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

Financial Statements

June 30, 2007 and 2006

(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, 2007 and 2006

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KPMG LLP
50 Kennedy Plaza
Providence, RI 02903-2321

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, 2007 and 2006, 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, 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, 2007 and 2006, 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 28, 2007, 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 28, 2007

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, 2007 and the results of operations for the year then ended, with selected comparative information for the years ended June 30, 2006 and 2005. 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 15,739 full- and part-time for-credit students in 2007. The mission of the Community College is to provide all Rhode Island residents with open access to postsecondary education. It is also open to out-of-state students.

The Community College offers a variety of academic programs that award associate's degrees or 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. It also develops educational and training programs for local businesses and industries to further the state's economic development objectives.

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 Campus are the main campuses of the Community College. Classes are also offered at a satellite facility 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.

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Financial Highlights

The Community College's financial position remained strong as of June 30, 2007. Net assets increased by $2.1 million over the prior year.

At June 30, 2007, the Community College's assets of $62.1 million exceeded its liabilities of $17.4 million by $44.7 million, an increase over the prior year of $2.1 million. 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 over the prior year of $.2 million. The resulting net assets are summarized into the following categories for the fiscal years ended June 30:

Net Assets
(in millions $)

	2007	2006	2005
Invested in capital assets, net of related debt	$ 42.4	43.8	43.8
Restricted, expendable	1.7	.9	1.1
Unrestricted	.6	(2.1)	(2.1)
Total net assets	$ 44.7	42.6	42.8

The restricted expendable net assets may be expended only for the purposes authorized by the donor or grantor. Prior year negative balances in unrestricted net assets are 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 year 2007 operating revenues before net investment return increased by 9.5% or $4.3 million. Expenses increased by 3.2%, or $3.0 million. Fiscal year 2006 operating revenues before net investment return increased by 2.2% or $.9 million. Expenses increased by 5.5% or $4.9 million.

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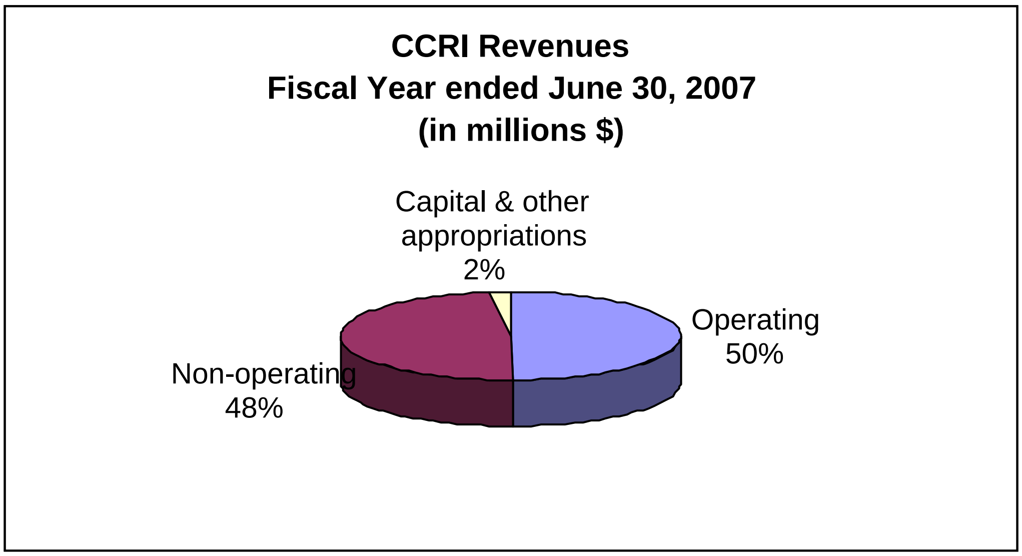
COMMUNITY COLLEGE OF RHODE ISLAND
(A Component Unit of the State of Rhode Island and Providence Plantations)
Required Supplementary Information
Management's Discussion and Analysis
(Unaudited)
June 30, 2007

The following chart provides a graphical breakdown of total revenues by category for the fiscal year ending June 30, 2007:



Cash flow continued to be adequate for operations with an operating cash balance of $7.6 million at June 30, 2007, an increase of $1.6 million from June 30, 2006. The operating cash balance of $6.0 million at June 30, 2006 was an increase of $1.7 million from June 30, 2005.

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.

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 13 to 15 of this report. The notes to the financial statements can be found on pages 16 to 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.

