

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

Financial Statements

June 30, 2003

(With Independent Auditors' Report Thereon)

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

Table of Contents

| | Page |
|--|-------------|
| Independent Auditors' Report | 1 |
| Management's Discussion and Analysis (Unaudited) | 3 |
| Statement of Net Assets | 14 |
| Statement of Revenues, Expenses, and Changes in Net Assets | 15 |
| Statement of Cash Flows | 16 |
| Notes to Financial Statements | 17 |
| Report on Compliance and on Internal Control over Financial Reporting In Accordance with <i>Government Auditing Standards</i> | 35 |



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

Independent Auditors' Report

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

We have audited the accompanying statement of net assets of Rhode Island College (a component unit of the State of Rhode Island and Providence Plantations) as of June 30, 2003, and the related statements of revenues, expenses, and changes in net assets and cash flows for the year then ended. These financial statements are the responsibility of the College's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from the College's 2002 financial statements and, in our report dated September 20, 2002, we expressed an unqualified opinion on these financial statements.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Rhode Island College as of June 30, 2003, and the changes in its financial position and its cash flows thereon for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 12, 2003 on our consideration of Rhode Island College's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.



The Management's Discussion and Analysis on pages 3 to 13 is not a required part of the financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the supplementary information and express no opinion on it.

KPMG LLP

September 12, 2003

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

Management's Discussion and Analysis

Fiscal year ended June 30, 2003

(Unaudited)

Introduction

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

The College, founded in 1854, is now celebrating its sesquicentennial anniversary as the only comprehensive public institution of higher education in the State of Rhode Island. Its primary mission is to make its academic programs available to any qualified resident of Rhode Island who can benefit from its educational services. Out-of-state residents are also eligible for admission. The College fulfills its educational mission by offering undergraduate programs in the liberal arts and sciences and in a variety of professional and pre-professional fields. It also offers a range of selected graduate programs in the arts and sciences, and in areas of social, public and community service. The College offers its academic programs to undergraduates of traditional age as well as to older students who often study and work part-time while earning undergraduate or advanced degrees. The majority of students are from Rhode Island. It also contributes directly to the cultural life of the State through ongoing theatre and concert performances, art exhibits, lectures, and films, which are all, open to the public.

The College was established in 1854 as the Rhode Island Normal School, focusing on teacher education. Due to diminished state support, the College was closed for a period between 1865 and 1869, when it reopened as the Rhode Island State Normal School. In 1920 the normal school became the Rhode Island College of Education, offering a four-year program leading to the degree of Bachelor of Education. The graduate program originated in the early 1920s. During the 1958-59 academic year the College was relocated from the downtown location to its current 170-acre campus on the border of Providence and North Providence. In 1959, the mission of the College was expanded to that of a general, comprehensive college. In 1960, the name of the institution was changed to Rhode Island College to reflect its expanded mission. The College has undergone rapid expansion at the undergraduate and graduate levels in recent decades. It now serves almost 9,000 students in a variety of courses and programs both on and off campus.

The College is part of the Rhode Island system of public higher education that includes the Community College of Rhode Island and the University of Rhode Island, with which articulation agreements exist for student transfers within the system. The Board of Governors for Higher Education became the governing body for the College in 1981.

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

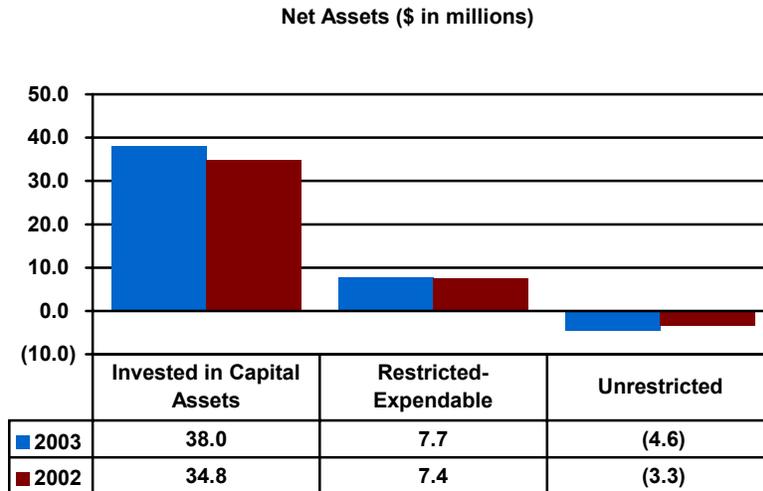
Management's Discussion and Analysis

Fiscal year ended June 30, 2003

(Unaudited)

Financial Highlights

The College's financial position remained strong as of June 30, 2003. At June 30, 2003, the College's assets of \$77.9 million exceeded its liabilities of \$36.8 million by \$41.1 million, an increase over the prior year of \$2.2 million. The resulting net assets are summarized into the following categories (in millions) for the fiscal years ended June 30, 2003 and June 30, 2002:



The restricted expendable net assets may be expended only for the purposes authorized by the donor or grantor. The negative balance in unrestricted 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 College.

Fiscal 2003 revenues before net investment return increased by 8.7%, or \$4.0 million. Expenses increased by 9.6%, or \$4.6 million. This resulted in a decrease in net assets before net investment return of \$0.6 million in 2003, as compared to an increase of \$2.1 million in 2002.

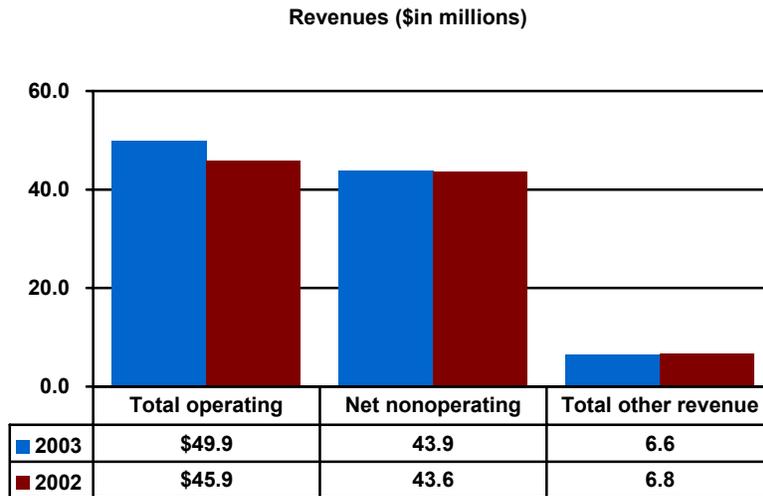
RHODE ISLAND COLLEGE
(A Component Unit of the State of Rhode Island and Providence Plantations)

Management's Discussion and Analysis

Fiscal year ended June 30, 2003

(Unaudited)

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



Cash flow continued to be adequate for operations with a cash balance of \$10.4 million at June 30, 2003, an increase of \$2.8 million from June 30, 2002.

