

RHODE ISLAND COLLEGE

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

Financial Statements

June 30, 2004 and 2003

(With Independent Auditors' Report Thereon)

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

Financial Statements
June 30, 2004 and 2003

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

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

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

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

In accordance with *Government Auditing Standards*, we have also issued our report dated September 10, 2004 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 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 over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

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

KPMG LLP

September 10, 2004

RHODE ISLAND COLLEGE

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Notes to Financial Statements

Management's Discussion and Analysis

(Unaudited)

June 30, 2004

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, 2004 and the results of operations for the year then ended, with selected comparative information for the years ended June 30, 2003 and 2002. The purpose of the MD&A is to assist readers in understanding the accompanying financial statements by providing an objective and understandable analysis of the 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, has just completed 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.

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Notes to Financial Statements

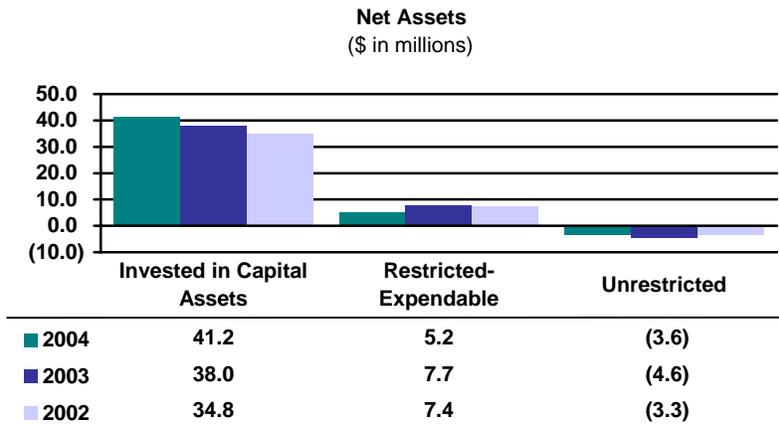
Management's Discussion and Analysis

(Unaudited)

June 30, 2004

Financial Highlights

The College's financial position remained strong as of June 30, 2004. At June 30, 2004, the College's assets of \$77.7 million exceeded its liabilities of \$34.9 million by \$42.8 million, an increase over the prior year of \$1.7 million. 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, 2004, 2003, and 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 year 2004 revenues before net investment return increased by 9.0%, or \$4.4 million. Expenses increased by 2.4%, or \$2.4 million. Fiscal year 2003 revenues before net investment return increased by 8.7%, or \$4.0 million. Expenses increased by 9.6%, or \$4.6 million.

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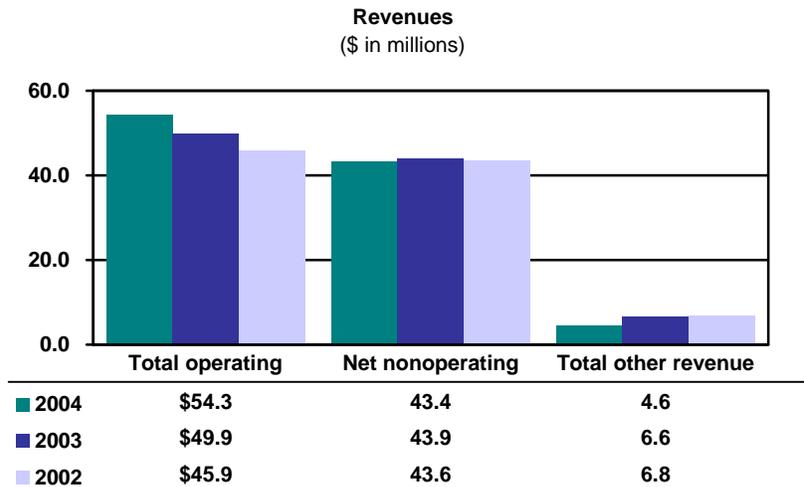
Notes to Financial Statements

Management's Discussion and Analysis

(Unaudited)

June 30, 2004

The following chart provides a graphical breakdown of total revenues by category for the fiscal years ending June 30, 2004, 2003, and 2002:



Cash flow continued to be adequate for operations with a cash balance of \$9.2 million at June 30, 2004, a decrease of \$1.2 million from June 30, 2003. The cash balance of \$10.4 million at June 30, 2003 was 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.

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

Rhode Island College Foundation (Foundation) is a legally separate tax-exempt component unit of Rhode Island 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

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Management's Discussion and Analysis

(Unaudited)

June 30, 2004

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 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.

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

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 to 33 of this report.