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 $44.7 million at the close of fiscal year 2007, an increase of $2.1 million over fiscal 2006. Assets exceeded liabilities by $42.6 million at the close of fiscal 2006, a decrease of $.2 million over fiscal 2005. Details are shown in the chart below in millions:

Condensed Statement of Net Assets
($ in millions)

	2007	**2006**	**2005**
Assets:			
Current assets	12.8	10.6	9.4
Noncurrent assets	49.3	51.2	51.6
Total assets	62.1	61.8	61.0
Liabilities:			
Current liabilities	9.8	12.0	10.9
Noncurrent liabilities	7.6	7.2	7.3
Total liabilities	17.4	19.2	18.2
Net assets (deficit):			
Invested in capital assets, net of related debt	42.4	43.8	43.8
Restricted, expendable:	1.7	0.9	1.1
Unrestricted	0.6	(2.1)	(2.1)
Total net assets	44.7	42.6	42.8

The largest portion of the Community College's net assets, $42.4 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.

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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.

Bonds and leases payable of $4.7 million and compensated absences of $5.9 million are the Community College's largest liabilities.

Condensed revenues, expenses, and changes in net assets

Years ended June 30, 2007, 2006, and 2005
($ in millions)

		2007	2006	2005
Operating revenues:				
Tuition and auxiliary, net	$	32.1	28.6	27.9
Scholarships, grants, and contracts		13.6	13.1	12.8
Other		3.5	3.2	3.3
Total operating revenues		49.2	44.9	44.0
Operating expenses:				
Salaries and benefits		69.4	67.9	64.0
Operating expenses		17.9	16.2	15.3
Scholarships, grants, and contracts		6.6	7.0	7.0
Depreciation and amortization		2.7	2.5	2.4
Total operating expenses		96.6	93.6	88.7
Net operating loss		(47.4)	(48.6)	(44.7)
Nonoperating revenues (expenses):				
State and other appropriations		47.1	45.4	41.9
Gifts from Foundation		0.1	0.1	0.2
Net investment income		0.5	0.3	0.1
Other nonoperating expenses, net		(0.2)	(0.2)	(0.2)
Net nonoperating expenses		47.5	45.6	42.0
Loss before other revenues, expenses, gains, or losses		0.1	(3.0)	(2.7)
Capital gifts and appropriations		2.0	2.8	8.0
Increase (decrease) in net assets		2.1	(0.2)	5.3

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Operating Revenues

Total operating revenues for fiscal 2007 were $49.2 million, an increase of $4.3 million from the prior year. Total operating revenues for fiscal 2006 were $44.9 million, an increase of $.9 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 9.6 % and 6.9% in fiscal years 2007 and 2006, respectively.
- Federal, state, and private grant and contract activity increased $0.5 million in fiscal year 2007 and $0.3 million in fiscal year 2006.

Operating Expenses

Operating expenses in fiscal 2007 totaled $96.6 million, an increase of $3.0 million from fiscal 2006, and $93.6 million in fiscal year 2006, an increase of $4.9 million from fiscal 2005. Of this total, $58.1 million or 62% was used for instruction, academic and student support in 2007 ($56.3 million or 60% in 2006). Depreciation expense totaled $2.7 million in fiscal year 2007 and $2.5 million in fiscal year 2006. Significant changes in operating expenses resulted from the opening of the Newport Campus in the fall of 2005 and from salary increases related to negotiated contract settlements.

Nonoperating Revenues

Total nonoperating revenues for fiscal year 2007 are $47.5 million, including the state and other appropriation of $47.1 million. This is an increase in total nonoperating revenues of $1.9 million from the prior year. Total nonoperating revenues for fiscal year 2006 are $45.6 million, including the state appropriation of $45.4 million. This is an increase in total nonoperating revenues of $3.6 million from the prior year.

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

Other

Capital gifts and capital appropriations of $2.0 million in fiscal year 2007 ($2.8 million in fiscal year 2006) 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 CCRI Foundation.

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 2007 — 2011 plan for the Community College totals $78.4 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 2007, the Community College expended $0.8 million on plant related projects ($2.0 million in fiscal year 2006). 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 by and sufficient funding from the State.

Capital Assets

At June 30, 2007 and 2006, the Community College had $47.1 million and $49.0 million invested in capital assets, net of accumulated depreciation of $42.7 million and $40.2 million, respectively. These represent a decrease of $(1.9) million and an increase of $2.5 million, respectively, from the prior year. Depreciation charges totaled $2.7 million during fiscal year 2007 and $2.5 million during fiscal year 2006. 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, 2007, 2006, 2005
($ in millions)

		2007	2006	2005
Land and improvements	$	1.5	1.5	1.5
Buildings and improvements		43.0	45.4	35.3
Construction in progress		.1	-	10.9
Furniture, fixtures, and equipment		2.5	2.1	$1.8
Total	$	47.1	49.0	49.5

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 equipment purchases, amounting to $.6 million at CCRI were funded by State appropriations to the Rhode Island Capital Fund and Government Obligation bonds as compared with $2.2 million in fiscal year 2006.