Overview of the Financial Statements

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

The Financial Statements

The financial statements are designed to provide readers with a broad overview of the 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 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 College is improving or deteriorating. Other factors are also relevant to assessing the 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.

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

Management's Discussion and Analysis

Fiscal year ended June 30, 2003

(Unaudited)

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

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the financial statements. They also provide information regarding both the accounting policies and procedures the College has adopted, as well as additional detail of certain amounts contained in the financial statements. The notes to the financial statements can be found on pages 17-34 of this report.

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

Management's Discussion and Analysis

Fiscal year ended June 30, 2003

(Unaudited)

Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of the College's financial position. In the case of the College, assets exceeded liabilities by approximately \$41.1 million at the close of fiscal year 2003, an increase of \$2.2 million over fiscal 2002, as shown in the chart below:

Condensed Net Assets

(\$ Millions)

| | 2003 | 2002 |
|--|---------|-------|
| Assets: | | |
| Current assets | \$ 10.3 | 11.3 |
| Noncurrent assets | 67.6 | 63.0 |
| Total assets | 77.9 | 74.3 |
| Liabilities: | | |
| Current liabilities | 15.3 | 13.7 |
| Noncurrent liabilities | 21.5 | 21.7 |
| Total liabilities | 36.8 | 35.4 |
| Net assets: | | |
| Invested in capital assets, net of related debts | 38.0 | 34.8 |
| Restricted: | | |
| Expendable | 7.7 | 7.4 |
| Unrestricted | (4.7) | (3.3) |
| Total net assets | \$ 41.0 | 38.9 |

The largest portion of the College's net assets, \$32.7 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 College uses these capital assets to provide services to students, faculty and administration; consequently, these assets are not available for future spending.

Although the 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 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.

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

Management's Discussion and Analysis

Fiscal year ended June 30, 2003

(Unaudited)

The liabilities to assets ratio was 47%. Bonds and leases payable of \$15.3 million, accounts payable of \$7.6 million, and compensated absences of \$5.5 million are the College's largest liabilities.

Condensed Revenues, Expenses, and Changes in Net Assets

Years ended June 30, 2003 and 2002

(\$ Millions)

| | 2003 | 2002 |
|--|-------------|-------------|
| Operating revenues: | | |
| Tuition and fees | \$ 30.4 | 27.7 |
| Auxiliary enterprises | 10.9 | 10.7 |
| Less scholarship allowances | (6.3) | (6.2) |
| Grants, contracts, and other | 14.9 | 13.7 |
| Total operating revenues | 49.9 | 45.9 |
| Operating expenses: | | |
| Salaries and benefits | 70.9 | 66.4 |
| Scholarships, grants, and contracts | 4.5 | 3.8 |
| Utilities | 2.4 | 2.5 |
| Other expenses | 15.1 | 11.9 |
| Depreciation and amortization | 5.3 | 5.0 |
| Total operating expenses | 98.2 | 89.6 |
| Net operating loss | (48.3) | (43.7) |
| Nonoperating revenues (expenses): | | |
| State appropriations | 43.5 | 43.5 |
| Other nonoperating expenses, net | 0.4 | 0.1 |
| Net nonoperating revenues | 43.9 | 43.6 |
| Loss before other revenues, expenses, gains, or losses | (4.4) | (0.1) |
| Capital appropriations | 6.6 | 6.7 |
| Capital gifts and grants | — | 0.1 |
| Total other revenues | 6.6 | 6.8 |
| Increase in net assets | \$ 2.2 | 6.7 |

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

Management's Discussion and Analysis

Fiscal year ended June 30, 2003

(Unaudited)

Operating Revenues

Total operating revenues for fiscal year 2003 were \$49.9 million, an increase of \$4.0 million from the prior year. The most significant sources of operating revenue for the College are tuition and fees, grants and contracts, and auxiliary services. Significant changes in operating revenue resulted from:

- The Board of Governors raising student tuition and fees by an average of 4.3% for in state and 6.9% for out of state, a total of \$2.7 million.
- Increased enrollment of 1.9%.
- Increase of 9.6% or \$.6 million in federal, state, local and private grants and contracts.
- Increased Pell and SEOG grants of \$0.4 million.

The following summary shows major grant and contract expenditures, including indirect cost charges, for the fiscal years ending June 30, 2003 and 2002 (\$ in thousands):

| <u>Agency</u> | <u>Grant</u> | <u>2003</u> | <u>2002</u> |
|--|---------------------------------|-------------|-------------|
| RI Department of Education | RI Technical Assistance Project | \$ 1,052 | 864 |
| RI Department of Human Services | Case Management Programs | 256 | 118 |
| RI Department of Children, Families | RI Child Welfare Institute | 617 | 461 |
| US Department of Education | Upward Bound | 570 | 610 |
| US Department of Education | Student Support Services | 268 | 287 |
| US Department of Health and Human Services | University Affiliated Programs | 376 | 377 |

Operating Expenses

Operating expenses totaled \$98.2 million, an increase of \$8.6 million from the prior year. Of this total, \$55.9 million or 56.9% was used for instruction, academic support, student support and scholarships. Depreciation expense totaled \$5.3 million. Significant changes in operating expenses resulted from:

- Depreciation and amortization expenses of \$5.3 million were \$0.3 million higher than the previous year.
- Supplies and other services of \$15.1 million increased \$3.2 million from the previous year.
- Scholarships of \$4.5 million increased \$0.7 million from the previous year.

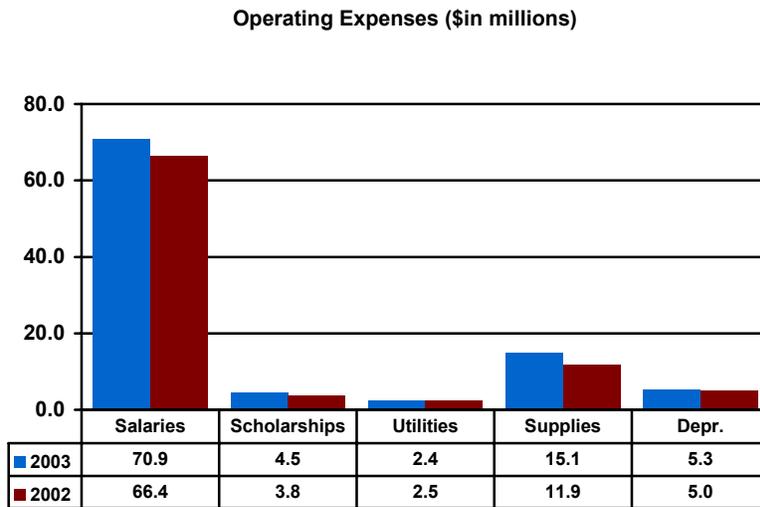
RHODE ISLAND COLLEGE
(A Component Unit of the State of Rhode Island and Providence Plantations)

Management's Discussion and Analysis

Fiscal year ended June 30, 2003

(Unaudited)

The following chart provides a graphical breakdown of significant operating categories of expenses:



Nonoperating Revenues and Expenses

Total nonoperating revenues for fiscal year 2003 are \$43.9 million, that consist of the state appropriation, interest earnings and expense. This is an increase of \$0.4 million over the prior year. Net interest expense was (\$0.8) million.