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Notes to Financial Statements

Management's Discussion and Analysis

(Unaudited)

June 30, 2004

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 \$42.8 million at the close of fiscal year 2004, an increase of \$1.7 million over fiscal year 2003, and assets exceeded liabilities by \$41.1 million at the close of fiscal year 2003, an increase of \$2.2 million over fiscal year 2002, as shown in the chart below:

Condensed Net Assets
(\$ in millions)

	<u>2004</u>	<u>2003</u>	<u>2002</u>
Assets:			
Current assets	\$ 10.9	10.3	11.3
Noncurrent assets	66.8	67.6	63.0
Total assets	<u>77.7</u>	<u>77.9</u>	<u>74.3</u>
Liabilities:			
Current liabilities	13.8	15.3	13.7
Noncurrent liabilities	21.1	21.5	21.7
Total liabilities	<u>34.9</u>	<u>36.8</u>	<u>35.4</u>
Net assets:			
Invested in capital assets, net of related debts	41.2	38.1	34.8
Restricted:			
Expendable	5.2	7.7	7.4
Unrestricted	(3.6)	(4.7)	(3.3)
Total net assets	<u>\$ 42.8</u>	<u>41.1</u>	<u>38.9</u>

The largest portion of the College's net assets, \$41.2 million in fiscal year 2004 (\$38.1 million in fiscal year 2003), 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.

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(Unaudited)

June 30, 2004

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.

The liabilities-to-assets ratio was 45% in fiscal year 2004 and 47% in fiscal year 2003. Bonds and leases payable at June 30, 2004 of \$15.4 million, accounts payable of \$6.4 million, and compensated absences of \$5.2 million are the College's largest liabilities (\$15.3 million, \$7.6 million, and \$5.5 million, respectively, in fiscal year 2003).

Condensed Revenues, Expenses, and Changes in Net Assets

Years Ended June 30, 2004, 2003, and 2002

(\$ in millions)

	<u>2004</u>	<u>2003</u>	<u>2002</u>
Operating revenues:			
Tuition and fees	\$ 33.3	30.4	27.7
Auxiliary enterprises	11.4	10.9	10.7
Less: scholarship allowances	(6.6)	(6.3)	(6.2)
Grants, contracts, and other	16.2	14.9	13.7
Total operating revenues	<u>54.3</u>	<u>49.9</u>	<u>45.9</u>
Operating expenses:			
Salaries and benefits	73.9	70.9	66.4
Scholarships, grants, and contracts	4.7	4.5	3.8
Utilities	2.5	2.4	2.5
Other expenses	14.4	15.1	11.9
Depreciation and amortization	5.1	5.3	5.0
Total operating expenses	<u>100.6</u>	<u>98.2</u>	<u>89.6</u>
Net operating loss	<u>(46.3)</u>	<u>(48.3)</u>	<u>(43.7)</u>
Nonoperating revenues (expenses):			
State appropriations	43.1	43.5	43.5
Other nonoperating revenues, net	0.3	0.4	0.1
Net nonoperating revenues	<u>43.4</u>	<u>43.9</u>	<u>43.6</u>
Loss before other revenues, expenses, gains, or losses	<u>(2.9)</u>	<u>(4.4)</u>	<u>(0.1)</u>
Capital appropriations	3.8	6.6	6.7
Capital gifts and grants	0.8	—	0.1
Total other revenues	<u>4.6</u>	<u>6.6</u>	<u>6.8</u>
Increase in net assets	<u>\$ 1.7</u>	<u>2.2</u>	<u>6.7</u>

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(Unaudited)

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Operating Revenues

Total operating revenues for fiscal year 2004 were \$54.3 million, an increase of \$4.4 million from the prior year. 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 in fiscal year 2004 by an average of 7.0% for in-state and 7.4% for out-of-state, along with an increased enrollment of 1.9%, resulted in an increase of \$2.9 million. Student tuition and fees were raised by an average of 4.3% for in-state and 6.9% for out-of-state, a total of \$2.7 million in fiscal year 2003.
- Increase of 11.9% or \$1.4 million (9.6% or \$0.6 million in fiscal year 2003) in federal, state, local and private grants and contracts.

The following summary shows major grant and contract expenditures, including indirect cost charges, for the fiscal years ending June 30, 2004, 2003, and 2002 (\$ in thousands):

<u>Agency</u>	<u>Grant</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>
RI Department of Education	RI Technical Assistance Project	\$ 1,407	1,052	864
RI Department of Human Services	Case Management Programs	257	256	118
RI Department of Children, Families	RI Child Welfare Institute	652	617	461
US Department of Education	Upward Bound	587	570	610
US Department of Education	Student Support Services	347	268	287
US Department of Health and Human Services	University Center on Developmental Disabilities	413	376	377

Operating Expenses

Fiscal year 2004 operating expenses totaled \$100.6 million, an increase of \$2.4 million from the prior year. Fiscal year 2003 operating expenses totaled \$98.2 million, an increase of \$8.6 million from the prior year. Of this total, \$54.8 million or 54% (\$55.9 million or 56.9% in 2003) was used for instruction, academic support, student support and scholarships. Depreciation expense totaled \$5.1 million in fiscal year 2004 and \$5.3 million in fiscal year 2003. Significant changes in operating expenses resulted from:

- Depreciation and amortization expenses of \$5.1 and \$5.3 million were \$0.2 million lower and \$0.3 million higher in fiscal years 2004 and 2003, respectively, than the previous years.
- Supplies and other services of \$14.4 and \$15.1 million decreased \$0.7 million and increased \$3.2 million, respectively, from the previous years.
- Scholarships of \$4.7 and \$4.5 million increased \$0.2 and \$0.7 million, respectively, from the previous years.

