obligation bonds as compared to \$6.9 million in fiscal year 2005.
- The Banner project increased by \$0.2 million for fiscal year 2006 and \$0.3 million for fiscal year 2005.

Debt

At June 30, 2006 and 2005, the Community College had \$5.3 million and \$5.7 million in debt outstanding.

Summary Schedule of Debt

June 30, 2006, 2005, and 2004

(Dollars in millions)

| | 2006 | 2005 | 2004 |
|---------------------------|-------------|-------------|-------------|
| Capital lease obligations | \$ 1.8 | 1.8 | 1.8 |
| Bonds | 3.5 | 3.9 | 4.3 |
| Total | \$ 5.3 | 5.7 | 6.1 |

Debt repayments made during 2006 and 2005 were \$0.5 million and \$0.4 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 noncapital financing activities, as defined by GASB, include State appropriations used to fund operating activities.

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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 5.0% in June of 2005 to 5.5% in June of 2006, according to the U.S. Bureau of Labor Statistics. This compares to a decrease from 5.0% to 4.6% respectively, on a national level. Rhode Island was one of only four states to record an increased rate of unemployment during this 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 57% in 2006. To some extent these dollars have been made up through student tuition and fees; although enrollment in FY 2006 declined from expectations. There is a revenue resource problem that has resulted in freezing positions, capital projects and operating budgets in fiscal year 2006 and will continue in 2007. Despite the reduction in state resources, the current financial plans indicate that the Community 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.

The Community College remains very competitive economically. Tuition and mandatory fees for residents in fiscal year 2006 were \$2,470 and ranked eight among the Community College's nine-institution regional peer group. Nonresident tuition and mandatory fees were \$6,700 in fiscal year 2006 and ranked the Community College sixth in its regional peer group.

The Community College's average enrollment in FY 2006 decreased by 206 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 6.78% 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.

Fiscal Planning

The Community College will continue to control expenses in accordance with available resources and established priorities. A Budget Resource committee has been established to assist the college in assessing budgetary decisions and reviewing expenditures at all levels of the college.

Information system

The College has implemented Banner's Student Administration, Human Resources, and Financial Systems. The Banner system is stable. After several years of hard work implementing the fundamental pieces of these systems,

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the Community College continues to reassess the progress of the actual implementation on a regular basis and refocus efforts on the Banner systems to yield the most effective outcome for students, faculty and staff.

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
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Statements of Net Assets

June 30, 2006 and 2005

| Assets | 2006 Community College of Rhode Island | 2005 Community College of Rhode Island | 2006 Community College of Rhode Island Foundation | 2005 Community College of Rhode Island Foundation |
|---|---|---|--|--|
| Current assets: | | | | |
| Cash and cash equivalents (note 2) | \$ 5,962,495 | 4,332,877 | 636,957 | 1,282,825 |
| State capital funds | 1,341,006 | 1,414,312 | — | — |
| Accounts receivable, net (note 3) | 2,570,634 | 3,192,089 | — | 21,004 |
| Inventory and other assets | 729,522 | 492,140 | — | — |
| Pledges receivable | — | — | 45,532 | 36,500 |
| Total current assets | <u>10,603,657</u> | <u>9,431,418</u> | <u>682,489</u> | <u>1,340,329</u> |
| Noncurrent assets: | | | | |
| Restricted cash and cash equivalents (note 2) | 1,424,916 | 1,394,314 | — | — |
| Deposits with bond trustees – restricted | 714,373 | 709,279 | — | — |
| Pledges receivable | — | — | 130,248 | 38,000 |
| Investments | — | — | 1,304,838 | 1,230,195 |
| Capital assets, net of accumulated depreciation (note 4) | 49,045,343 | 49,501,441 | — | — |
| Total noncurrent assets | <u>51,184,632</u> | <u>51,605,034</u> | <u>1,435,086</u> | <u>1,268,195</u> |
| Total assets | <u>\$ 61,788,289</u> | <u>61,036,452</u> | <u>2,117,575</u> | <u>2,608,524</u> |
| Liabilities | | | | |
| Current liabilities: | | | | |
| Accounts payable and accrued liabilities | \$ 3,685,995 | 4,462,834 | 15,619 | 628,122 |
| Compensated absences (note 5) | 3,433,630 | 3,326,837 | — | — |
| Due to state treasurer | 2,535,857 | 1,049,299 | — | — |
| Students' deposits and unearned revenues | 1,695,159 | 1,322,462 | — | — |
| Funds held for others | 176,220 | 311,603 | — | — |
| Current portion of capital lease obligation (note 5) | 15,304 | 14,608 | — | — |
| Current portion of bonds and loans payable (note 5) | 414,796 | 401,926 | — | — |
| Total current liabilities | <u>11,956,961</u> | <u>10,889,569</u> | <u>15,619</u> | <u>628,122</u> |
| Noncurrent liabilities: | | | | |
| Accrued compensation and benefits (note 5) | 2,375,212 | 2,030,618 | — | — |
| Bonds and notes payable (note 5) | 3,048,043 | 3,462,999 | — | — |
| Capital lease obligations (note 5) | 1,791,273 | 1,806,577 | — | — |
| Annuity payment payable | — | — | 43,150 | 44,070 |
| Total noncurrent liabilities | <u>7,214,528</u> | <u>7,300,194</u> | <u>43,150</u> | <u>44,070</u> |
| Total liabilities | <u>\$ 19,171,489</u> | <u>18,189,763</u> | <u>58,769</u> | <u>672,192</u> |
| Net Assets | | | | |
| Invested in capital assets, net of related debt | \$ 43,783,350 | 43,827,410 | — | — |
| Restricted-expendable (note 6) | 3,681,611 | 3,718,535 | 1,861,057 | 1,789,038 |
| Unrestricted (note 7) | (4,848,161) | (4,699,256) | 197,749 | 147,294 |
| Total net assets | <u>\$ 42,616,800</u> | <u>42,846,689</u> | <u>2,058,806</u> | <u>1,936,332</u> |