Other

Capital appropriations of \$6.6 million represent general obligation funds spent by the State of Rhode Island to construct or acquire capital assets utilized by the College.

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.

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

Management's Discussion and Analysis

Fiscal year ended June 30, 2003

(Unaudited)

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 College. The FY 2005-2009 plan for the College totals \$53.5 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 2003, the College expended \$8.0 million on plant related projects. The College generally has funded its capital plans through a combination of funds received from College operations, State of Rhode Island Capital appropriations, and general obligation bonds. The execution of the College's capital improvement plan is contingent upon approval and sufficient funding from the State.

Capital Assets

At June 30, 2003, the College had \$53.3 million invested in capital assets, net of accumulated depreciation of \$53.3 million. Depreciation charges totaled \$5.3 million for the current fiscal year, an increase of \$0.3 million over the prior year. Legal title to all land and real estate assets is vested in the Rhode Island Board of Governors for Higher Education or the State of Rhode Island. A summary of the capital asset balances is displayed below:

Summary Schedule of Net Capital Assets

(\$ Millions)

| | 2003 | 2002 |
|------------------------------------|-------------|-------------|
| Land and improvements | \$ 2.9 | 2.9 |
| Construction in progress | 5.3 | 0.8 |
| Buildings and improvements | 37.6 | 38.2 |
| Furniture, fixtures, and equipment | 7.5 | 8.6 |
| Total | \$ 53.3 | 50.5 |

Major capital additions completed this year included:

- Renovation (construction in progress) of the Student Union at a cost of \$5.3 million
- Renovations in resident housing at a cost of \$0.9 million
- Air conditioning replacement in Fogarty Hall at a cost of \$1.2 million

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

Management's Discussion and Analysis

Fiscal year ended June 30, 2003

(Unaudited)

Debt

At year-end, the College had \$15.3 million in debt outstanding, a decrease of \$0.4 million from the prior year. The table below summarizes the types of debt instruments:

Summary Schedule of Debt

June 30, 2003 and 2002

(\$ Millions)

| | 2003 | 2002 |
|-----------------------------------|-------------|-------------|
| Capital lease obligations | \$ 0.3 | 0.3 |
| General obligation (note payable) | 2.2 | 2.2 |
| Revenue bonds | 12.8 | 13.2 |
| Total | \$ 15.3 | 15.7 |

Debt repayments of \$0.5 million were made during 2003.

The 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 College's long-term liabilities is presented in note 7 to the financial statements.

RHODE ISLAND COLLEGE

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

Management's Discussion and Analysis

Fiscal year ended June 30, 2003

(Unaudited)

Economic Factors that Will Affect the Future

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

As with many state governments, Rhode Island faced a significant potential state budget deficit in fiscal year 2003, approximately \$175 million, and a similar budget shortfall is projected for fiscal year 2004. The unrestricted appropriation originally requested for fiscal year 2004 by the College was reduced by \$1.1 million or 2.6%. To support their strategic priorities in this financially challenging environment, the College and the Board of Governors took the following actions during fiscal 2003:

- Tuition rates for in state and out of state students were raised by 6.9% and 7.3%, respectively.
- The President authorized the spending of only positions deemed to be essential.
- In addition, outstanding bonds were reviewed for potential refinancing at lower rates. In July 2003, \$9.5 million in bonds were refinanced realizing \$5 million in interest savings in fiscal year 2004.

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

The College remains very competitive economically. Tuition, mandatory fees, room and board for in-state residents in fiscal year 2003 were \$9,898 and ranked seventh among the College's eight institution regional peer group. Non-resident tuition, mandatory fees, room and board were \$15,662 in fiscal year 2003 and ranked the College sixth in its peer group.

The College's enrollment in FY 2003 increased by 1.9% over the average enrollments of the prior five years. In FY 2003, the fall (2002) official enrollment was 8,758. In the prior five years, the fall enrollments averaged 8,592 students. Increases of in-state undergraduate student charges at the College have been held to an average increase of less than 3.7% since FY 2000. Future College enrollments may be affected by a number of factors, including any material increase in tuition, other mandatory charges and any material decrease in State appropriations as well as the state and national economy.

Request for Information

This financial report is designed to provide a general overview of the 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, Rhode Island College, 600 Mount Pleasant Avenue, Providence, Rhode Island 02908.

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

Statement of Net Assets

June 30, 2003

(with comparative financial information for June 30, 2002)

| Assets | 2003 | 2002 |
|---|---------------|-------------|
| Current assets: | | |
| Cash and cash equivalents (note 2) | \$ 4,582,017 | 4,172,498 |
| Cash held by State Treasurer (notes 2 and 3) | 1,445,046 | 709,241 |
| Accounts receivable, net (note 4) | 3,834,088 | 5,920,127 |
| Inventory and other current assets | 392,299 | 497,593 |
| Total current assets | 10,253,450 | 11,299,459 |
| Noncurrent assets: | | |
| Restricted cash and cash equivalents (note 2) | 4,374,947 | 2,693,235 |
| Deposits with bond trustee – restricted | 959,538 | 4,738,871 |
| State capital funds | 4,625,132 | 840,029 |
| Loans receivable, net (note 5) | 4,331,362 | 4,194,822 |
| Capital assets, net of accumulated depreciation (note 6) | 53,316,564 | 50,530,914 |
| Total noncurrent assets | 67,607,543 | 62,997,871 |
| Total assets | \$ 77,860,993 | 74,297,330 |
| Liabilities | | |
| Current liabilities: | | |
| Accounts payable and accrued liabilities (note 3) | \$ 7,588,945 | 6,688,316 |
| Compensated absences (note 7) | 2,594,651 | 2,732,000 |
| Students' deposits and unearned revenues | 2,371,422 | 1,774,195 |
| Funds held for others | 2,168,581 | 2,021,580 |
| Current portion of capital lease obligation (notes 6 and 7) | 37,931 | 34,336 |
| Current portion of bonds and notes payable (notes 6 and 7) | 501,328 | 428,588 |
| Total current liabilities | 15,262,858 | 13,679,015 |
| Noncurrent liabilities: | | |
| Compensated absences (note 7) | 2,913,544 | 2,407,404 |
| Capital lease obligations (notes 6 and 7) | 236,739 | 274,670 |
| Bonds and notes payable (notes 6 and 7) | 14,482,803 | 14,984,131 |
| Grant refundable (note 8) | 3,870,853 | 4,075,850 |
| Total noncurrent liabilities | 21,503,939 | 21,742,055 |
| Total liabilities | \$ 36,766,797 | 35,421,070 |
| Net Assets | | |
| Invested in capital assets, net of related debt | \$ 38,057,763 | 34,809,189 |
| Restricted: | | |
| Expendable (note 9) | 7,722,998 | 7,391,721 |
| Unrestricted (deficit) (note 10) | (4,686,565) | (3,324,650) |
| Contingencies (note 11) | | |
| Total net assets | \$ 41,094,196 | 38,876,260 |

See accompanying notes to financial statements.