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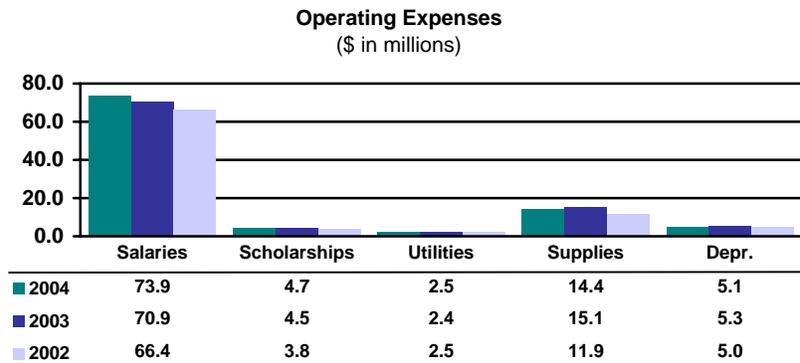
Management’s Discussion and Analysis

(Unaudited)

June 30, 2004

- Personnel related expenses increased \$3.0 million.

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



Nonoperating Revenues and Expenses

Total nonoperating revenues for fiscal years 2004 and 2003 are \$43.4 and \$43.9 million, respectively, consisting of the state appropriation, gifts, and net interest earnings. This represents a decrease of \$0.5 and an increase of \$0.4 million over the prior years, respectively.

Other

Capital appropriations of \$3.8 and \$6.6 million in fiscal years 2004 and 2003, respectively, 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.

Capital Asset and Debt Administration

Capital Plan

The Rhode Island Board of Governors for Higher Education submits a running five 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 fiscal year 2006-2010 plan for the College totals \$63.9 million and includes all projects underway and planned, whether funded or not. This plan forms the basis for discussions on funding the various projects from all available funding sources. During fiscal year 2004, the College expended \$8.3 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.

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(Unaudited)

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The execution of the College's capital improvement plan is contingent upon approval and sufficient funding from the State.

Capital Assets

At June 30, 2004, the College had \$56.5 million invested in capital assets, net of accumulated depreciation of \$57.3 million. Depreciation charges totaled \$5.1 million for the current fiscal year, a decrease of \$0.2 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
(\$ in millions)

	<u>2004</u>	<u>2003</u>	<u>2002</u>
Land and improvements	\$ 3.1	2.9	2.9
Construction in progress	5.8	5.3	0.8
Buildings and improvements	41.4	37.6	38.2
Furniture, fixtures, and equipment	6.2	7.5	8.6
Total	<u>\$ 56.5</u>	<u>53.3</u>	<u>50.5</u>

Major capital additions completed this year included:

- Renovation completed on the Student Union Building at a cost of \$5.9 million
- Adams Library renovations; lounge rooms and carpeting at a cost of \$0.6 million
- Parking Lot "J" improvements at a cost of \$0.3 million
- Renovations (construction in progress) to Building 9 to date \$2.7 million
- Renovations (construction in progress) to Alger Hall to date \$1.8 million
- Renovations (construction in progress) in residential housing to date \$0.6 million
- Renovations (construction in progress) to Whipple central boiler to date \$0.3 million
- Parking Lot "H" & "I" (construction in progress) improvements to date \$0.2 million
- Soccer Field/Concession Building (construction in progress) renovations to date \$0.2 million

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Management's Discussion and Analysis

(Unaudited)

June 30, 2004

Debt

At June 30, 2004 and 2003, the College had \$15.4 and \$15.3 million in debt outstanding, an increase of \$0.1 and a decrease of \$0.4 million from the prior years, respectively. The table below summarizes the types of debt instruments:

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

	<u>2004</u>	<u>2003</u>	<u>2002</u>
Capital lease obligations	\$ 0.2	0.3	0.3
General obligation (note payable)	2.1	2.2	2.2
Revenue bonds	<u>13.1</u>	<u>12.8</u>	<u>13.2</u>
Total	<u>\$ 15.4</u>	<u>15.3</u>	<u>15.7</u>

Additions to debt and repayments made during the year were \$9.2 million and \$9.1 million, respectively. Such additions and repayments include the \$9.2 million revenue bonds issued to refinance prior bonds' outstanding balance of \$8.8 million as of June 30, 2003. 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.

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

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

- Tuition rates for in-state and out-of-state students were raised by 9.1% and 9.2%, respectively, effective for fiscal year 2005 (7.0% and 7.4% during fiscal year 2004).
- Positions were kept vacant for longer periods of time.

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

The College remains very competitive economically. Tuition, mandatory fees, room and board for in-state residents in fiscal year 2004 were \$10,335 and ranked fourth least expensive among the College's eight institution regional peer group. Non-resident tuition, mandatory fees, room and board were \$16,535 in fiscal year 2004 and ranked the College third least expensive in its peer group.