See accompanying notes to financial statements.

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Statements of Revenues, Expenses and Changes in Net Assets
Years ended June 30, 2006 and 2005

| | 2006 | 2005 | 2006 | 2005 |
|--|----------------------|---------------------|---------------------|---------------------|
| | 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 | \$ 28,964,492 | 28,367,033 | — | — |
| Auxiliary enterprises | 6,209,675 | 6,171,612 | — | — |
| Less scholarship allowances | <u>(6,527,577)</u> | <u>(6,626,075)</u> | — | — |
| Net student fees | 28,646,590 | 27,912,570 | — | — |
| Federal, state, local, and private grants and contracts | 13,074,050 | 12,771,379 | — | — |
| Sales and services of educational activity | 3,221,913 | 3,277,645 | — | — |
| Other operating revenues | — | — | 75,460 | 72,482 |
| Total operating revenues | <u>44,942,553</u> | <u>43,961,594</u> | <u>75,460</u> | <u>72,482</u> |
| Operating expenses: | | | | |
| Instruction | 41,232,447 | 39,748,024 | — | — |
| Academic support | 6,470,147 | 5,305,521 | — | — |
| Student services | 8,603,934 | 7,629,520 | — | — |
| Scholarships and fellowships | 2,155,086 | 2,643,973 | 29,870 | 29,101 |
| Public service | 1,198,085 | 1,026,989 | — | — |
| Operation and maintenance of plant | 9,022,825 | 8,685,179 | — | — |
| Institutional support | 16,533,911 | 15,854,741 | 12,383 | 43,313 |
| Depreciation and amortization | 2,516,501 | 2,394,358 | — | — |
| Auxiliary enterprises | 5,893,557 | 5,448,472 | — | — |
| Other operating expenses | — | — | 110,765 | 71,125 |
| Total operating expenses | <u>93,626,493</u> | <u>88,736,777</u> | <u>153,018</u> | <u>143,539</u> |
| Operating loss | <u>(48,683,940)</u> | <u>(44,775,183)</u> | <u>(77,558)</u> | <u>(71,057)</u> |
| Nonoperating revenues (expenses): | | | | |
| State appropriations (note 10) | 45,445,378 | 41,815,612 | — | — |
| Other appropriations | — | 112,500 | — | — |
| Gifts | — | — | 595,152 | 1,003,342 |
| Gifts from Foundation | 136,978 | 234,248 | (266,048) | (52,734) |
| Net investment income | 317,971 | 135,694 | 102,497 | 40,013 |
| Interest expense | <u>(252,532)</u> | <u>(259,701)</u> | — | — |
| Net nonoperating revenues | <u>45,647,795</u> | <u>42,038,353</u> | <u>431,601</u> | <u>990,621</u> |
| Income (loss) before other revenues, expenses, gains, or losses | (3,036,145) | (2,736,830) | 354,043 | 919,564 |
| Capital appropriations (note 10) | 2,574,687 | 7,424,454 | — | — |
| Capital gifts from Foundation | <u>231,569</u> | <u>608,768</u> | <u>(231,569)</u> | <u>(608,768)</u> |
| Net increase (decrease) in net assets | (229,889) | 5,296,392 | 122,474 | 310,796 |
| Net assets, beginning of year | <u>42,846,689</u> | <u>37,550,297</u> | <u>1,936,332</u> | <u>1,625,536</u> |
| Net assets, end of year | <u>\$ 42,616,800</u> | <u>42,846,689</u> | <u>2,058,806</u> | <u>1,936,332</u> |