RHODE ISLAND COLLEGE
(A Component Unit of the State of Rhode Island and Providence Plantations)
Statement of Revenues, Expenses, and Changes in Net Assets
Year ended June 30, 2003
(with comparative financial information for the year ended June 30, 2002)

| | <u>2003</u> | <u>2002</u> |
|--|----------------------|---------------------|
| Operating revenues: | | |
| Tuition and fees | \$ 30,420,491 | 27,688,471 |
| Auxiliary enterprises | 10,913,102 | 10,732,806 |
| Less: scholarship allowances | <u>(6,275,339)</u> | <u>(6,210,315)</u> |
| Net student fees | 35,058,254 | 32,210,962 |
| Federal, State, local and private grants and contracts | 12,063,256 | 11,086,239 |
| Sales and services of educational departments | <u>2,757,917</u> | <u>2,578,032</u> |
| Total operating revenues | <u>49,879,427</u> | <u>45,875,233</u> |
| Operating expenses (note 12): | | |
| Instruction | 33,298,248 | 30,891,397 |
| Research | 6,276,892 | 5,521,725 |
| Academic support | 11,930,832 | 8,841,453 |
| Student services | 6,238,236 | 5,774,077 |
| Scholarships and fellowships | 4,456,056 | 3,773,572 |
| Public service | 891,061 | 817,379 |
| Operation and maintenance of plant | 9,119,841 | 7,159,976 |
| Institutional support | 11,164,824 | 13,041,236 |
| Depreciation and amortization | 5,254,795 | 4,992,508 |
| Auxiliary enterprises | <u>9,574,041</u> | <u>8,783,621</u> |
| Total operating expenses | <u>98,204,826</u> | <u>89,596,944</u> |
| Operating loss | <u>(48,325,399)</u> | <u>(43,721,711)</u> |
| Nonoperating revenues (expenses): | | |
| State appropriations (note 13) | 43,468,589 | 43,582,992 |
| Gifts | 754,790 | 449,371 |
| Net investment income | 547,675 | 401,286 |
| Interest expense | <u>(827,446)</u> | <u>(842,115)</u> |
| Net nonoperating revenues | <u>43,943,608</u> | <u>43,591,534</u> |
| Loss before other revenues, expenses, gains or losses | <u>(4,381,791)</u> | <u>(130,177)</u> |
| Capital appropriations (note 13) | 6,575,897 | 6,747,742 |
| Capital gifts and grants | <u>23,830</u> | <u>146,470</u> |
| Increase in net assets | 2,217,936 | 6,764,035 |
| Net assets, beginning of year | <u>38,876,260</u> | <u>32,112,225</u> |
| Net assets, end of year | <u>\$ 41,094,196</u> | <u>38,876,260</u> |

See accompanying notes to financial statements.

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

Statement of Cash Flows

Year ended June 30, 2003

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

| | 2003 | 2002 |
|--|-----------------|--------------|
| Cash flows from operating activities: | | |
| Tuition, residence, dining and other student fees | \$ 36,408,453 | 33,013,973 |
| Grants and contracts | 12,292,417 | 9,984,252 |
| Payments to suppliers | (17,280,349) | (14,078,499) |
| Payments to employees | (69,829,086) | (64,426,170) |
| Payments for scholarships, fellowships and sponsored programs | (4,456,056) | (3,773,572) |
| Loans issued to students | (807,229) | (649,141) |
| Collection of loans to students | 670,689 | 665,287 |
| Other (payments) receipts | (138,103) | 3,910,330 |
| Net cash used by operating activities | (43,139,264) | (35,353,540) |
| Cash flows from noncapital financing activities: | | |
| State appropriations | 43,468,589 | 43,582,992 |
| Funds held for others | 147,001 | 210,551 |
| Noncapital gifts and grants | 754,790 | 449,371 |
| Net cash provided by noncapital and related financing activities | 44,370,380 | 44,242,914 |
| Cash flows from capital and related financing activities: | | |
| Capital appropriations | 6,575,897 | 6,747,742 |
| Capital gifts and grants | 23,830 | 146,470 |
| Purchases of capital assets | (8,040,445) | (9,216,130) |
| Principal paid on capital debt and leases | (462,924) | (560,583) |
| Interest paid on capital debt and leases | (827,446) | (842,115) |
| Deposits with trustee | 3,779,333 | (3,573,493) |
| Net cash provided by (used by) capital and related financing activities | 1,048,245 | (7,298,109) |
| Cash flows from investing activities: | | |
| Interest on investments | 547,675 | 401,286 |
| Net cash provided by investing activities | 547,675 | 401,286 |
| Net increase in cash | 2,827,036 | 1,992,551 |
| Cash and cash equivalents – beginning of year | 7,574,974 | 5,582,423 |
| Cash and cash equivalents – end of year | \$ 10,402,010 | 7,574,974 |
| Reconciliation of net operating expenses to net cash used by operating activities: | | |
| Operating loss | \$ (48,325,399) | (43,721,711) |
| Adjustments to reconcile net loss to net cash used by operating activities: | | |
| Depreciation and amortization | 5,254,795 | 4,992,508 |
| Changes in assets and liabilities: | | |
| Accounts receivable | 2,086,039 | (2,140,337) |
| Inventory and other current assets | 105,294 | (3,376) |
| Loans receivable | (136,540) | 16,146 |
| Funds on deposit with the State | (3,785,103) | 3,331,440 |
| Accounts payable and accrued liabilities | 900,629 | 1,637,001 |
| Compensated absences | 368,791 | 692,571 |
| Students' deposits and unearned revenues | 597,227 | (157,782) |
| Grants refundable | (204,997) | — |
| Net cash used by operating activities | \$ (43,139,264) | (35,353,540) |

See accompanying notes to financial statements.

RHODE ISLAND COLLEGE

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

Notes to Financial Statements

June 30, 2003

(1) Summary of Significant Accounting Policies

(a) Organization

The College, founded in 1854, is a comprehensive public institution of higher education in the State of Rhode Island that offers undergraduate and graduate programs in the liberal arts and sciences and in a variety of professional fields. The College is supported by the State of Rhode Island as its only comprehensive college, and as part of the system of public higher education that includes the Community College of Rhode Island (CCRI) and the University of Rhode Island (URI), with which articulation agreements exist for student transfer within the system.