Debt

At June 30, 2007 and 2006, the Community College had $4.7 million and $5.3 million in debt outstanding.

June 30, 2007, 2006, and 2005
($ in millions)

		2007	2006	2005
Capital lease obligations	$	1.8	1.8	1.8
Bonds and loans		2.9	3.5	3.9
Total	$	4.7	5.3	5.7

Debt repayments made during 2007 and 2006 were $0.6 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.

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 5.2% in June of 2006 to 4.7% in June of 2007, according to the U. S. Bureau of Labor Statistics. This compares to a decrease from 4.6% to 4.5% respectively, on a national level.

Historically, in times of economic slowdowns, public colleges/universities have experienced increases in their enrollments as unemployed and underemployed workers seek to update and upgrade their skills. The Community College cannot predict the extent to which enrollment may vary in the current environment.

As with many state governments, Rhode Island 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 2007. To some extent these dollars have been made up through increased student tuition and fees and an increase in enrollment in FY 2007. However, a significant structural deficit is predicted for the State in FY 2009 that may impact positions, capital projects and operating budgets in the future. 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.

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The Legislature has committed to the continuation of funding the RI Asset Protection program for the next five years at approximately $1.1 million per year.

The Community College remains very competitive economically. Tuition and mandatory fees for residents in fiscal year 2007 were $2,686 and ranked seventh among the Community College's nine institution regional peer group. Non-resident tuition and mandatory fees were $7,296 in fiscal year 2007 and ranked the Community College fourth in its regional peer group.

The Community College's average enrollment in FY 2007 increased by 145 over the five-year average enrollment. Increases in-state undergraduate student charges at the Community College have been held to an average increase of 7% since FY 2002. 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 Community College.

Information Systems

The Community 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 elements of these systems, 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.

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

Statements of Net Assets

June 30, 2007 and 2006

Assets		**2007 Community College of Rhode Island**	**2006 Community College of Rhode Island**	**2007 Community College of Rhode Island Foundation**	**2006 Community College of Rhode Island Foundation**
Current assets:					
Cash and cash equivalents (note 2)	$	7,618,609	5,962,495	638,281	716,233
State capital funds		1,565,720	1,341,006	—	—
Accounts receivable, net (note 3)		2,906,052	2,570,634	320	—
Inventory and other assets		738,615	729,522	—	—
Pledges receivable		—	—	57,052	45,532
Total current assets		12,828,996	10,603,657	695,653	761,765
Noncurrent assets:					
Restricted cash and cash equivalents (note 2)		1,557,856	1,424,916	—	—
Deposit with bond trustees – restricted		721,786	714,373	—	—
Pledges receivable		—	—	89,481	130,248
Investments (note 2)		—	—	1,405,739	1,225,562
Capital assets net of accumulated depreciation (note 4)		47,061,712	49,045,343	—	—
Total noncurrent assets		49,341,354	51,184,632	1,495,220	1,355,810
Total assets	$	62,170,350	61,788,289	2,190,873	2,117,575
Liabilities					
Current liabilities:					
Accounts payable and accrued liabilities	$	4,269,646	3,685,995	46,005	15,619
Compensated absences		2,692,895	3,433,630	—	—
Due to state treasurer		300,524	2,535,857	—	—
Students' deposits and unearned revenues		1,777,093	1,695,159	—	—
Funds held for others		472,052	176,220	—	—
Current portion of capital lease obligation (note 5)		15,304	15,304	—	—
Current portion of bonds and notes payable (note 5)		263,264	414,796	—	—
Total current liabilities		9,790,778	11,956,961	46,005	15,619
Noncurrent liabilities:					
Accrued compensation and benefits (note 11)		3,218,589	2,375,212	—	—
Bonds and notes payable (note 8)		2,636,324	3,048,043	—	—
Capital lease obligations (note 5)		1,775,969	1,791,273	—	—
Annuity payment payable		—	—	43,449	43,150
Total noncurrent liabilities		7,630,882	7,214,528	43,449	43,150
Total liabilities	$	17,421,660	19,171,489	89,454	58,769
Net Assets					
Invested in capital assets, net of related debt	$	42,372,487	43,783,350	—	—
Restricted-expendable (note 6):		1,739,627	944,902	1,843,407	1,861,057
Unrestricted (deficit) (note 7)		636,576	(2,111,452)	258,012	197,749
Contingencies (note 8)					
Total net assets	$	44,748,690	42,616,800	2,101,419	2,058,806