The College's enrollment in fiscal year 2004 increased by 3.5% over the average enrollments of the prior five years. In fiscal year 2004, the fall (2003) official enrollment was 8,923. In the prior five years, the fall enrollments averaged 8,619 students. Increases of in-state undergraduate student charges at the College have been held to an average increase of less than 5.1% since fiscal year 2001. 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)

Statements of Net Assets

June 30, 2004 and 2003

Assets	2004 Rhode Island College	2003 Rhode Island College	2004 Rhode Island College Foundation
Current assets:			
Cash and cash equivalents (note 2)	\$ 7,461,809	4,582,017	114,338
Cash held by State Treasurer (notes 2 and 3)	307,637	1,445,046	—
Accounts receivable, net (note 4)	2,691,462	3,834,088	26,929
Inventory and other current assets	479,455	392,299	1,944
Current portion of pledges receivable	—	—	944,664
Total current assets	10,940,363	10,253,450	1,087,875
Noncurrent assets:			
Restricted cash and cash equivalents (note 2)	1,464,335	4,374,947	—
Deposits with bond trustee – restricted	1,027,548	959,538	—
State capital funds	3,522,402	4,625,132	—
Pledges receivable	—	—	242,076
Deposits	—	—	2,000
Investments (note 2)	—	—	10,157,831
Loans receivable, net (note 5)	4,194,275	4,331,362	—
Restricted asset	—	—	1,114,086
Capital assets, net of accumulated depreciation (note 6)	56,548,643	53,316,564	9,832
Total noncurrent assets	66,757,203	67,607,543	11,525,825
Total assets	\$ 77,697,566	77,860,993	12,613,700
Liabilities			
Current liabilities:			
Accounts payable and accrued liabilities (note 3)	\$ 6,429,294	7,588,945	27,348
Compensated absences (note 7)	2,754,418	2,594,651	—
Students' deposits and unearned revenues	1,607,821	2,371,422	—
Funds held for others	2,461,480	2,168,581	289,833
Current portion of capital lease obligation (notes 6 and 7)	41,902	37,931	—
Current portion of bonds and notes payable (notes 6 and 7)	544,448	501,328	3,700
Current portion of annuity payments payable	—	—	45,447
Total current liabilities	13,839,363	15,262,858	366,328
Noncurrent liabilities:			
Compensated absences (note 7)	2,410,312	2,913,544	—
Capital lease obligations (notes 6 and 7)	194,837	236,739	—
Bonds and notes payable (notes 6 and 7)	14,583,487	14,482,803	4,750
Annuity payment payable	—	—	295,427
Grant refundable (note 8)	3,863,648	3,870,853	—
Total noncurrent liabilities	21,052,284	21,503,939	300,177
Total liabilities	\$ 34,891,647	36,766,797	666,505
Net Assets			
Invested in capital assets, net of related debt	\$ 41,183,969	38,057,763	1,382
Restricted:			
Expendable (note 9)	5,225,654	7,722,998	1,902,962
Non-unexpendable	—	—	7,774,751
Unrestricted (deficit) (note 10)	(3,603,704)	(4,686,565)	2,268,100
Contingencies (note 11)	—	—	—
Total net assets	\$ 42,805,919	41,094,196	11,947,195

See accompanying notes to financial statements.

RHODE ISLAND COLLEGE
(A Component Unit of the State of Rhode Island and Providence Plantations)
Statements of Revenues, Expenses, and Changes in Net Assets
Years ended June 30, 2004 and 2003

	2004	2003	2004
	Rhode Island	Rhode Island	Rhode Island
	College	College	College
	College	College	Foundation
Operating revenues:			
Tuition and fees	\$ 33,273,447	30,420,491	—
Auxiliary enterprises	11,432,336	10,913,102	—
Less: scholarship allowances	(6,630,075)	(6,275,339)	—
Net student fees	38,075,708	35,058,254	—
Federal, State, local and private grants and contracts	13,504,710	12,063,256	—
Sales and services of educational departments	2,768,759	2,757,917	—
Total operating revenues	54,349,177	49,879,427	—
Operating expenses (note 12):			
Instruction	32,545,542	33,298,248	—
Research	7,562,237	6,276,892	—
Academic support	11,268,825	11,930,832	—
Student services	6,279,786	6,238,236	—
Scholarships and fellowships	4,667,605	4,456,056	133,903
Public service	856,168	891,061	—
Operation and maintenance of plant	8,045,713	9,119,841	—
Institutional support	13,671,477	11,164,824	776,906
Depreciation and amortization	5,096,541	5,254,795	3,994
Auxiliary enterprises	10,598,581	9,574,041	—
Total operating expenses	100,592,475	98,204,826	914,803
Operating loss	(46,243,298)	(48,325,399)	(914,803)
Nonoperating revenues (expenses):			
State appropriations (note 13)	43,100,375	43,468,589	—
Gifts	—	754,790	2,868,756
Gifts from Foundation	189,094	—	(189,094)
Net investment income	964,739	547,675	852,644
Interest expense	(845,875)	(827,446)	—
Other nonoperating revenues	—	—	10,929
Net nonoperating revenues	43,408,333	43,943,608	3,543,235
(Loss) income before other revenues, expenses, gains or losses	(2,834,965)	(4,381,791)	2,628,432
Capital appropriations (note 13)	3,768,139	6,575,897	—
Capital gifts and grants	614,153	23,830	—
Capital gifts from Foundation	164,396	—	(164,396)
Increase in net assets	1,711,723	2,217,936	2,464,036
Net assets, beginning of year	41,094,196	38,876,260	9,483,159
Net assets, end of year	\$ 42,805,919	41,094,196	11,947,195

See accompanying notes to financial statements.