The College is governed by the Rhode Island Board of Governors for Higher Education (the Board), a body politic and corporate established under Chapter 59 of Title 16 of the General Laws of Rhode Island. The Board consists of thirteen public members appointed by the Governor, and the Chairs or designees of the Finance Committees of the House and Senate of the Rhode Island General Assembly.

(b) Basis of Presentation

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

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

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

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

RHODE ISLAND COLLEGE

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

Notes to Financial Statements

June 30, 2003

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

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

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

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

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

(c) Net Assets

GASB Statement No. 34 requires that resources be classified for accounting purposes into the following four net asset categories:

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

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

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

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

(d) Cash Equivalents

Cash equivalents consist entirely of highly liquid debt instruments with an original maturity date of three months or less.

(e) Inventories

Inventories are stated at the lower of cost (first-in, first-out and retail inventory methods) or market, and consist of dining center food supplies and bookstore items.

RHODE ISLAND COLLEGE

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

Notes to Financial Statements

June 30, 2003

(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, all land is capitalized, regardless of value. 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. Building, leasehold, and infrastructure improvements with a unit cost of \$50,000 or more are capitalized. Interest costs on debt related to capital assets is capitalized during the construction period and then depreciated over the life of the project. College capital assets, with the exception of land and construction in progress are depreciated on a straight-line basis over their estimated useful lives, which range from 5 to 50 years.

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

(g) Compensated Absences and Salary Reduction Plan

Certain College employees are granted vacation and sick leave in varying amounts. In the event of termination, an employee is paid for accumulated vacation 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 as noncurrent liabilities 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 expenditures 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 sixteen participants based upon their number of lives (eligible employees). Thus, the College pays 100% for their health care costs and is required to budget for these costs based on the estimated number of lives. The costs are automatically deducted through the payroll system on a bi-weekly basis. Amounts paid by the College for the 2003 and 2002 health premiums amounted to \$6,900,000 and \$5,900,000, respectively.

RHODE ISLAND COLLEGE

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

Notes to Financial Statements

June 30, 2003

(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 leave at the time of retirement or termination from State service. The State funds this account by assessing a charge against the biweekly payrolls of all State agencies, including the College. The fringe benefit assessment rate for fiscal years 2003 and 2002 was 3.8%. The assessed fringe benefit cost for the College was \$1,536,880 for fiscal year 2003 and \$1,528,948 for fiscal year 2002.

(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, dining, residence, and other fees are presented net of scholarships 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 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, workers' compensation, unemployment and employee health and life insurance claims.

Buildings and personal property are covered under a comprehensive property policy to the extent that losses exceed \$100,000 per incident.

All vehicles are owned by the State which insures them for liability through an outside carrier. The policy is a loss retrospective program where premiums can be adjusted for claims incurred.

The College is insured for general liability with an outside carrier. The policy limits are \$1 million per claim and \$2 million in the aggregate. Coverage is provided for certified acts of terrorism.

RHODE ISLAND COLLEGE

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

Notes to Financial Statements

June 30, 2003

Also in place is an educators legal liability policy at limits of protection of \$2 million each claim and \$2 million in the aggregate subject to a deductible of \$150,000. Coverage applies to, but is not limited to, trustees and officers liability, wrongful employment practices, including tenure denial, sexual harassment and discrimination.

The College's medical malpractice policy limit is \$2 million for each claim and \$6 million in the aggregate.

The College carries an excess liability policy with a limit of \$10 million.

(o) Reclassifications

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

(2) Cash and Cash Equivalents

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

| 2003 | | | | | |
|-------------|-----------------|----------|-----------|-------------------|-----------------|
| | Category | | | Total bank | Carrying |
| | 1 | 2 | 3 | balance | amount |
| \$ | 9,100,467 | — | 1,956,418 | 11,056,885 | 10,402,010 |

| 2002 | | | | | |
|-------------|-----------------|----------|----------|-------------------|-----------------|
| | Category | | | Total bank | Carrying |
| | 1 | 2 | 3 | balance | amount |
| \$ | 7,049,463 | — | 950,972 | 8,000,435 | 7,574,974 |

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

RHODE ISLAND COLLEGE

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

Notes to Financial Statements

June 30, 2003

(3) Cash Held by State Treasurer

Accounts payable and accrued salaries to be funded from State-appropriated funds totaled \$1,445,046 and \$709,241 at June 30, 2003 and 2002, respectively. The College has recorded a comparable dollar amount of cash held by the State Treasurer for the benefit of the College, which was subsequently utilized to pay for such liabilities.

(4) Accounts Receivable

Accounts receivable include the following at June 30:

| | <u>2003</u> | <u>2002</u> |
|--------------------------------------|---------------------|--------------------|
| Student accounts receivable | \$ 2,385,207 | 2,852,176 |
| Grants receivable | 1,926,821 | 2,132,979 |
| Other receivables | 1,663,153 | 3,108,995 |
| | <u>5,975,181</u> | <u>8,094,150</u> |
| Less allowance for doubtful accounts | <u>(2,141,093)</u> | <u>(2,174,023)</u> |
| | <u>\$ 3,834,088</u> | <u>5,920,127</u> |

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

(5) Loans Receivable

Loans receivable include the following at June 30:

| | <u>2003</u> | <u>2002</u> |
|--------------------------------------|---------------------|------------------|
| Perkins loans receivable | \$ 4,856,594 | 4,622,957 |
| Nursing loans receivable | 105,858 | 133,319 |
| Short-term loans receivable | 305,507 | 305,507 |
| | <u>5,267,959</u> | <u>5,061,783</u> |
| Less allowance for doubtful accounts | <u>(936,597)</u> | <u>(866,961)</u> |
| | <u>\$ 4,331,362</u> | <u>4,194,822</u> |

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

Notes to Financial Statements

June 30, 2003

(6) Capital Assets

Capital assets consist of the following at June 30:

| | 2003 | | | |
|---|---|------------------------------|------------------|---------------------------|
| | Estimated lives (in years) | Beginning balance | Additions | Ending balance |
| Capital assets not being depreciated: | | | | |
| Construction in progress | — | \$ 810,517 | 4,505,764 | 5,316,281 |
| Land | — | 1,630,968 | — | 1,630,968 |
| Total not being depreciated | | 2,441,485 | 4,505,764 | 6,947,249 |
| Capital assets being depreciated: | | | | |
| Land improvements | 15-25 | 3,239,600 | 222,857 | 3,462,457 |
| Buildings, including improvements | 10-50 | 76,894,141 | 2,088,018 | 78,982,159 |
| Furnishings and equipment (including cost of capital leases) | 5-15 | 16,013,828 | 1,223,806 | 17,237,634 |
| Total being depreciated | | 96,147,569 | 3,534,681 | 99,682,250 |
| Less accumulated depreciation: | | | | |
| Land improvements | | 2,008,897 | 140,992 | 2,149,889 |
| Buildings, including improvements | | 38,624,283 | 2,747,553 | 41,371,836 |
| Furnishings and equipment | | 7,424,960 | 2,366,250 | 9,791,210 |
| Total accumulated depreciation | | 48,058,140 | 5,254,795 | 53,312,935 |
| Capital assets, net | | \$ 50,530,914 | 2,785,650 | 53,316,564 |