See accompanying notes to financial statements.

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

Statements of Cash Flows

Years ended June 30, 2006 and 2005

| | 2006 | 2005 |
|--|-----------------|--------------|
| Cash flows from operating activities: | | |
| Tuition and fees | \$ 23,248,522 | 20,816,860 |
| Grants and contracts | 13,504,278 | 11,885,569 |
| Payments to suppliers | (10,999,515) | (12,962,225) |
| Payments to utilities | (3,145,086) | (2,311,514) |
| Payments to employees | (69,037,266) | (61,896,103) |
| Payments for scholarships, fellowships, and sponsored program: | (7,004,402) | (7,008,054) |
| Auxiliary enterprise charges | 6,170,964 | 6,236,215 |
| Sales and service of educational | 3,012,942 | 3,578,670 |
| Funds on deposit with the state | 73,306 | (268,776) |
| Net cash used in operating activities | (44,176,257) | (41,929,358) |
| Cash flows from noncapital financing activities: | | |
| State appropriations | 45,445,378 | 41,815,612 |
| Other appropriations | — | 112,500 |
| Gifts from Foundation | 136,978 | 234,248 |
| Funds held for others | (135,383) | 3,582 |
| Net cash provided by noncapital financing activities | 45,446,973 | 42,165,942 |
| Cash flows from financing activities: | | |
| Capital appropriations/state contributed capital | 2,574,687 | 7,424,454 |
| Capital grants and gifts received/capital appropriations: | 231,569 | 608,768 |
| Purchases of capital assets | (2,060,404) | (6,764,626) |
| Principal paid on capital debt and leases | (416,694) | (395,526) |
| Interest paid on capital debt and leases | (252,532) | (259,701) |
| Deposits with trustee | (5,094) | (7,599) |
| Net cash used by financing activities | 71,532 | 605,770 |
| Cash flows from investing activities: | | |
| Interest on investments | 317,971 | 135,694 |
| Net cash provided by investing activities | 317,971 | 135,694 |
| Net increase in cash | 1,660,219 | 978,048 |
| Cash – beginning of year | 5,727,191 | 4,749,143 |
| Cash – end of year | \$ 7,387,410 | 5,727,191 |
| Reconciliation of net operating revenues (expenses) to net cash provided (used) by operating activities: | | |
| Operating loss | \$ (48,683,940) | (44,775,183) |
| Adjustments to reconcile operations loss to net cash provided (used) by operating activities: | | |
| Depreciation expense | 2,516,501 | 2,394,358 |
| Changes in assets and liabilities: | | |
| Receivables (net) | 621,455 | (1,093,796) |
| Inventories | (237,382) | 21,302 |
| Funds on deposit with the state | 1,559,864 | 223,143 |
| Accounts payable | (776,839) | 1,710,585 |
| Deferred revenue | 372,697 | (350,482) |
| Compensated absences | 451,387 | (59,285) |
| Net cash used in operating activities | \$ (44,176,257) | (41,929,358) |

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, 2006 and 2005

(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, a component unit of the State of Rhode Island and Providence Plantations, 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.

The Rhode Island Office of Higher Education, which operates under the direction of the Commissioner of Higher Education, is the administrative and research arm of the Rhode Island Board of Governors for Higher Education. The Board of Governor's is not a department of state government but an independent public corporation vested with responsibility of providing oversight for the system of public education in Rhode Island. This system consists of four entities: the University of Rhode Island, Rhode Island College, the Community College of Rhode Island and the Rhode Island Office of Higher Education.