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

Statements of Cash Flows

Years ended June 30, 2004 and 2003

	2004	2003
	Rhode Island	Rhode Island
	College	College
Cash flows from operating activities:		
Tuition, residence, dining and other student fees	\$ 37,259,554	36,408,453
Grants and contracts	13,813,688	12,292,417
Payments to suppliers	(17,063,260)	(17,280,349)
Payments to employees	(75,289,464)	(69,829,086)
Payments for scholarships, fellowships and sponsored programs	(4,667,405)	(4,456,056)
Loans issued to students	(958,909)	(807,229)
Collection of loans to students	1,096,000	670,689
Other (payments) receipts	4,684,404	(138,103)
Net cash used by operating activities	<u>(41,125,392)</u>	<u>(43,139,264)</u>
Cash flows from noncapital financing activities:		
State appropriations	43,100,375	43,468,589
Funds held for others	292,899	147,001
Noncapital gifts and grants	189,094	754,790
Net cash provided by noncapital and related financing activities	<u>43,582,368</u>	<u>44,370,380</u>
Cash flows from capital and related financing activities:		
Capital appropriations	3,768,139	6,575,897
Proceeds from capital debt	9,163,539	—
Capital gifts and grants	778,549	23,830
Purchases of capital assets	(8,339,088)	(8,040,445)
Disposals of capital assets	10,468	—
Principal paid on capital debt and leases	(9,057,666)	(462,924)
Interest paid on capital debt and leases	(845,875)	(827,446)
Deposits with trustee	(68,010)	3,779,333
Net cash (used by) provided by capital and related financing activities	<u>(4,589,944)</u>	<u>1,048,245</u>
Cash flows from investing activities:		
Interest on investments	964,739	547,675
Net cash provided by investing activities	<u>964,739</u>	<u>547,675</u>
Net (decrease) increase in cash	(1,168,229)	2,827,036
Cash and cash equivalents – beginning of year	10,402,010	7,574,974
Cash and cash equivalents – end of year	<u>\$ 9,233,781</u>	<u>10,402,010</u>
Reconciliation of net operating expenses to net cash used by operating activities:		
Operating loss	\$ (46,243,298)	(48,325,399)
Adjustments to reconcile net loss to net cash used by operating activities:		
Depreciation and amortization	5,096,541	5,254,795
Changes in assets and liabilities:		
Accounts receivable	1,142,626	2,086,039
Inventory and other current assets	(87,156)	105,294
Loans receivable	137,087	(136,540)
Funds on deposit with the State	1,102,730	(3,785,103)
Accounts payable and accrued liabilities	(1,159,651)	900,629
Compensated absences	(343,465)	368,791
Students' deposits and unearned revenues	(763,601)	597,227
Grants refundable	(7,205)	(204,997)
Net cash used by operating activities	<u>\$ (41,125,392)</u>	<u>(43,139,264)</u>

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

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

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

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

RHODE ISLAND COLLEGE

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

Notes to Financial Statements

June 30, 2004 and 2003

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

Rhode Island College Foundation (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 year ended June 30, 2004, the Foundation distributed \$353,490 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: Office of the Controller, Rhode Island College, 600 Mount Pleasant Avenue, Providence, Rhode Island 02908.

(c) **Net Assets**

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

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

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

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

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

RHODE ISLAND COLLEGE

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

Notes to Financial Statements

June 30, 2004 and 2003

(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.

(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 year 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.

RHODE ISLAND COLLEGE

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

Notes to Financial Statements

June 30, 2004 and 2003

(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 2004 and 2003 health premiums amounted to approximately \$8,300,000 and \$6,900,000, respectively.

(i) Assessed Fringe Benefit Administrative Fund

In July 2000, the State established the Assessed Fringe Benefit Administrative Fund. This fund is used to make all payments relating to workers' compensation charges, unemployment payments and payments to employees for unused vacation and sick leave at the time of retirement or termination from State service. The State funds this account by assessing a charge against the bi-weekly payrolls of all State agencies, including the College. The fringe benefit assessment rate for fiscal years 2004 and 2003 was 3.8%. The assessed fringe benefit cost for the College was approximately \$1,600,000 for fiscal year 2004 and \$1,540,000 for fiscal year 2003.

(j) Students' Deposits and Unearned Revenue

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

(k) Student Fees

Student tuition, 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. 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, workers' compensation, unemployment and employee health and life insurance claims.