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, Expenditures and Changes in Net Assets

Years ended June 30, 2007 and 2006

	2007 Community College of Rhode Island	2006 Community College of Rhode Island	2007 Community College of Rhode Island Foundation	2006 Community College of Rhode Island Foundation
Operating revenues:				
Tuition and fees	$ 33,112,743	28,964,492	—	—
Auxiliary enterprises	6,578,688	6,209,675	—	—
Less scholarship allowances	(7,556,400)	(6,527,577)	—	—
Net student fees	32,135,031	28,646,590	—	—
Federal, state, local, and private grants and contracts	13,598,134	13,074,050	—	—
Sales and services of educational activity	3,461,416	3,221,913	—	—
Other operating revenues	—	—	177,932	75,460
Total operating revenues	49,194,581	44,942,553	177,932	75,460
Operating expenses:				
Instruction	42,852,129	41,232,447	—	—
Academic support	6,286,763	6,470,147	—	—
Student services	8,949,170	8,603,934	—	—
Scholarships and fellowships	1,811,444	2,155,086	20,448	29,870
Public service	1,019,094	1,198,085	—	—
Operation and maintenance of plant	9,262,905	9,022,825	—	—
Institutional support	17,692,519	16,533,911	42,802	12,383
Depreciation and amortization	2,705,427	2,516,501	—	—
Auxiliary enterprises	6,024,271	5,893,557	—	—
Other operating expenses	—	—	107,886	110,765
Total operating expenses	96,603,722	93,626,493	171,136	153,018
Operating gain (loss)	(47,409,141)	(48,683,940)	6,796	(77,558)
Nonoperating revenues (expenses):				
State appropriations (note 10)	47,113,490	45,445,378	—	—
Gifts	—	—	471,113	595,152
Gifts from Foundation	151,759	136,978	(405,109)	(266,048)
Net investment income	495,077	317,971	183,107	102,497
Interest expense	(236,710)	(252,532)	—	—
Net nonoperating revenues	47,523,616	45,647,795	249,111	431,601
Income (loss) before other revenues, expenses, gains or losses	114,475	(3,036,145)	255,907	354,043
Capital appropriations (note 10)	1,804,121	2,574,687	—	—
Capital gifts from Foundation	213,294	231,569	(213,294)	(231,569)
Net increase (decrease) in net assets	2,131,890	(229,889)	42,613	122,474
Net assets, beginning of year	42,616,800	42,846,689	2,058,806	1,936,332
Net assets, end of year	$ 44,748,690	42,616,800	2,101,419	2,058,806

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, 2007 and 2006

		2007	2006
Cash flows from operating activities:			
Tuition and fees	$	25,608,713	23,248,522
Grants and contracts		13,550,916	13,504,278
Payments to suppliers		(14,332,630)	(10,999,515)
Payments to utilities		(2,974,063)	(3,145,086)
Payments to employees		(71,516,009)	(69,037,266)
Payments for scholarships, fellowships and sponsored programs		(6,633,725)	(7,004,402)
Auxiliary enterprise charges		6,573,801	6,170,964
Sales and service of educational		3,207,668	3,012,942
Funds on deposit with the State		(224,714)	73,306
Net cash used in operating activities		(46,740,043)	(44,176,257)
Cash flows from noncapital financing activities:			
State appropriations		47,113,490	45,445,378
Gifts from Foundation		151,759	136,978
Funds held for others		295,832	(135,383)
Net cash provided by noncapital financing activities		47,561,081	45,446,973
Cash flows from financing activities:			
Capital appropriations/state contributed capital		1,804,121	2,574,687
Capital grants and gifts received/capital appropriations		213,294	231,569
Reduction of capital assets		101,700	—
Purchases of capital assets		(823,496)	(2,060,404)
Principal paid on capital debt and leases		(578,555)	(416,694)
Interest paid on capital debt and leases		(236,710)	(252,532)
Deposit with trustee		(7,413)	(5,094)
Net cash provided by financing activities		472,941	71,532
Cash flows from investing activities:			
Interest on investments		495,076	317,971
Net cash provided by investing activities		495,076	317,971
Net increase in cash		1,789,055	1,660,219
Cash, beginning of year		7,387,410	5,727,191
Cash, end of year	$	9,176,465	7,387,410
Reconciliation of operating loss to net cash used in operating activities:			
Operating loss	$	(47,409,141)	(48,683,940)
Adjustments to reconcile net loss to net cash used by operating activities:			
Depreciation expense		2,705,427	2,516,501
Changes in assets and liabilities:			
Receivables, net		(335,418)	621,455
Inventories		(9,092)	(237,382)
Funds on deposit with the state		(2,460,047)	1,559,864
Accounts payable		583,651	(776,839)
Deferred revenue		81,934	372,697
Compensated absences		102,643	451,387
Net cash used in operating activities	$	(46,740,043)	(44,176,257)

See accompanying notes to financial statements.