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

Notes to Financial Statements

June 30, 2003

| 2002 | | | | |
|---|---|------------------------------|------------------|---------------------------|
| | Estimated lives (in years) | Beginning balance | Additions | Ending balance |
| Capital assets not being depreciated: | | | | |
| Construction in progress | — | \$ — | 810,517 | 810,517 |
| Land | — | 1,630,968 | — | 1,630,968 |
| Total not being depreciated | | 1,630,968 | 810,517 | 2,441,485 |
| Capital assets being depreciated: | | | | |
| Land improvements | 15-25 | 3,065,622 | 173,978 | 3,239,600 |
| Buildings, including improvements | 10-50 | 69,919,522 | 6,974,619 | 76,894,141 |
| Furnishings and equipment (including cost of capital leases) | 5-15 | 14,756,812 | 1,257,016 | 16,013,828 |
| Total being depreciated | | 87,741,956 | 8,405,613 | 96,147,569 |
| Less accumulated depreciation: | | | | |
| Land improvements | | 1,879,005 | 129,892 | 2,008,897 |
| Buildings, including improvements | | 35,985,418 | 2,638,865 | 38,624,283 |
| Furnishings and equipment | | 5,201,209 | 2,223,751 | 7,424,960 |
| Total accumulated depreciation | | 43,065,632 | 4,992,508 | 48,058,140 |
| Capital assets, net | | \$ 46,307,292 | 4,223,622 | 50,530,914 |

(7) Long-Term Liabilities

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

| 2003 | | | | | |
|--------------------------------|------------------------------|------------------|-------------------|---------------------------|----------------------------|
| | Beginning balance | Additions | Reductions | Ending balance | Current portion |
| Leases and bonds payable: | | | | | |
| Lease obligations | \$ 309,006 | — | 34,336 | 274,670 | 37,931 |
| Note payable | 2,220,863 | — | 53,858 | 2,167,005 | 56,861 |
| Revenue bonds payable | 13,191,856 | — | 374,730 | 12,817,126 | 444,467 |
| Total leases and bonds payable | 15,721,725 | — | 462,924 | 15,258,801 | 539,259 |
| Other long-term liabilities: | | | | | |
| Compensated absences | 5,139,404 | 3,141,565 | 2,772,774 | 5,508,195 | 2,594,651 |
| Total long-term liabilities | \$ 20,861,129 | 3,141,565 | 3,235,698 | 20,766,996 | 3,133,910 |

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

Notes to Financial Statements

June 30, 2003

| | 2002 | | | | Current portion |
|-----------------------------------|----------------------|-----------|------------|-------------------|--------------------|
| | Beginning balance | Additions | Reductions | Ending balance | |
| Leases and bonds payable: | | | | | |
| Lease obligations | \$ 340,088 | — | 31,082 | 309,006 | 34,336 |
| Note payable | 2,271,846 | — | 50,983 | 2,220,863 | 53,858 |
| Revenue bonds payable | 13,555,323 | — | 363,467 | 13,191,856 | 374,730 |
| Total leases and bonds payable | 16,167,257 | — | 445,532 | 15,721,725 | 462,924 |
| Other long-term liabilities: | | | | | |
| Compensated absences | 4,446,833 | 3,369,137 | 2,676,566 | 5,139,404 | 2,732,000 |
| Total long-term liabilities | \$ 20,614,090 | 3,369,137 | 3,122,098 | 20,861,129 | 3,194,924 |

Notes and Bonds Payable

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

| | 2003 | | | Ending balance |
|--|----------------------|-----------|-------------|-------------------|
| | Beginning balance | Additions | Retirements | |
| 3.75% Dormitory Bonds of 1964 payable to the United States Government. The bonds are due in varying annual installments from \$35,000 to \$36,000, plus interest, through November 1, 2004. | \$ 104,000 | — | 33,000 | 71,000 |
| 3% Student Center Bonds of 1965 payable to the United States Government. The bonds are due in annual installments of \$35,000, plus interest, through October 1, 2005. | 140,000 | — | 35,000 | 105,000 |
| 3% Dormitory Bonds of 1967 payable to the United States Government. The bonds are due in varying annual installments from \$35,000 to \$40,000, plus interest, through October 1, 2007 | 230,000 | — | 35,000 | 195,000 |
| 6.10% – 7.10% Dormitory Bonds of 1971 payable to the United States Government. The bonds are due in varying annual installments from \$50,000 to \$55,000, plus interest, through August 1, 2005 with a final installment \$40,000 on August 1, 2006. The Federal Government reimburses the College for approximately one-half of the aggregate interest charge annually averaged over the term of the bond issue. | 245,000 | — | 45,000 | 200,000 |

RHODE ISLAND COLLEGE

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

Notes to Financial Statements

June 30, 2003

| | Beginning balance | Additions | Retirements | Ending balance |
|--|------------------------------|------------------|--------------------|---------------------------|
| Rhode Island Health and Educational Building Corporation Higher Education Facility Revenue Bonds, Board of Governors for Higher Education Issue, Series 1993 A. The bonds, which carry interest rates ranging from 4.375% to 5.50%, are due in varying annual installments from \$204,050 to \$558,250, plus interest through 2023. | \$ 7,607,115 | — | 194,425 | 7,412,690 |
| Rhode Island Health and Educational Building Corporation Various Purpose Educational Facilities Issue, Series 1993 B. The bonds, which carry interest rates ranging from 4.60% to 5.60%, are due in varying annual installments from \$23,444 to \$117,932, plus interest through 2023. | 1,475,741 | — | 32,305 | 1,443,436 |
| Rhode Island Health and Educational Building Corporation Higher Education Facility Revenue Bonds, Series 2000 A payable to the United States Government. The bonds, carry interest rates ranging from 4.40% – 5.625%. The bonds are due in varying annual installments from \$55,000 – \$230,000, plus interest, through September 15, 2030. | 3,390,000 | — | — | 3,390,000 |
| United States Department of Education Note Payable used to renovate and restore the Sylvan R. Forman Center. The note carries an interest rate of 5.5% payable in level semi-annual installments of \$87,637 through February 1, 2024. | 2,220,863 | — | 53,858 | 2,167,005 |
| | \$ 15,412,719 | — | 428,588 | 14,984,131 |