(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'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 demonstrate 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

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

Notes to Financial Statements

June 30, 2006 and 2005

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.

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, 2006 and 2005, the Foundation distributed \$497,617 and \$661,502 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 three net asset categories:

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

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

Unrestricted: All other categories of net assets. Unrestricted net assets may be designated by the College.

The College has adopted a policy of generally utilizing restricted-expendable funds, when available, prior to unrestricted funds.

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

Notes to Financial Statements

June 30, 2006 and 2005

(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 are 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, 2006 and 2005

(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). All employees (classified and nonclassified) contribute up to 8% of the cost of their health plans. The costs are automatically deducted through the payroll system on a bi-weekly basis. The College pays the balance of the health care costs. Amounts paid by the College to the State for the 2006 and 2005 health premiums were \$7,776,000 and \$7,683,000, respectively.

(i) Assessed Fringe Benefit Administrative Fund

In July 2000, the State established the Assessed Fringe Benefit Administrative Fund. This fund is used to make all payments relating to workers' compensation charges, unemployment payments, and payments to employees for unused vacation and sick at the time of retirement or 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 2006 was 3.8% and for fiscal year 2005 was 4.1%. The assessed fringe benefit cost for the College was \$1,407,643 for fiscal year 2006 and \$1,440,133 for fiscal year 2005.

(j) Students' Deposits and Unearned Revenue

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

(k) Student Fees

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

(l) Tax Status

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

(m) Use of Estimates

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

(n) Risk Management

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

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Notes to Financial Statements

June 30, 2006 and 2005

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) Cash and Cash Equivalents

At June 30, 2006, the carrying amount of the College's cash deposits was \$6,033,770 and the bank balance was \$7,011,801. In 2005 the carrying amount of the College's cash deposits was \$4,797,565 and the bank balance was \$6,103,751.

Deposits are exposed to custodial credit risk if they are not covered by depository insurance and the deposits are:

- a. Uncollateralized
- b. Collateralized with securities held by pledging financial institution, or
- c. Collateralized with securities held by the pledging financial institution's trust department or agent but not in the depositor-government's name.

Of the bank balance, \$282,450 was covered by federal depository insurance and \$4,635,449 was collateralized with securities held by the pledging financial institution in the College's name. The remaining amount, \$2,193,902 was uninsured and uncollateralized of the bank balance in 2005, \$287,571 was covered by federal depository insurance. The remaining amount, \$5,816,180 was uninsured and uncollateralized. There are no certificates of deposits in the carrying amounts or bank balances.

The College's policy is in accordance with Chapter 35-10.1 the General Laws depository institutions holding deposits of the State, its agencies or governmental subdivision of the State, shall at a minimum, insure or pledge eligible collateral equal to one hundred percent of time deposits with

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Notes to Financial Statements

June 30, 2006 and 2005

maturities greater than 60 days. Any of these institutions which do not meet minimum capital stands prescribed by federal regulated shall insure or pledge eligible collateral equal to one hundred percent of deposits, regardless of maturity. None of the cash deposits of the College were required to be collateralized at June 30, 2006 and 2005.

The College does not have a policy for custodial credit risk associated with deposits.

(b) Investments

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 secured accounts. The College predominantly invests in short to medium-term cash and similar vehicles.

Investment securities are exposed to custodial credit risk if the securities are uninsured, or are not registered in the name of the College, and are held by either:

- a. The counterparty or
- b. The counterparty's trust department or agent but not in the College name

Of the College's \$2,056,839 investment in US Treasury Bills, for 2006, \$2,056,839 of underlying securities are held by the investment's counterparty, not in the name of the College. Of the College's \$999,487 investment in US Treasury Bills for 2005, \$999,487 of underlying securities are held by the investments counterparty, not in the name of the College

The 2006 portfolio concentrations (expressed in thousands) are as follows:

| Type | Issuer | Amount | Percentage |
|---------------|---------------|---------|------------|
| US Treasuries | US Government | \$2,057 | 100% |

The 2005 portfolio concentrations (expressed in thousands) are as follows:

| Type | Issuer | Amount | Percentage |
|---------------|---------------|--------|------------|
| US Treasuries | US Government | \$999 | 100% |

Interest rate risk is the risk that changes in interest rates that will adversely affect the fair value of an investment. Interest rate risk is mitigated by the portfolio's short duration.