RHODE ISLAND COLLEGE

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

Notes to Financial Statements

June 30, 2004 and 2003

The College is insured for general liability with policy limits of \$1 million per claim and \$3 million in the aggregate with a \$25,000 deductible. Coverage under the General Liability Policy extends to employed health care providers, excluding physicians who have separate coverage. This policy does not apply to actions relating to federal/civil rights, eminent domain, and breach of contract. Such claims are insured under a separate policy for wrongful acts with limits of \$2 million per claim and \$2 million for the annual aggregate with a \$100,000 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 \$500 million. A separate inland marine policy insures specifically listed high value property items covering but not limited to computer equipment, valuable papers, fine arts, contractors 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. Workers' compensation, unemployment, and employee health and life insurance claims are self-insured and managed by the State.

(2) Cash, Cash Equivalents and Investments

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:

2004					
	Category			Total bank	Carrying
	1	2	3	balance	amount
\$	9,470,668	—	1,391,967	10,862,635	9,233,781

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

RHODE ISLAND COLLEGE

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

Notes to Financial Statements

June 30, 2004 and 2003

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.

Investments

Foundation investments in marketable securities with readily determinable fair values and all investments in debt securities are valued at their fair values in the statements of financial position. The Foundation records purchased securities at quoted market value and contributed services at their fair value on the date of receipt. Other contributed assets are recorded at appraised value at the time of donation. Investments in marketable securities without readily determinable fair values are recorded at cost. Unrealized gains and losses are reflected in the statements of activities.

The Foundation pools the investments of its various funds. The income from such investments and the realized and unrealized gains and losses on the investments are allocated to the participating funds based on book value of the fund groups. Participation units in the investment funds are determined monthly based on the fair value of investments at the calculation date.

Investments stated at fair value are comprised of the following at June 30, 2004:

	2004		
	Cost	Fair Value	Unrealized Appreciation (Depreciation)
Common stocks	\$ 5,721,408	6,202,391	480,983
Government securities	3,411,087	3,425,231	14,144
Direct financing lease	240,046	240,046	—
Cash equivalents	290,163	290,163	—
	<u>\$ 9,662,704</u>	<u>10,157,831</u>	<u>495,127</u>

(3) Cash Held by State Treasurer

Cash held by State Treasurer of \$307,637 and \$1,445,046 at June 30, 2004 and 2003, respectively, was subsequently used to pay accounts payable and accrued salaries.

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

Notes to Financial Statements

June 30, 2004 and 2003

(4) Accounts Receivable

Accounts receivable include the following at June 30:

	2004	2003
Student accounts receivable	\$ 2,393,591	2,385,207
Grants receivable	1,512,956	1,926,821
Other receivables	711,454	1,663,153
	4,618,001	5,975,181
Less allowance for doubtful accounts	(1,926,539)	(2,141,093)
	\$ 2,691,462	3,834,088

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:

	2004	2003
Perkins loans receivable	\$ 4,991,772	4,856,594
Nursing loans receivable	95,860	105,858
Short-term loans receivable	27,137	305,507
	5,114,769	5,267,959
Less allowance for doubtful accounts	(920,494)	(936,597)
	\$ 4,194,275	4,331,362

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

Notes to Financial Statements

June 30, 2004 and 2003

(6) Capital Assets

Capital assets consist of the following at June 30:

2004						
	Estimated lives (in years)	Beginning balance	Additions	Reductions	Reclassifi- cations	Ending balance
Capital assets not being depreciated:						
Construction in progress	—	\$ 5,316,281	5,825,282	—	(5,316,281)	5,825,282
Land	—	1,630,968	—	—	—	1,630,968
Total not being depreciated		6,947,249	5,825,282	—	(5,316,281)	7,456,250
Capital assets being depreciated:						
Land improvements	15-25	3,462,457	345,956	—	—	3,808,413
Buildings, including improvements	10-50	78,982,159	1,311,838	(1,115,623)	5,316,281	84,494,655
Furnishings and equipment (including cost of capital leases)	5-15	17,237,634	856,012	(24,792)	—	18,068,854
Total being depreciated		99,682,250	2,513,806	(1,140,415)	5,316,281	106,371,922
Less accumulated depreciation:						
Land improvements		2,149,889	159,450	—	—	2,309,339
Buildings, including improvements		41,371,836	2,826,069	(1,105,155)	—	43,092,750
Furnishings and equipment		9,791,210	2,111,022	(24,792)	—	11,877,440
Total accumulated depreciation		53,312,935	5,096,541	(1,129,947)	—	57,279,529
Capital assets, net		\$ 53,316,564	3,242,547	(10,468)	—	56,548,643

RHODE ISLAND COLLEGE

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

Notes to Financial Statements

June 30, 2004 and 2003

	2003			
	Estimated lives (in years)	Beginning balance	Additions	Ending balance
Capital assets not being depreciated:				
Construction in progress	—	\$ 810,517	4,505,764	5,316,281
Land	—	<u>1,630,968</u>	<u>—</u>	<u>1,630,968</u>
Total not being depreciated		<u>2,441,485</u>	<u>4,505,764</u>	<u>6,947,249</u>
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	<u>16,013,828</u>	<u>1,223,806</u>	<u>17,237,634</u>
Total being depreciated		<u>96,147,569</u>	<u>3,534,681</u>	<u>99,682,250</u>
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		<u>7,424,960</u>	<u>2,366,250</u>	<u>9,791,210</u>
Total accumulated depreciation		<u>48,058,140</u>	<u>5,254,795</u>	<u>53,312,935</u>
Capital assets, net		\$ <u>50,530,914</u>	<u>2,785,650</u>	<u>53,316,564</u>