RHODE ISLAND COLLEGE

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

Notes to Financial Statements

June 30, 2003

| | 2002 | | | Ending balance |
|--|----------------------|-----------|-------------|-------------------|
| | Beginning balance | Additions | Retirements | |
| 3.75% Dormitory Bonds of 1964 payable to the United States Government. The bonds are due in varying annual installments from \$33,000 to \$36,000, plus interest, through November 1, 2004. | \$ 136,000 | — | 32,000 | 104,000 |
| 3% Student Center Bonds of 1965 payable to the United States Government. The bonds are due in annual installments of \$35,000, plus interest, through October 1, 2005. | 170,000 | — | 30,000 | 140,000 |
| 3% Dormitory Bonds of 1967 payable to the United States Government. The bonds are due in varying annual installments from \$35,000 to \$40,000, plus interest, through October 1, 2007 | 265,000 | — | 35,000 | 230,000 |
| 6.10% – 7.10% Dormitory Bonds of 1971 payable to the United States Government. The bonds are due in varying annual installments from \$45,000 to \$55,000, plus interest, through August 1, 2005 with a final installment \$40,000 on August 1, 2006. The Federal Government reimburses the College for approximately one-half of the aggregate interest charge annually averaged over the term of the bond issue. | 290,000 | — | 45,000 | 245,000 |
| Rhode Island Health and Educational Building Corporation Higher Education Facility Revenue Bonds, Board of Governors for Higher Education Issue, Series 1993 A. The bonds, which carry interest rates ranging from 4.375% to 5.50%, are due in varying annual installments from \$194,425 to \$558,250, plus interest through 2023. | 7,793,840 | — | 186,725 | 7,607,115 |
| Rhode Island Health and Educational Building Corporation Various Purpose Educational Facilities Issue, Series 1993 B. The bonds, which carry interest rates ranging from 4.60% to 5.60%, are due in varying annual installments from \$23,444 to \$117,932, plus interest through 2023. | 1,510,483 | — | 34,742 | 1,475,741 |

RHODE ISLAND COLLEGE

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

Notes to Financial Statements

June 30, 2003

| | 2002 | | | |
|--|----------------------|-----------|----------------|-------------------|
| | Beginning balance | Additions | Retirements | Ending balance |
| Rhode Island Health and Educational Building Corporation Higher Education Facility Revenue Bonds, Series 2000 A payable to the United States Government. The bonds, carry interest rates ranging from 4.40% – 5.625%. The bonds are due in varying annual installments from \$55,000 – \$230,000, plus interest, through September 15, 2030. | \$ 3,390,000 | — | — | 3,390,000 |
| United States Department of Education Note Payable used to renovate and restore the Sylvan R. Forman Center. The note carries an interest rate of 5.5% payable in level semi-annual installments of \$87,637 through February 1, 2024. | <u>2,271,846</u> | <u>—</u> | <u>50,983</u> | <u>2,220,863</u> |
| | <u>\$ 15,827,169</u> | <u>—</u> | <u>414,450</u> | <u>15,412,719</u> |

The dormitory and student center bonds are issued under trust indentures and are collateralized by a pledge of revenues from the facilities financed. The facilities include those for the College’s dormitories and student union (including bookstore). Under terms of the trust indentures, net revenues from these operations are transferred, if required, to the trustees for payment of interest, retirement of bonds and maintenance of facilities.

In July 1993, the Rhode Island Health and Educational Building Corporation (the “Corporation”) issued Facility Revenue and Refunding Bonds comprised of a \$21,410,000 Auxiliary Enterprise Revenue Issue – Series 1993 A, and \$14,281,069 Various Purpose Educational Facilities Issue – Series 1993 B. The proceeds from both issues were used to defease outstanding obligations of the College, URI and CCRI relative to previous Series A and B issues during 1990 and 1992 respectively. The College only participated in the Series 1990 A issue.

Certain of the proceeds were deposited with an Escrow Trustee pursuant to two separate escrow agreements with the Corporation and the Board of Governors solely for the payment of prior bonds. These bonds were called and paid off by the Escrow Trustee in September 2002. The 1993 proceeds were also used to fund the acquisition of library capital, to fund various capital renovations to existing buildings at the three institutions, to fund the cost of a surety bond to fund a debt service reserve fund, and to pay certain expenses incurred in connection with the issuance of the Bonds.

RHODE ISLAND COLLEGE

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

Notes to Financial Statements

June 30, 2003

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

During 1994, the College obtained a loan from the United States Department of Education in the amount of \$2,561,000. The loan balance of \$2,167,005 bears interest at 5.5%, is payable in semi-annual installments of principal and interest through 2024. The loan proceeds were used to finance the renovation and restoration of the Sylvan R. Forman Center on the East campus.

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 combined financial statements. The State annually appropriates funds to the College to be used for debt service on these bonds.

Principal and interest on notes and bonds payable for the next five years and in subsequent five year periods are as follows:

| | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|----------------------|----------------------|-------------------|-------------------|
| Year ending June 30: | | | |
| 2004 | \$ 501,328 | 810,659 | 1,311,987 |
| 2005 | 530,214 | 789,380 | 1,319,594 |
| 2006 | 505,411 | 767,395 | 1,272,806 |
| 2007 | 473,781 | 745,964 | 1,219,745 |
| 2008 | 454,337 | 725,542 | 1,179,879 |
| 2009-2013 | 2,581,989 | 3,106,425 | 5,688,414 |
| 2014-2018 | 3,370,218 | 2,311,712 | 5,681,930 |
| 2019-2023 | 4,400,757 | 1,283,842 | 5,684,599 |
| 2024-2028 | 1,511,096 | 338,371 | 1,849,467 |
| 2029-2031 | 655,000 | 56,672 | 711,672 |
| | <u>\$ 14,984,131</u> | <u>10,935,962</u> | <u>25,920,093</u> |

Lease Obligations

During fiscal year 1989, the College completed the sale with lease back of its School of Social Work Building with a related party, the Rhode Island College Foundation. The building was sold for \$550,000 in cash. Under the terms of the agreement, the College has agreed to lease back the building under a long-term lease agreement for a period of 20 years. The lease agreement provides the College with an option to repurchase at any of the lease anniversary dates at a predetermined value or at the end of the lease period for \$1.

RHODE ISLAND COLLEGE

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

Notes to Financial Statements

June 30, 2003

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

| | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|----------------------|-------------------|-----------------|----------------|
| Year ending June 30: | | | |
| 2004 | \$ 37,931 | 25,760 | 63,691 |
| 2005 | 41,902 | 21,789 | 63,691 |
| 2006 | 46,294 | 17,397 | 63,691 |
| 2007 | 51,139 | 12,552 | 63,691 |
| 2008 | 56,494 | 7,197 | 63,691 |
| 2009 | 40,910 | 1,552 | 42,462 |
| | <u>\$ 274,670</u> | <u>86,247</u> | <u>360,917</u> |

(8) Grant Refundable

The College participates in the Federal Perkins Loan and Nursing Loan Programs. These programs are funded through a combination of Federal and Institutional resources. The portion of these programs that has been funded with Federal funds is ultimately refundable back to the U.S. government upon the termination of the College's participation in the program.