(c) Investments and Maturities Inferring Risk

The College's investments and maturities inferring risk at June 30, 2006 and 2005, respectively consist of:

COMMUNITY COLLEGE OF RHODE ISLAND
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Notes to Financial Statements

June 30, 2006 and 2005

| | | 2006 | | | |
|------------------------|---------------------|---|---------------|----------------|---------------------|
| | | Investment Maturities (in years) | | | |
| Investment Type | Fair Value | Less than 1 | 1 to 5 | 6 to 10 | More than 10 |
| Debt Securities: | | | | | |
| U.S. Treasuries | \$ 2,056,839 | 2,056,839 | — | — | — |
| | <u>\$ 2,056,839</u> | <u>2,056,839</u> | <u>—</u> | <u>—</u> | <u>—</u> |
| | | | | | |
| | | 2005 | | | |
| | | Investment Maturities (in years) | | | |
| Investment Type | Fair Value | Less than 1 | 1 to 5 | 6 to 10 | More than 10 |
| Debt Securities: | | | | | |
| U.S. Treasuries | \$ 999,487 | 999,487 | — | — | — |
| | <u>\$ 999,487</u> | <u>999,487</u> | <u>—</u> | <u>—</u> | <u>—</u> |

(d) Investments of the Foundation

Foundation investments are presented in the financial statements at fair market value. A summary of investments at June 30, 2006 and 2005 is as follows:

| | 2006 | 2005 |
|---------------------------|---------------------|------------------|
| Equities | \$ 814,845 | 781,974 |
| Fixed income | 410,717 | 188,815 |
| Cash and cash equivalents | 79,276 | 259,406 |
| Total of investments | <u>\$ 1,304,838</u> | <u>1,230,195</u> |

(3) Accounts Receivable

Accounts receivable include the following at June 30:

| | 2006 | 2005 |
|--------------------------------------|---------------------|------------------|
| Student accounts receivable | \$ 2,570,503 | 2,397,946 |
| Grants receivable | 854,346 | 615,706 |
| Other receivables | 159,179 | 876,365 |
| | <u>3,584,028</u> | <u>3,890,017</u> |
| Less allowance for doubtful accounts | <u>(1,013,394)</u> | <u>(697,928)</u> |
| | <u>\$ 2,570,634</u> | <u>3,192,089</u> |

The College has determined that the net amount of accounts receivable will be collected within one year time.

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

Notes to Financial Statements

June 30, 2006 and 2005

(4) Capital Assets

Capital assets of the College consist of the following at June 30:

| | Estimated lives (in years) | 2006 | | | Ending balance |
|--|-------------------------------|----------------------|-------------|-------------------|-------------------|
| | | Beginning balance | Additions | Reclassifications | |
| Capital assets not being depreciated: | | | | | |
| Land | — | \$ 1,490,837 | — | — | 1,490,837 |
| Construction in progress | — | 10,871,082 | 1,451,700 | (12,322,782) | — |
| Total net being depreciated | | 12,361,919 | 1,451,700 | (12,322,782) | 1,490,837 |
| Capital assets being depreciated: | | | | | |
| Buildings, including improvements | 10-50 | 69,500,855 | 123,375 | 12,322,782 | 81,947,012 |
| Furnishings and equipment (including cost of capital leases) | 5-15 | 5,368,131 | 485,328 | — | 5,853,459 |
| Total being depreciated | | 74,868,986 | 608,703 | 12,322,782 | 87,800,471 |
| Less accumulated depreciation: | | | | | |
| Building, including improvements | | 34,243,271 | 2,229,721 | — | 36,472,992 |
| Furnishings and equipment | | 3,486,193 | 286,780 | — | 3,772,973 |
| Total accumulated depreciation | | 37,729,464 | 2,516,501 | — | 40,245,965 |
| Total being depreciated | | 37,139,522 | (1,907,798) | 12,322,782 | 47,554,506 |
| Capital assets, net | | \$ 49,501,441 | (456,098) | — | 49,045,343 |