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

Notes to Financial Statements

June 30, 2004 and 2003

(7) Long-Term Liabilities

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

	2004				
	Beginning balance	Additions	Reductions	Ending balance	Current portion
Leases and bonds payable:					
Lease obligations	\$ 274,670	—	37,931	236,739	41,902
Note payable	2,167,005	—	56,861	2,110,144	60,031
Revenue bonds payable	<u>12,817,126</u>	<u>9,163,539</u>	<u>8,962,874</u>	<u>13,017,791</u>	<u>484,417</u>
Total leases and bonds payable	15,258,801	9,163,539	9,057,666	15,364,674	586,350
Other long-term liabilities:					
Compensated absences	<u>5,508,195</u>	<u>2,919,556</u>	<u>3,263,021</u>	<u>5,164,730</u>	<u>2,754,418</u>
Total long-term liabilities	<u>\$ 20,766,996</u>	<u>12,083,095</u>	<u>12,320,687</u>	<u>20,529,404</u>	<u>3,340,768</u>
	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	<u>13,191,856</u>	<u>—</u>	<u>374,730</u>	<u>12,817,126</u>	<u>444,467</u>
Total leases and bonds payable	15,721,725	—	462,924	15,258,801	539,259
Other long-term liabilities:					
Compensated absences	<u>5,139,404</u>	<u>3,141,565</u>	<u>2,772,774</u>	<u>5,508,195</u>	<u>2,594,651</u>
Total long-term liabilities	<u>\$ 20,861,129</u>	<u>3,141,565</u>	<u>3,235,698</u>	<u>20,766,996</u>	<u>3,133,910</u>

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

Notes to Financial Statements

June 30, 2004 and 2003

Notes and Bonds Payable

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

	June 30	
	2004	2003
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.	\$ 36,000	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.	70,000	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.	160,000	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 \$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.	150,000	200,000
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. These bonds were paid off in fiscal 2004 from the proceeds of the 2003B issue.	—	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 \$23,292 to \$28,397, plus interest through 2023.	103,252	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, 2003.	3,335,000	3,390,000

RHODE ISLAND COLLEGE

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

Notes to Financial Statements

June 30, 2004 and 2003

	<u>June 30</u>	
	<u>2004</u>	<u>2003</u>
Rhode Island Health and Educational Building Corporation Higher Education Facility Revenue Bonds, Series 2003 B payable to the United States Government. This issue refinanced and fully refunded Series 1993 A. The bonds carry interest rates ranging from 4.40% - 5.625%. The bonds are due in varying annual installments from \$229,075 - \$587,125, plus interest, through September 15, 2023.	\$ 7,754,884	—
Rhode Island Health and Educational Building Corporation Higher Education Facility Revenue Bonds, Series 2003 C payable to the United States Government. This issue refinanced and partially refunded Series 1993B. The bonds carry interest rates ranging from 4.40% - 5.625%. The bonds are due in varying annual installments from \$8,025 - \$117,165, plus interest, through September 15, 2023.	1,408,655	—
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>2,110,144</u>	<u>2,167,005</u>
	<u>\$ 15,127,935</u>	<u>14,984,131</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. As such, neither the assets on deposit with the Escrow Trustee nor the bonds defeased are included in the accompanying statement of net assets. During fiscal year 2003, the funds on deposit with the Escrow Trustee were used to liquidate in full the unpaid balance of prior bonds. The 1993 proceeds were also used to fund the acquisition of library capital, to fund various capital renovations to existing buildings at the three institutions, to fund the cost of a surety bond, to fund a debt service reserve fund, and to pay certain expenses incurred in connection with the issuance of the bonds.

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

RHODE ISLAND COLLEGE

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

Notes to Financial Statements

June 30, 2004 and 2003

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 \$2,110,144 bears interest at 5.5% and 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.

In November 2000, the Rhode Island voters approved the issuance of \$36.9 million general obligation bonds to fund improvements at the College, CCRI, and URI. The bonds provides funding until 2008 with \$4.0 million to fund the renovations and upgrades of student residence halls and surrounding landscape at the College, \$10.9 million to fund construction of a building for the Newport campus of CCRI, and \$22 million to fund the major renovations and upgrades of student residence halls and surrounding landscape at URI.

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

The Series 2000 A, 2003 B and 2003 C bonds are collateralized by the revenues of the auxiliaries operated under the authority of the Board of Governors.

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:			
2005	\$ 544,448	685,679	1,230,127
2006	582,265	669,273	1,251,538
2007	545,227	653,393	1,198,620
2008	519,780	639,311	1,159,091
2009	519,785	596,177	1,115,962
2010-2014	2,905,612	2,679,854	5,585,466
2015-2019	3,570,516	2,011,737	5,582,253
2020-2024	4,565,302	1,012,349	5,577,651
2025-2029	925,000	262,266	1,187,266
2030-2031	450,000	25,594	475,594
	<u>\$ 15,127,935</u>	<u>9,235,633</u>	<u>24,363,568</u>

RHODE ISLAND COLLEGE

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

Notes to Financial Statements

June 30, 2004 and 2003

Lease Obligations

During fiscal year 1989, the College completed the sale with leaseback 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.