(9) Restricted Net Assets

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

| | <u>2003</u> | <u>2002</u> |
|--|---------------------|------------------|
| Restricted – expendable: | | |
| Retirement of general long-term debt | \$ 215,388 | 208,767 |
| Renewal and replacements | 4,534,842 | 1,238,604 |
| College funds | 609,032 | 598,377 |
| Auxiliary enterprises (includes inventories) | 1,413,466 | 1,535,083 |
| Capital project programs | 950,270 | 3,810,890 |
| | <u>\$ 7,722,998</u> | <u>7,391,721</u> |

(10) Unrestricted Net Assets

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

RHODE ISLAND COLLEGE

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

Notes to Financial Statements

June 30, 2003

(11) Contingencies

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

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

The College, along with URI and CCRI, has begun a technology modernization of core administrative systems with PeopleSoft administrative systems. The PeopleSoft procurement effort was effectuated system-wide through the Office of Higher Education and is being financed over a seven year period beginning in fiscal year 2000 at a total cost of approximately \$8.5 million, of which the College's share is approximately \$2.2 million.

(12) Operating Expenses

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

| | <u>2003</u> | <u>2002</u> |
|-------------------------------|----------------------|-------------------|
| Compensation and benefits | \$ 70,913,273 | 66,441,017 |
| Supplies and services | 17,580,702 | 14,389,847 |
| Depreciation and amortization | 5,254,795 | 4,992,508 |
| Scholarships and fellowships | 4,456,056 | 3,773,572 |
| | <u>\$ 98,204,826</u> | <u>89,596,944</u> |

(13) State Appropriations

Direct Appropriations

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

The original and supplemental appropriations are acted upon by a vote of the Board. As part of the College's annual budget allocation process for general funds, the Board allocates specific amounts in the budget which are internally allocated for the following categories: (1) salaries and wages, (2) operating expenditures, and (3) outlays for personnel costs, utilities, out-of-state travel, repairs, capital and student aid, as well as the overall total budget allocation. Any increases or decreases in the specific allocations,

RHODE ISLAND COLLEGE

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

Notes to Financial Statements

June 30, 2003

including any transfers among those line items not specifically allocated are reported to the Board for its approval at the mid-year financial review at which time the final allocation is authorized.

State Capital Plan Funds

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

State Contributed Capital

In November 1996, the Rhode Island voters approved the issuance of \$40.6 million General Obligation Bonds to fund the upgrade of telecommunication technologies at the three state-supported institutions of higher education. The bonds provide funding with \$29 million slated for URI, \$7.6 million for the College, and \$4 million for CCRI. The project calls for cabling, infrastructure improvements to accommodate the new technology, installation of network systems, voice and video equipment, and work stations. Also approved in November 1996 was the issuance of \$33.8 million General Obligation Bonds for higher education facilities. The bonds provided URI with \$9.8 million for the renovations of Ballentine, Green and Ranger halls, \$9.5 million to the College for the construction of a performing arts classroom facility, and \$14.5 million to CCRI for the construction of a performing arts classroom facility, and \$14.5 million to CCRI for the construction of a five-level addition to its Knight Campus megastructure. From the proceeds of this General Obligation Issue, the College spent \$528,220 on telecommunications upgrades in fiscal year 2002.

In November 1998, the Rhode Island voters approved the issuance of \$4.3 million in General Obligation Bonds to fund the first phase of the renovation and rehabilitation of ten buildings at the former Department of Children Youth and Families property located to the east of the College. The renovations involved complete gutting and redesign of the facilities for administrative units currently at the main campus occupying former classroom spaces. Relocating the administrative units made available more classroom spaces on the main campus and provide a centralized location for administrative services. From the proceeds of this general obligation bond issue, the College spent \$3,523,930 in fiscal year 2002.

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 CCRI. The bonds provides funding until 2008 with \$4 million to fund the renovations and upgrades of student residence halls and surrounding landscape at the College, \$22 million to fund the major renovations and upgrades of student residence halls and surrounding landscape at URI and \$10.9 million to fund the construction of a building for the Newport campus of CCRI. During fiscal years 2003 and 2002, the College spent \$1,002,070 and \$695,740, respectively.

RHODE ISLAND COLLEGE

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

Notes to Financial Statements

June 30, 2003

The College's State appropriation is comprised of the following at June 30, 2003 and 2002:

| | <u>2003</u> | <u>2002</u> |
|---------------------------|----------------------|-------------------|
| Direct appropriations | \$ 43,468,589 | 43,582,992 |
| State capital plan funds | 5,573,827 | 1,999,852 |
| State contributed capital | <u>1,002,070</u> | <u>4,747,890</u> |
| | <u>\$ 50,044,486</u> | <u>50,330,734</u> |

(14) Pension and Early Retirement Plans

Certain employees of the College (principally faculty and administrative personnel) are covered by individual annuity contracts with the Teachers' Insurance and Annuity Association (TIAA). Total expenditures by the College for such annuity contracts amounted to approximately \$2,500,000 and \$2,448,000 during the years ended June 30, 2003 and 2002, 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 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 that 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 of employees covered by the System was approximately \$10,200,000 and \$10,409,000 for the years ended June 30, 2003 and 2002, respectively. The College's total payroll expense for the years ended June 30, 2003 and 2002 were \$47,350,000 and \$50,634,000, respectively.

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

RHODE ISLAND COLLEGE

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

Notes to Financial Statements

June 30, 2003

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 while the College was required to pay 7.68% and 5.59% of salaries paid for the years ending June 30, 2003 and 2002, respectively. In addition, the College is required to contribute 1.17% and 0.86% for post-retirement health benefits in 2003 and 2002. Employees contributed approximately \$1,025,000 and \$960,000 during the years ended June 30, 2003 and 2002, respectively. The College's contributions to the System for the years ending June 30, 2003, 2002, and 2001 were \$901,000, \$615,000, and \$806,000, respectively, representing 100% of the required contribution for each of the three years. The postretirement contributions of \$122,000 and \$117,000 were made during fiscal years 2003 and 2002, respectively.

(15) Related Party – Rhode Island College Foundation

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

Securities and other assets held in trust by the Foundation for the future use of the College and its faculty and students are not reflected in the accompanying basic financial statements. The total market value of securities and other assets held at June 30, 2003 and 2002 as confirmed by the Rhode Island College Foundation amounted to \$8,400,000 and \$7,700,000, respectively. Distributions to the College were \$428,000 and \$596,000 during the years ended June 30, 2003 and 2002, respectively, and are included in the statement of revenues, expenses, and changes in net assets under nonoperating revenue as capital gifts and grants.

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

(16) Subsequent Events

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



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

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

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

We have audited the financial statements of Rhode Island College (a component unit of the State of Rhode Island and Providence Plantations) (the College) as of and for the year ended June 30, 2003, and have issued our report thereon dated September 12, 2003. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the College's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control over Financial Reporting

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

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

We noted no matters involving the control over financial reporting and its operation that we consider to be material weaknesses.



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

KPMG LLP

September 12, 2003