(1) Summary of Significant Accounting Policies

(a) Organization

The Community College is New England's largest public, two-year college offering an array of academic degree and transfer programs, occupational programs, and 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 and the Chair of the Board of Regents for Elementary and Secondary Education.

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 Governors is not a department of state government but an independent public corporation vested with the 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 U.S. generally accepted accounting principles 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 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 statement 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. The College's GASB 43 disclosures are presented in note 12. Except for describing the organization of and the extend of the College's participation in such plans, the College's GASB 43 disclosures do not contemplate other disclosures under GASB 43.

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, 2007 and 2006, the Foundation distributed $618,403 and $497,617 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.

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 and office supply 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 asset lives are not capitalized.

(g) Compensated Absences and Salary Reduction Plan

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

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

Also reported are the remaining balances of employee salaries deferred under a Comprehensive Salary Reduction Plan adopted by the Board during fiscal years 1991 and 1992. Minor amounts attributable to a voluntary salary reduction program for fiscal 1993, approved by the Board, are also included. These amounts can be in the form of paid leave on a day to day basis, payment at the time of employee termination or retirement, or payment to an employee's estate in the event of death.

(h) Health

The State offers one state paid health plan to each of its participating agencies, including the College. The premiums for these plans are divided among the agencies based upon their number of eligible employees. All employees (classified and nonclassified) contribute up to 15% of the cost of their health plans. The costs are automatically deducted through the payroll system on a bi-weekly basis.

(Continued)

The College pays the balance of the healthcare costs. Amounts paid by the College to the State for the 2007 and 2006 health premiums were approximately $7,163,000 and $7,776,000, 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 2007 was 3.2% and for fiscal year 2006 was 3.8%. The assessed fringe benefit cost for the College was $1,224,588 for fiscal year 2007 and $1,407,643 for fiscal year 2006.

(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 is 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 U.S. 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.

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 healthcare 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 limit 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 $350 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.

(o) Reclassification

Certain 2006 balances have been reclassified to conform to the 2007 presentation.

(2) Cash, Cash Equivalents and Investments

(a) Cash and Cash Equivalents

At June 30, 2007, the carrying amount of the College's cash deposits was $7,607,445 and the bank balance was $8,537,313. In 2006 the carrying amount of the College's cash deposits was $6,033,770 and the bank balance was $7,011,801. In addition to bank deposits, the College maintained an on hand cash balance of $11,065 at June 30, 2007.

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, $367,545 was covered by federal depository insurance and $5,558,470 was collateralized with securities held by the pledging financial institution in the College's name. The remaining amount of $2,611,298 was uninsured and uncollateralized. Of the bank balance in 2006, $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 of $2,193,902 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 of the R.I. General Laws depository institutions holding deposits of the State, its agencies or governmental subdivision of the State, which states that they shall at a minimum, insure or pledge eligible collateral equal to one hundred percent of time deposits with 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, 2007 and 2006.

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

(b) Investments

The College 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 $691,328 investment in US Treasury Bills, for 2007, $691,328 of underlying securities are held by the investment’s counterparty, not in the name of the College. 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.

The 2007 portfolio concentrations (expressed in thousands) are as follows:

Type	Issuer	Amount	Percentage
U.S. Treasuries	U.S. Government	$ 691	100%

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

Type	Issuer	Amount	Percentage
U.S. Treasuries	U.S. Government	$ 2,057	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, 2007 and 2006, respectively, consist of:

		2007	
			Investment maturities (in years)
Investment type		**Fair value**	**Less than 1**
Debt securities:			
U.S. Treasuries	$	691,328	691,328
	$	691,328	691,328

		2006	
			Investment maturities (in years)
Investment type		**Fair value**	**Less than 1**
Debt securities:			
U.S. Treasuries	$	2,056,839	2,056,839
	$	2,056,839	2,056,839

(d) Investments of the Foundation

Foundation investments are presented in the financial statements at fair value. A summary of investments at June 30, 2007 and 2006 is as follows:

		2007	2006
Equities	$	996,074	814,845
Fixed income		409,665	410,717
Cash and cash equivalents		68,829	79,276
Total of investments	$	1,474,568	1,304,838

