

**COMMUNITY COLLEGE OF
RHODE ISLAND**

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

FINANCIAL STATEMENTS

JUNE 30, 2017

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

Financial Statements

June 30, 2017

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INDEPENDENT AUDITORS' REPORT

The Board of Education
State of Rhode Island and Providence Plantations
Providence, Rhode Island

Report on the Financial Statements

We have audited the accompanying financial statements of the Community College of Rhode Island (a component unit of the State of Rhode Island and Providence Plantations) (the "Community College") which comprise the statement of net position as of June 30, 2017, and the related statements of revenues, expenses and changes in net position and cash flows for the year then ended, and the related notes to the financial statements, which collectively comprise the Community College's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the financial statements of Community College of Rhode Island Foundation, Inc. (the "Foundation") as of June 30, 2017 as discussed in Note 1. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Foundation, is based solely on the report of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the net position of the Community College of Rhode Island as of June 30, 2017, and the changes in net position, and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1, GASB Statement 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, is effective for fiscal year 2018 and will require the Community College to restate beginning net position at July 1, 2017 to recognize its proportionate share of the net postemployment benefits other than pensions obligation determined for the Rhode Island Retiree Health Care Benefit Plan and the Rhode Island Board of Education Health Care Insurance Retirement Plan. Our opinion is not modified with respect to that matter.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that management's discussion and analysis on pages 3-17, the schedule of proportionate share of the net pension liability on page 49, the schedule of contributions on page 50, and the notes to the required supplementary information on page 51 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 29, 2017 on our consideration of the Community College of Rhode Island's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Community College of Rhode Island's internal control over financial reporting and compliance.

O'Connor and Duen, P.C.

Certified Public Accountants

Braintree, Massachusetts

September 29, 2017

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

Management's Discussion and Analysis (Unaudited)

June 30, 2017

Introduction

The following management discussion and analysis (MD&A) provides management's view of the financial position of the Community College of Rhode Island (the "Community College") as of June 30, 2017 and the results of operations for the year then ended, with selected comparative information for the year ended June 30, 2016. The purpose of the MD&A is to assist readers in understanding the accompanying financial statements by providing an objective and understandable analysis of the Community College's financial activities based on currently known facts, decisions, and conditions. This analysis has been prepared by management, which is responsible for the completeness and fairness of the information contained therein. The MD&A consists of highly summarized information, and should be read in conjunction with the Community College's financial statements and notes thereto, which follow this section.

The Community College is New England's largest public, two-year college with an average enrollment of 14,624 full and part-time for-credit students in the 2017 academic year. The mission of the Community College is to provide all Rhode Island residents with open access to postsecondary education. It is also open to out-of-state students.

The Community College offers a variety of academic programs that award associate's degrees or prepare students for transfer to four-year colleges or universities. In addition, technical career programs are offered primarily to equip students with the skills needed to obtain employment in Rhode Island businesses, industries, and service agencies. It also develops educational and training programs for local businesses and industries to further the state's economic development objectives.

The Community College offers extensive community programming as well. It opens its facilities for public use, sponsors programs on issues of public concern, and offers workshops and seminars for businesses, for government agencies and for individuals seeking to improve their skills or enhance their lives.

Community College courses are offered in a variety of locations across the state. The Knight Campus in Warwick, the Flanagan Campus in Lincoln, the Liston Campus in Providence, and the Newport Campus are the main campuses of the Community College. Classes are also offered at satellite facilities in Providence and Westerly.

COMMUNITY COLLEGE OF RHODE ISLAND

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Management's Discussion and Analysis (Unaudited) - Continued

June 30, 2017

Introduction - Continued

The Rhode Island Junior College system was established by an act of the Rhode Island General Assembly in 1960. In 1980, the Rhode Island Board of Regents for Education approved a change in the name of the Community College from Rhode Island Junior College to the Community College of Rhode Island to reflect the true mission of the institution. The Board of Governors for Higher Education (the "Board of Governors") became the governing body for the Community College in 1981.

In June 2012, the Rhode Island General Assembly approved a reorganization of the entire Rhode Island system of public education. The Rhode Island General Assembly established the Rhode Island Board of Education (the "BOE") effective January 1, 2013, to oversee the elementary, secondary, and postsecondary education for the state. In June 2014, the Rhode Island General Assembly approved the reorganization of the entire Rhode Island system of public education.

The legislation enlarged the BOE to seventeen (17) members in order for the Board to populate two Councils: Council for Elementary and Secondary Education and the Council for Post-Secondary Education (the "Councils"). Each of the two Councils will be responsible for the significant portion of the governance and regulation per RIGL 16-60-1 and 16-60-4 for Elementary/Secondary and per RIGL 16-59-1 and 16-59-4 for Post-Secondary.