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

Notes to Financial Statements

June 30, 2006 and 2005

| | Estimated lives (in years) | 2005 | | | Ending balance |
|--|-------------------------------|----------------------|--------------------|--------------------|-------------------|
| | | Beginning balance | Additions | Reclassifications | |
| 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 | 3,774,028 | 720,490 | 873,613 | 5,368,131 |
| 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 | | 3,093,785 | 392,408 | — | 3,486,193 |
| 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, 2006 and 2005

(5) Long-Term Liabilities

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

| | 2006 | | | | |
|--------------------------------|------------------------------|------------------|-------------------|---------------------------|----------------------------|
| | Beginning balance | Additions | Reductions | Ending balance | Current portion |
| Leases and bonds payable: | | | | | |
| Lease obligations | \$ 1,821,185 | — | 14,608 | 1,806,577 | 15,304 |
| Revenue bonds payable | 3,470,150 | — | 282,457 | 3,187,693 | 288,105 |
| Loans payable | 394,775 | — | 119,629 | 275,146 | 126,691 |
| Total leases and bonds payable | 5,686,110 | — | 416,694 | 5,269,416 | 430,100 |
| Other long-term liabilities: | | | | | |
| Compensated absences | 5,357,455 | 451,387 | — | 5,808,842 | 3,433,630 |
| Total long-term liabilities \$ | <u>11,043,565</u> | <u>451,387</u> | <u>416,694</u> | <u>11,078,258</u> | <u>3,863,730</u> |
| | | | | | |
| | 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 \$ | <u>11,498,376</u> | <u>—</u> | <u>454,811</u> | <u>11,043,565</u> | <u>3,743,371</u> |

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

Notes to Financial Statements

June 30, 2006 and 2005

Loans and Bonds Payable

The following is a summary of changes in the College's long-term debt for the years ended June 30, 2006 and 2005:

| | 2006 | 2005 |
|---|--------------|-------------|
| Loans payable: | | |
| Leasehold improvement loan for Quonset Point Facility | \$ 191,799 | 232,488 |
| Energy Revolving Loan Fund with a final maturity in 2007 | 83,347 | 162,287 |
| 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 2007 | 142,413 | 221,262 |
| Rhode Island Health and Education Building Corporation Various Purpose Educational Facilities Issue, Series 2003C payable to the United States Government. This issue refinanced and partially refunded Series 1993 B. The bonds carry interest rates ranging from 4.40%-5.625%. The bonds are due in varying install- ments from \$19,500-\$194,000 plus interest, through September 15, 2023 | 2,299,280 | 2,317,888 |
| 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 | 290,000 | 355,000 |
| 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 | 190,000 | 290,000 |
| 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 | 266,000 | 286,000 |
| | \$ 3,462,839 | 3,864,925 |

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.

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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

In July 1993, Rhode Island Health and Educational Building Corporation (the Corporation) issued, among others, Various Purpose Educational Facilities Issue – Series 1993 B.

On July 17, 2003, the Corporation issued among others, Educational and General Revenue Issue, Series 2003 C Bonds. 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.

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: | | | |
| 2007 | \$ 414,796 | 217,561 | 632,357 |
| 2008 | 411,720 | 201,301 | 613,021 |
| 2009 | 200,358 | 103,478 | 303,836 |
| 2010 | 203,899 | 97,879 | 301,778 |
| 2011 | 132,441 | 92,267 | 224,708 |
| 2012-2016 | 739,752 | 390,865 | 1,130,617 |
| 2017-2021 | 806,524 | 235,706 | 1,042,230 |
| 2022-2024 | 553,349 | 42,431 | 595,780 |
| | <u>\$ 3,462,839</u> | <u>1,381,488</u> | <u>4,844,327</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.

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The following schedule summarizes future minimum payments due under noncancelable leases as of June 30, 2006:

| | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|----------------------|---------------------|-----------------|------------------|
| Year ending June 30: | | | |
| 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 | 88,346 | 68,230 | 156,576 |
| 2012-2016 | 486,948 | 293,671 | 780,619 |
| 2017-2021 | 597,555 | 183,889 | 781,444 |
| 2022-2024 | 434,775 | 33,338 | 468,113 |
| | <u>\$ 1,806,577</u> | <u>871,607</u> | <u>2,678,184</u> |

(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:

| | <u>2006</u> | <u>2005</u> |
|--------------------------|---------------------|------------------|
| Restricted – expendable: | | |
| Grant programs | \$ 140,988 | 97,038 |
| Auxiliary enterprises | 2,736,709 | 2,654,919 |
| Capital projects | 803,914 | 966,578 |
| | <u>\$ 3,681,611</u> | <u>3,718,535</u> |

(7) Unrestricted Net Assets

Management anticipates that the deficit in unrestricted net assets as of June 30, 2006 will be eliminated through future operating and nonoperating revenues, including state appropriation.