(Continued)

(3) Accounts Receivable

Accounts receivable include the following at June 30:

		2007	2006
Student accounts receivable	$	3,210,842	2,570,503
Grants receivable		836,937	854,346
Other receivables		250,191	159,179
		4,297,970	3,584,028
Less allowance for doubtful accounts		(1,391,918)	(1,013,394)
	$	2,906,052	2,570,634

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

(4) Capital Assets

Capital assets consist of the following at June 30:

	2007				
	Estimated lives (in years)		Beginning balance	Additions/ reductions	Ending balance
Capital assets not being depreciated:					
Land	—	$	1,490,837	—	1,490,837
Construction in progress	—		—	64,745	64,745
Total not being depreciated	—		1,490,837	64,745	1,555,582
Capital assets being depreciated:					
Buildings, including improvements	10-50		81,947,012	(200,566)	81,746,446
Furnishings and equipment (including cost of capital leases)	5-15		5,853,459	620,318	6,473,777
Total being depreciated			87,800,471	419,752	88,220,223
Less accumulated depreciation:					
Building, including improvements			36,472,992	2,072,059	38,545,051
Furnishings and equipment			3,772,973	396,069	4,169,042
Total accumulated depreciation			40,245,965	2,468,128	42,714,093
Total being depreciated			47,554,506	(2,048,376)	45,506,130
Capital assets, net		$	49,045,343	(1,983,631)	47,061,712

	2006				
	Estimated lives (in years)	Beginning balance	Additions/ reductions	Reclassifications	Ending balance
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 not 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

(5) Long-Term Liabilities

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

	2007				
	Beginning balances	Additions	Reductions	Ending balances	Current portion
Leases and bonds payable:					
Lease obligations	$ 1,806,577	—	15,304	1,791,273	15,304
Revenue bonds payable	3,187,693	—	288,105	2,899,588	263,264
Loans payable	275,146	—	275,146	—	—
Total lease, bonds and loans payable	5,269,416	—	578,555	4,690,861	278,568
Other long-term liabilities:					
Compensated absences	5,808,842	102,642	—	5,911,484	2,692,895
Total long-term liabilities	$ 11,078,258	102,642	578,555	10,602,345	2,971,463

	2006				
	Beginning balances	**Additions**	**Reductions**	**Ending balances**	**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 lease, bonds and loans 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	$ 11,043,565	451,387	416,694	11,078,258	3,863,730

(a) Loans and Bonds Payable

The following is a summary of the College's long-term debt for the years ended June 30, 2007 and 2006:

	June 30	
	2007	**2006**
Loans payable:		
Leasehold improvement loan for Quonset Point Facility. Original amount of debt issued – $318,000.	$ —	191,799
Energy Revolving Loan Fund with a final maturity in 2007. Original amount of debt issued – $400,000.	—	83,347
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. Original amount of debt issued – $2,844,000	68,786	142,413
Rhode Island Health and Education Building Corporation Various Purpose Educational Facilities Issue, Series 2003C. Original amount of debt issued – $2,331,153	2,279,802	2,299,280
3% Series A Revenue Bonds of 1977 (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. Original amount of debt issued – $1,600,000.	220,000	290,000

(Continued)

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. Original amount of debt issued – $1,400,000		85,000	190,000
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. Original amount of debt issued – $631,000.		246,000	266,000
	$	2,899,588	3,462,839

(b) 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 was liable to pay for the cost of leasehold improvements up to $318,000 over five years with a lump sum of $118,000 due at the end of the five year term. The facility was taken by the State via eminent domain in fiscal year 2007. The leasehold improvements were written off against the loan and accumulated depreciation. The College recognized a gain on the write off of $68,770.

In fiscal year 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. The loan was paid off in June 2007.

(c) 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 the 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 subsidy expires in fiscal year 2008.

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:

		Principal	Interest	Total
Year ending June 30:				
2008	$	263,264	195,588	458,852
2009		200,358	103,478	303,836
2010		203,899	97,879	301,778
2011		132,441	92,267	224,708
2012		135,982	89,840	225,822
2013 – 2017		767,771	364,111	1,131,882
2018 – 2022		817,824	197,717	1,015,541
2023 – 2024		378,049	19,146	397,195
	$	2,899,588	1,160,026	4,059,614

(d) Lease Obligations

The College entered into a capital lease agreement on June 28, 1990 for the acquisition of land and building for the Providence campus with a total cost of $2,000,000, plus $430,000 of bond acquisition costs.