The mission of the BOE is to provide long-range planning and coordination and evaluation of policies and programs for the public education systems of the state and specifically:

- To develop and adopt educational, financial and operational goals for the education systems of the state that represent achievable benchmarks for a 10-year and 20-year time to be implemented by the two Councils and the commissioners.
- To ensure that the education systems of the state are aligned with the projected opportunities in workforce development and economic development and that the education systems are preparing students to participate in the future workforce of Rhode Island.
- To coordinate programs and courses of study and promote collaboration between and among pre-kindergarten through higher education institutions and agencies.
- To present strategic budget and finance recommendations to the council on elementary and secondary education and council on postsecondary education that are aligned with the long-range goals adopted by the board.

COMMUNITY COLLEGE OF RHODE ISLAND
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Management's Discussion and Analysis (Unaudited) - Continued

June 30, 2017

Financial Highlights

The Community College's financial position remained strong as of June 30, 2017. Net position decreased by \$1.8 million over the prior year.

At June 30, 2017, the Community College's assets of \$106.4 million and deferred outflows of \$4.7 million exceeded its liabilities of \$49.5 million and deferred inflows of \$1.3 million by \$60.3 million, a decrease over the prior year of \$1.8 million. At June 30, 2016, the Community College's assets of \$108.1 million and deferred outflows of \$2.3 million exceeded its liabilities of \$47.6 million and deferred inflows of \$0.7 million by \$62.1 million, an increase over the prior year of \$2.1 million. The resulting net position is summarized into the following categories for the fiscal years ended June 30:

Net Position
(in millions \$)

		<u>2017</u>		<u>2016</u>
Net investment in capital assets	\$	79.1	\$	76.6
Restricted - expendable		0.0		0.0
Unrestricted		<u>(18.8)</u>		<u>(14.5)</u>
Total net position	\$	<u><u>60.3</u></u>	\$	<u><u>62.1</u></u>

The restricted expendable may be expended only for the purposes authorized by the donor or grantor.

Fiscal year 2017 operating revenues before net investment return decreased by 3% or \$2.2 million. Operating expenses increased by 2.7% or \$3.2 million.

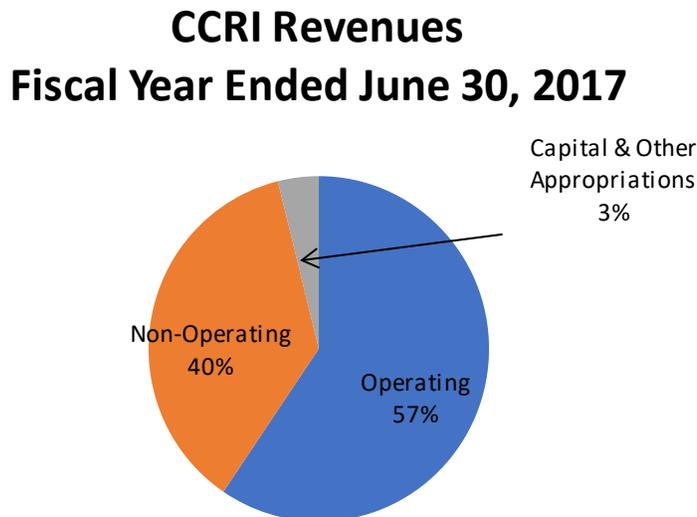
COMMUNITY COLLEGE OF RHODE ISLAND
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Management’s Discussion and Analysis (Unaudited) - Continued

June 30, 2017

Financial Highlights - Continued

The following chart provides a graphical breakdown of total revenues by category for the fiscal year ending June 30, 2017:



Cash flow continued to be adequate for operations with an operating cash balance of \$16.8 million at June 30, 2017, a decrease of \$3.4 million from June 30, 2016. Prior year cash flow was also adequate for operations with an operating cash balance of \$20.2 million at June 30, 2016.

Overview of the Financial Statements

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

The Community College of Rhode Island Foundation (the “Foundation”) is a legally separate tax exempt component unit of the Community College of Rhode Island. The Foundation acts primarily as a fundraising organization to supplement the resources that are available to the Community College in support of its programs. The Board of the Foundation is self-perpetuating and primarily consists of graduates and friends of the Community College.