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

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Year ending June 30:			
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>\$ 236,739</u>	<u>60,487</u>	<u>297,226</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>2004</u>	<u>2003</u>
Restricted – expendable:		
Retirement of general long-term debt	\$ 289,825	215,388
Renewal and replacements	2,289,756	4,534,842
College funds	629,345	609,032
Auxiliary enterprises (includes inventories)	854,133	1,413,466
Capital project programs	1,162,595	950,270
	<u>\$ 5,225,654</u>	<u>7,722,998</u>

RHODE ISLAND COLLEGE

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

Notes to Financial Statements

June 30, 2004 and 2003

(10) Unrestricted Net Assets

Management expects that the deficit in unrestricted net assets as of June 30, 2004 and 2003 will be eliminated through future operating and nonoperating revenues.

(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, is undergoing a technology modernization of core administrative systems. While the College and URI are implementing PeopleSoft administrative systems, CCRI is implementing Banner/SCT administrative systems. The College's PeopleSoft procurement effort 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>2004</u>	<u>2003</u>
Compensation and benefits	\$ 73,922,478	70,913,273
Supplies and services	16,905,851	17,580,702
Depreciation and amortization	5,096,541	5,254,795
Scholarships and fellowships	4,667,605	4,456,056
	<u>\$ 100,592,475</u>	<u>98,204,826</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 2004 fiscal year. Once the State budget is established, the Board approves the allocation of the State appropriation to the College, URI, CCRI and the Office of Higher Education. The Board also approves the unrestricted and restricted original allocations for the fiscal year.

RHODE ISLAND COLLEGE

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

Notes to Financial Statements

June 30, 2004 and 2003

The original and supplemental appropriations are acted upon by a vote of the Board. As part of the College's annual budget allocation process for general funds, the Board allocates specific amounts in the budget which are internally allocated for the following categories: (1) salaries and wages, (2) operating expenditures, and (3) outlays for personnel costs, utilities, out-of-state travel, repairs, capital and student aid, as well as the overall total budget allocation. Any increases or decreases in the specific allocations, including any transfers among those line items not specifically allocated are reported to the Board for its approval at the mid-year financial review at which time the final allocation is authorized.

State Capital Plan Funds

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

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 CCRI. The bonds provides funding until 2008 with \$4.0 million to fund the renovations and upgrades of student residence halls and surrounding landscape at the College, \$22.0 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 2004 and 2003, the College spent \$51,474 and \$1,002,070, respectively.

The College's State appropriation is comprised of the following at June 30, 2004 and 2003:

	<u>2004</u>	<u>2003</u>
Direct appropriations	\$ 43,100,375	43,468,589
State capital plan funds	3,716,665	5,573,827
State contributed capital	51,474	1,002,070
	<u>\$ 46,868,514</u>	<u>50,044,486</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 \$2,575,000 and \$2,500,000 during the years ended June 30, 2004 and 2003, respectively.

Employees covered by the Board of Governors retiree medical plan contributed 0.25% of their gross salaries, or approximately \$72,000 and \$69,000 during fiscal years 2004 and 2003.

RHODE ISLAND COLLEGE

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

Notes to Financial Statements

June 30, 2004, 2003, and 2002

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 \$10,450,000 and \$10,200,000 for the years ended June 30, 2004 and 2003, respectively. The College's total payroll expense for the years ended June 30, 2004 and 2003 were approximately \$50,100,000 and \$47,350,000, 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.

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, which includes an assessment for post-retirement health plan, while the College was required to pay 9.60% and 7.68% of salaries paid for the years ending June 30, 2004 and 2003, respectively. In addition, the College is required to contribute 0.86% and 1.17% for post-retirement health benefits in 2004 and 2003. Employees contributed approximately \$1,034,000 and \$1,025,000 during the years ended June 30, 2004 and 2003, respectively. The College's contributions to the System for the years ending June 30, 2004, 2003, and 2002 were approximately \$1,137,000, \$901,000 and \$615,000, respectively, representing 100% of the required contribution for each of the three years. The post-retirement contributions of approximately \$151,000 and \$122,000 were made during fiscal years 2004 and 2003, respectively.

(15) Subsequent Event

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



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

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

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

We have audited the financial statements of Rhode Island College (a component unit of the State of Rhode Island and Providence Plantations) (the College) and its discretely presented component unit, where applicable, as of and for the years ended June 30, 2004 and 2003, and based on our audits and the report of other auditors, have issued our report thereon dated September 10, 2004. Our report refers to the College's adoption, effective July 1, 2003, of Statement No. 39, of the Governmental Accounting Standards Board (GASB), *Determining Whether Certain Organizations are Component Units (an amendment of GASB Statement 14)*. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audits, we considered the College's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

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

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

KPMG LLP

September 10, 2004