The following schedule summarizes future minimum payments under noncancelable leases at June 30, 2007:

		Principal	Interest	Total
Year ending June 30:				
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		91,129	65,370	156,499
2013 – 2017		505,035	275,507	780,542
2018 – 2022		626,076	154,978	781,054
2023 – 2024		297,038	15,043	312,081
	$	1,791,273	797,126	2,588,399

(Continued)

(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:

		2007	2006
Restricted – expendable:			
Grant programs	$	204,879	140,988
Capital projects		1,534,748	803,914
	$	1,739,627	944,902

(7) Unrestricted Net Assets

Management anticipates that the balance in unrestricted net assets as of June 30, 2007 will be used to repay debt service, support auxiliary operations, and infrastructure replacements in the future.

(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.

(9) Operating Expenses

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

		2007	2006
Compensation and benefits	$	69,427,977	67,853,948
Supplies and services		17,836,593	16,251,642
Depreciation and amortization		2,705,427	2,516,501
Scholarships and fellowships		6,633,725	7,004,402
	$	96,603,722	93,626,493

(10) State Appropriations

(a) 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 year 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 General Assembly 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.

(b) 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 years 2007 and 2006 are to be expended specifically on asset protection projects.

(c) 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 provide 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 2007 and 2006, the College spent $213,294 and $1,101,550, respectively, on architectural, engineering, construction, and various state building fees.

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

		2007	2006
Direct appropriations	$	47,113,490	45,445,378
State capital plan funds		1,102,500	1,050,000
State contributed capital		240,923	1,101,550
Office of higher education appropriation		460,698	423,137
	$	48,917,611	48,020,065

(11) Pension and Retirement Plans

Certain employees of the College (principally faculty and administrative personnel) are covered by individual annuity contracts under a defined contribution retirement plan established by the Rhode Island Board of Governors (Board) that is also responsible for amending it. 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. The Board establishes and amends contribution rates. 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 $2,373,000 and $2,234,000 during the 2007 and 2006, respectively.

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, defined benefit, 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 payroll expense of College employees covered by the System was approximately $9,470,000 and $9,090,000 for the years ended June 30, 2007 and 2006, respectively. The College's total payroll expense for the years ended June 30, 2007 and 2006 was approximately $40,128,102 and $37,103,000, respectively.

All full-time employees of the College who have not obtained at least 10 years of contributory service as of July 1, 2006 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 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.

The employee contribution rate is set by general law and may be amended by the General Assembly. The employer contribution rate is calculated by the System's actuary and is reviewed and approved by the System's Retirement Board annually.

Covered employees in the System were required to contribute 8.75% of salaries paid in 2007 and 2006 while the College was required to pay 18.4% and 14.84% of salaries paid for the years ending June 30, 2007 and 2006, respectively. In addition, the College is required to contribute 2.41% and 2.25% for post-retirement health benefits in 2007 and 2006, respectively. Employees contributed approximately $795,000 during the years ended June 30, 2007 and 2006. The College's contributions to the System for the years ended June 30, 2007, 2006, and 2005 were approximately $2,038,000, $1,348,000, and $958,000, respectively, representing 100% of the required contribution for each of the three years.

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.

(12) Other Post Employment Benefits

(a) Approximately 230 employees of the Community College, principally civil service support staff, participate in the Rhode Island Retiree Health Care Benefit Plan (RIRHCBP). This is a self-insured, defined benefit post-employment health care plan administered and financed by the State and disclosed in the footnotes to the State's financial statements. Total Community College expenses under the plan during fiscal 2007 and 2006 were $295,995 and $208,482, respectively. Accrued liabilities as of June 30, 2007 include a self-insurance accrual for employee health care claims incurred but not paid at that date.

(b) Approximately 470 employees of the Community College, principally faculty and professional staff, participate in the Board's self-insured, defined benefit health care insurance retirement program (medical coverage only). This health benefit applies to employees who participate in the Board's defined contribution retirement plan. To be eligible for coverage the retiree must have worked a minimum of 10 years for the Board/College and must be 60 years of age, unless they have 28 years of service. The Board determines the provisions of the health care insurance program, including contribution rates. The State of Rhode Island acts as an agent for the plan and discloses the plan in its financial statements. The University of Rhode Island provides administrative support for the plan. The Community College is responsible for plan costs for its employees and covered retirees in any period where these costs exceed employee and retiree contributions and premiums collected. Employees covered by this program contributed $65,633 and $66,374 during fiscal years 2007 and 2006, respectively. The Community College expensed an additional $608,104 and $212,691 during fiscal years 2007 and 2006, respectively. Accrued liabilities as of June 30, 2007 include a self-insurance accrual of $36,025 for employee health care claims incurred but not paid at that date.