(8) Contingencies

Various lawsuits are pending or threatened against the College that arose from the ordinary course of operations. In the opinion of management, no litigation is now pending, or threatened, that 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.

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(9) Operating Expenses

The College's operating expenses, on a natural classification basis, are the following for the years ended June 30:

| | 2006 | 2005 |
|-------------------------------|---------------|-------------|
| Compensation and benefits | \$ 67,853,948 | 64,024,777 |
| Supplies and services | 16,251,642 | 15,309,588 |
| Depreciation and amortization | 2,516,501 | 2,394,358 |
| Scholarships and fellowships | 7,004,402 | 7,008,054 |
| | \$ 93,626,493 | 88,736,777 |

(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 2006. 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 2006 and 2005 are to be expended specifically on asset protection projects.

State Contributed Capital

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

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(A Component Unit of the State of Rhode Island and Providence Plantations)

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June 30, 2006 and 2005

\$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 2006 and 2005, the College spent \$1,101,550 and \$4,281,698, respectively, on architectural, engineering, construction, and various state building fees.

The College's State appropriation is composed of the following for the year ended June 30:

| | 2006 | 2005 |
|--|---------------|-------------|
| Direct Appropriations | \$ 45,445,378 | 41,815,612 |
| State Capital Plan Funds | 1,050,000 | 2,594,000 |
| State Contributed Capital | 1,101,550 | 4,330,454 |
| Office of Higher Education Appropriation | 423,137 | 500,000 |
| | \$ 48,020,065 | 49,240,066 |

(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 \$2,234,000 and \$2,167,000 during the 2006 and 2005, 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 \$92,758 and \$88,915 during fiscal years 2006 and 2005, respectively.

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

Notes to Financial Statements

June 30, 2006 and 2005

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 \$9,090,000 and \$8,321,000 for the years ended June 30, 2006 and 2005, respectively. The College's total payroll expense for the years ended June 30, 2006 and 2005 was \$37,103,000 and \$34,566,000, respectively.

All full-time employees of the College who have not obtained at least 10 years of contributory service as of July 1, 2005 and are not covered by 403(b) annuity contracts are eligible to retire at or after age 65 with 10 years of credited service, or at age 59 with 29 years of credited service or at age 55 and had completed 20 years of total service provided, that the retirement allowance, as determined according to the formula in the State statute is reduced actuarially for each month that the age of the member is less than 65 years. The retirement benefit is equal to various percentages of annual earnings, ranging from 1.6% to 2.25% for each of the first 38 years of service, to the maximum benefit of 75% of final salary after 38 years of service. Final average salary is the three highest consecutive years of earned salary excluding overtime, bonuses or severance pay. The System also provides certain death and disability benefits. The above information can be found at RIGL 36-10-9 and 36-10-10.

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 2006 and 2005 while the College was required to pay 14.84% and 11.51% of salaries paid for the years ending June 30, 2006 and 2005, respectively. In addition, the College is required to contribute 2.25% and 2.11% for post-retirement health benefits in 2006 and 2005, respectively. Employees contributed \$795,000 during the years ended June 30, 2006 and 2005. The College's contributions to the System for the years ended June 30, 2006, 2005, and 2004 were \$1,348,000, \$958,000, and \$799,000, respectively, representing 100% of the required contribution for each of the three years.



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**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***

The 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 Community College) (a component unit of the State of Rhode Island and Providence Plantations) as of and for the year ended June 30, 2006, which collectively comprise the Community College's basic financial statements, and have issued our report thereon dated September 1, 2006, which included a reference to the report of the other auditor who audited the discretely presented component unit. 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 discretely presented component unit 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 Community 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 Community 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 solely for the information and use of the Board of Governors for Higher Education, management, 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 1, 2006