COMMUNITY COLLEGE OF RHODE ISLAND
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Management's Discussion and Analysis (Unaudited) - Continued

June 30, 2017

Overview of the Financial Statements - Continued

Although the Community College does not control the timing or the amount of receipts from the Foundation, the majority of resources received or held by the Foundation are restricted to the activities of the Community College by the donors. Because these resources held by the Foundation can only be used by or are for the benefit of the Community College, the Foundation is considered a component unit of the Community College and is discretely presented in the Community College's financial statements. Management's Discussion and Analysis is required to focus on the Community College, not its component unit.

The Financial Statements

The financial statements are designed to provide readers with a broad overview of the Community College's finances and are comprised of three basic statements. These statements present financial information in a form similar to that used by private institutions of higher education and corporations.

The *Statement of Net Position* presents information on all of the Community College's assets, deferred outflows, liabilities and deferred inflows, with the difference being reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Community College is improving or deteriorating. Other factors are also relevant to assessing the Community College's overall financial health. These include the trend, quality, and retention and size of student enrollments; diversification of revenue streams; management of costs; and condition of facilities.

The *Statement of Revenues, Expenses and Changes in Net Position* shows how the Community College's net position changed during the most recent fiscal year. This statement reports total operating revenues and expenses, non-operating revenues and expenses, and capital additions and deletions. All changes in net position 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).

COMMUNITY COLLEGE OF RHODE ISLAND
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Management's Discussion and Analysis (Unaudited) - Continued

June 30, 2017

The Financial Statements - Continued

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 18 to 20 of this report.

The Community College reports its operations as a business type activity using the economic resource measurement focus and full accrual basis of accounting. As a component unit of the State of Rhode Island and Providence Plantations, the results of the Community College's operations, its net position and cash flows are also summarized in the State's Comprehensive Annual Financial Report.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the financial statements. They also provide information regarding both the accounting policies and procedures the Community College has adopted, as well as additional detail of certain amounts contained in the financial statements. The notes to the financial statements can be found on pages 21 to 48 of this report.

Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of the Community College's financial position. In the case of the Community College, assets and deferred outflows exceeded liabilities and deferred inflows by \$60.3 million at the close of fiscal year 2017, a decrease of \$1.8 million over fiscal 2016. Assets and deferred outflows exceeded liabilities and deferred inflows by \$62.1 million at the close of fiscal year 2016. Details are shown in the chart below in millions:

COMMUNITY COLLEGE OF RHODE ISLAND
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Management's Discussion and Analysis (Unaudited) - Continued

June 30, 2017

Financial Analysis - Continued

Condensed Statement of Net Position
(\$ in millions)

	2017	2016
Assets:		
Current assets	\$ 22.2	\$ 25.5
Noncurrent assets	84.2	82.6
Total assets	106.4	108.1
Deferred outflows of Resources:		
Deferred outflows	4.7	2.3
Total Deferred outflows	4.7	2.3
Liabilities:		
Current liabilities	14.3	13.4
Noncurrent liabilities	35.2	34.2
Total liabilities	49.5	47.6
Deferred Inflows of Resources:		
Deferred Inflows	1.3	0.7
Total Deferred Inflows	1.3	0.7
Net Position:		
Net investment in capital assets	79.1	76.6
Restricted, expendable	0.0	0.0
Unrestricted	(18.8)	(14.5)
Total net position	\$ 60.3	\$ 62.1

The largest portion of the Community College's net position, \$79.1 million, reflects its investment in capital assets (such as land, buildings, machinery, and equipment), less any related outstanding debt used to acquire those assets. The Community College uses these capital assets to provide services to students, faculty and administration. Consequently, these assets are not available for future spending.

COMMUNITY COLLEGE OF RHODE ISLAND
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Management's Discussion and Analysis (Unaudited) - Continued

June 30, 2017

Financial Analysis - Continued

Although the Community College's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. Also, in addition to the debt noted above, which is reflected in the Community College's financial statements, the State of Rhode Island regularly provides financing for certain capital projects through the issuance of general obligation bonds and appropriations from the Rhode Island Capital Fund. Borrowings by the State from these funds 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 Community College does not have a separate bond rating. All revenue bonds must be approved by and arranged through the Rhode Island Board of Education. Revenue bond related indebtedness is reported on the Community College's financial statements. BOE bonds issued for the Community College are rated between Aa3 and A1 by Moody's. Net pension liability of \$30.8 million, bonds of \$5.0 million and compensated absences of \$4.1 million are the Community College's largest liabilities.