(Continued)

(13) Subsequent Event – Discontinuance of Retirement Incentive Plan

At its September 17th 2007 meeting the Rhode Island Board of Governors of Higher Education voted to discontinue the Retirement Incentive Program at the College effective June 30, 2008. The program provides for an incentive payment of 40% of an employee's final annual base salary for non-classified employees, primarily faculty and administrative staff, who are at least 58 years of age with a minimum of 15 years continuous service with the College. A total of 129 faculty and administrative staff will be eligible for the incentive payment at June 30, 2008. The number of eligible employees who will elect to retire and receive the retirement incentive is unknown at this time.

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

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, 2007, which collectively comprise the Community College's basic financial statements, and have issued our report thereon dated September 28, 2007. Our audit report was modified to include a reference to other auditors. 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. Other auditors audited the financial statements of the Community College of Rhode Island Foundation, as described in our report on the Community College's financial statements.

This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the Community College's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Community College's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Community College's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control over financial reporting. We consider the deficiencies described in findings 2007-1 and 2007-2 in the accompanying schedule of findings and responses to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we do not believe that the significant deficiencies described above are 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*.

The Community College's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. We did not audit the Community College's responses and, accordingly, we express no opinion on it.

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 28, 2007

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

Schedule of Findings and Responses

Year Ended June 30, 2007

Finding 2007-1

Description and Recommendation

Financial Reporting / Closing Process

Management made a number of adjustments to the financial records of the Community College in preparing for and completing the fiscal 2007 audit, and it was apparent that the Institution encountered significant challenges in timely and accurately producing year-end financial statements in accordance with U.S. generally accepted accounting principles (GAAP). The primary reasons for this situation are:

- Maintaining two accounting systems at the Institution. The State mandates the use of Rhode Island budgetary reporting (non-GAAP) for operations. Year-end financial statements are produced in accordance with GAAP.

- A partially automated but labor intensive year-end closing process

- A relatively small financial staff with unfilled positions and a limited ability to apply high-level management reviews of key information because of workload and a lack of segregation of duties between preparing and reviewing certain accounting entries

Recommendation:

The accounting infrastructure should be re-designed such that the Controller can be freed from processing routine accounting entries and focus instead on high-level reviews of financial information and supporting schedules. This would strengthen segregation of duties and management review controls used to validate financial information. The Community College should also consider the feasibility of bolstering staff resources as appropriate, to ensure timely and accurate production of the financial statements.

Views of Responsible Officials

The College agrees that, under existing conditions, it is extremely difficult to prepare year-end GAAP financial statements in a timely and accurate manner. However, due to the State's reporting requirements, CCRI has no option but to maintain dual accounting systems. Continuing budget constraints also limit the College's ability to increase staff in the controller's office. The College will address the issues raised by:

- Reviewing the year-end financial close and audit process to streamline procedures and reduce overall workload

- Cross-training staff to free up more time for high-level management reviews of key information

- Within budgetary constraints, seeking to increase the size and professional qualifications of the controller's office staff

Finding 2007-2

Description and Recommendation

Journal Entry Authorization

During our testing of journal entries, we noted that accounting staff can independently post journal entries without a second level of review.

Recommendation:

All journal entries should be approved by a second knowledgeable individual prior to input into the general ledger system. Unusual entries of a material amount should be reviewed. Adequate documentation supporting the entry should be attached to facilitate effective secondary review and provide an audit trail. The review should be documented by initialing or signing and dating the journal entry. Written policies and procedures should be established documenting these protocols. Implementation of review procedures for journal entries will reduce the potential for errors and irregularities and improve financial reporting.

Views of Responsible Officials

Accounting staff do have the technical access to post journal entries without a second level of review. It would be impractical to restrict their system access. However, unwritten office procedures require that all journal entries with supporting data be reviewed and signed off by a second party, either the controller or an assistant controller. Written year-end procedures require that any GASB related journal entries be reviewed by the controller. The Banner system also provides an audit trail to identify who entered each journal entry. Combined with random tests of journal entries, daily account balancing, and periodic account reconciliations, management believe that internal controls are adequate to detect any significant unauthorized or erroneous journal entries within a reasonable period of time.

However, CCRI needs to improve internal controls, especially preventive controls. Therefore, additional written journal entry procedures are being prepared and will be used as the basis for staff training and monitoring of the journal entry process. The procedures will specify the number and frequency of random checks. The procedures will also address the need for adequate support documentation to either be attached to the journal entry form or, if the support documentation is too bulky, to clearly indicate the source/location of the supporting data.