COMMUNITY COLLEGE OF RHODE ISLAND
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Management's Discussion and Analysis (Unaudited) - Continued

June 30, 2017

Financial Analysis - Continued

Condensed Statements of Revenues and Expenses

Years Ended June 30, 2017 and 2016

(\$ in millions)

	2017	2016
Operating revenues:		
Tuition and fees, net	\$ 25.2	\$ 24.7
Scholarships, grants, and contracts	33.2	35.6
Auxiliary enterprises	7.5	7.7
Other	3.7	3.8
Total operating revenues	69.6	71.8
Operating expenses:		
Salaries and benefits	91.5	90.4
Supplies and services	20.8	20.0
Scholarships, grants, and contracts	4.2	3.5
Depreciation and amortization	7.6	7.0
Total operating expenses	124.1	120.9
Net operating loss	(54.5)	(49.1)
Nonoperating revenues (expenses):		
State and other appropriations	48.9	47.7
Net investment income	0.1	0.1
Other nonoperating expenses, net	(0.1)	(0.2)
Net nonoperating revenues	48.9	47.6
Increase (Decrease) in net position before capital contributions	(5.6)	(1.5)
Capital appropriations	3.8	3.6
Increase (Decrease) in net position	\$ (1.8)	\$ 2.1

COMMUNITY COLLEGE OF RHODE ISLAND
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Management's Discussion and Analysis (Unaudited) - Continued

June 30, 2017

Financial Analysis - Continued

Operating Revenues

Total operating revenues for fiscal year 2017 were \$69.6 million, a decrease of \$2.2 million from the prior fiscal year. Total operating revenues for fiscal year 2016 were \$71.8 million. The most significant sources of operating revenue for the Community College are tuition and fees, grants and contracts, and auxiliary services. Significant changes in operating revenue resulted from:

- Federal, state, and private grant and contract activity decreased \$2.4 million during fiscal year 2017 and increased by \$1.1 million during fiscal year 2016. The decrease during 2017 is due to a decrease in grant activity.

Operating Expenses

Operating expenses in fiscal year 2017 totaled \$124.1 million, an increase of \$3.2 million from fiscal year 2016. Of this total, \$72.5 million or 58% was used for instruction, academic and student support in 2017 (\$72.0 million or 60% in 2016). Depreciation expense totaled \$7.6 million in fiscal year 2017 and \$7.0 million in fiscal year 2016.

Non-Operating Revenues

Total non-operating revenues for fiscal year 2017 were \$48.9 million, including the state appropriation of \$48.9 million. Total non-operating revenues for fiscal year 2016 were \$47.6 million, including the state appropriation of \$47.7 million. This was an increase in total non-operating revenues of \$1.3 million from the prior year. Due to the nature of public higher education, institutions incur a loss from operations. State appropriations to the Community College, reported as non-operating revenue, are the primary resource for offsetting the loss from operations.

Other

Capital appropriations of \$3.8 million in fiscal year 2017 (\$3.6 million in fiscal year 2016) represent general obligation funds spent by the state of Rhode Island to construct or acquire capital assets utilized by the Community College.

COMMUNITY COLLEGE OF RHODE ISLAND
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Management's Discussion and Analysis (Unaudited) - Continued

June 30, 2017

Capital Asset and Debt Administration

Capital Plan

The Rhode Island Board of Education submits a running five fiscal year Capital Improvement Plan (C.I.P.) to the General Assembly and State Executive Branch each year in conjunction with the State's capital planning process. This plan includes proposed capital asset protection projects for the Community College. The FY 2018-2022 capital request for the Community College totaled \$56.5 million and included long-term projects in progress that are funded and capital project requests being submitted for planning, support and funding. This plan forms the basis for discussions on funding the various projects from all available funding sources such as RICAP as well as college or grant monies. During fiscal year 2017, the Community College expended \$5.5 million on plant-related projects funded by allocations from the annual RICAP fund, the Warwick Renewal RICAP fund, RICAP funding from the Governor's Commission on Disabilities and the Auxiliary Revenue Reserve fund. These are typical sources of funding for Community College capital project funding as well as unrestricted funds, the State of Rhode Island Capital appropriations ("RICAP"), general obligation bonds, bonds issued through Certificates of Participation ("COPS"), or funding through the Rhode Island Health and Educational Building Corporation ("RIHEBC"). The execution of the Community College's capital improvement plan is contingent upon approval by and sufficient funding from the State. For FY18 the state budget passed by the General Assembly supports funding a total \$58.1 million in capital projects for the fiscal year period of FY17 through FY21.

Capital Assets

At June 30, 2017 and 2016, the Community College had \$84.1 million and \$82.6 million invested in capital assets, net of accumulated depreciation of \$88.5 million and \$80.9 million, respectively. These represent an increase of \$1.5 million and \$2.4 million, respectively, from the prior year. Depreciation charges totaled \$7.6 million during fiscal year 2017 and \$7.0 million during fiscal year 2016. Legal title to all land and real estate assets is vested in the Rhode Island Board of Education.

COMMUNITY COLLEGE OF RHODE ISLAND
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Management's Discussion and Analysis (Unaudited) - Continued

June 30, 2017

Capital Asset and Debt Administration - Continued

Capital Assets - Continued

A summary of the capital asset balances is displayed below:

	2017	2016
Land and improvements	\$ 1.6	\$ 1.6
Buildings and improvements	67.9	67.6
Construction in progress	9.0	5.8
Furniture, fixtures, and equipment	5.7	7.6
Total	\$ 84.2	\$ 82.6

Debt

At June 30, 2017 and 2016, the Community College had \$5.0 million and \$5.9 million in debt outstanding.

	2017	2016
Due to State of Rhode Island	\$ 3.0	\$ 3.6
Bonds payable	2.0	2.3
Total	\$ 5.0	\$ 5.9

Debt repayments made in 2017 were \$0.9 million and 2016 were \$1.0 million.

COMMUNITY COLLEGE OF RHODE ISLAND
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Management's Discussion and Analysis (Unaudited) - Continued

June 30, 2017

Debt - Continued

The Community College has no independent bonding authority. All revenue bonds must be approved by and arranged through the BOE. Revenue bond related indebtedness is reported on the Community College's financial statements. BOE bonds issued for the Community College are rated between Aa3 and A1 by Moody's. General obligation bond related indebtedness is reflected on the financial statements of the State of Rhode Island. More detailed information about the Community College's long-term liabilities is presented in Note 5 to the financial statements.

Cash received from operations consists primarily of student tuition and fees and sponsored program grants and contracts. Significant sources of cash provided by noncapital financing activities, as defined by GASB, include State appropriations used to fund operating activities.

Economic Factors That Will Affect the Future

The seasonally adjusted unemployment rate for the State of Rhode Island, from which the Community College primarily draws students, decreased from 5.5% in June of 2016 to 4.2% in June of 2017, according to the U. S. Bureau of Labor Statistics. This compares to a 4.9% seasonally adjusted unemployment rate nationally in June of 2016 decreasing to 4.4% in June of 2017. Historically, in times of economic growth, public colleges/universities have experienced decreases in their enrollments. The Community College cannot predict the extent to which enrollment may vary in the current environment. The Rhode Island Promise Scholarship is a new initiative in the Fall of 2017. It appears to have an immediate impact of mitigating declining enrollment. The longer term impact on enrollment and tuition will depend on continued funding of the scholarship and the level of persistence demonstrated by the students who take advantage of the program. The Community College will focus resources on making these and all students successful.

The faculty association contract provides for a 3% increase July 1, 2017. The part-time faculty association contract provides an increase to \$78.67 on September 1, 2017. The Professional Staff Association (CCRIPSA) contract provides for a 3% increase July 1, 2017.

COMMUNITY COLLEGE OF RHODE ISLAND
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Management's Discussion and Analysis (Unaudited) - Continued

June 30, 2017

Economic Factors That Will Affect the Future - Continued

As with many state governments, Rhode Island struggles with allocating limited resources across diverse state funded agencies and mandates. State appropriation support to the College has declined from 53% of the total unrestricted budget in 2008 to 47% in 2017. To some extent, these dollars have been made up through student tuition and fees thus increasing our financial dependence on enrollment. The BOE and state government have held tuition flat for several years impacting this important unrestricted revenue source for the college. The FY17 Enacted Budget included a \$1.2 million state appropriation increase over FY16. RICAP allocated \$8.2 million, spent \$3.6 million and encumbered \$4.6 million. The BOE also approved tuition and fee increases for the system of higher education, which is expected to generate additional unrestricted revenues in FY18 of \$1.0 million. The Community College's in-state full time tuition and fees increased 7.0% in FY18. This was the first such increase since FY 2016. In a letter dated August 21, 2017; the State Budget Officer projected a \$237 million deficit in FY19 for the State of Rhode Island. This may have some impact on higher education and the Community College specifically.

The BOE has been sub-organized into two councils – one for Elementary and Secondary Education and one for Post-Secondary Education permitting each council to focus more specifically on pertinent agendas and policies but still reporting to the full BOE for coordination of Rhode Island's public education agenda. The Post-Secondary Council has created two subcommittees of its membership one focusing on Personnel matters, and the other a Facility and Finance group to give necessary focus on financial and physical infrastructure of the three institutions of higher education.

The Community College remains competitive economically for in-state students (95.8% of the total students) but is becoming less competitive for out-of-state students. Tuition and mandatory fees for residents in fiscal year 2017 were \$4,266 and ranked fourth highest among the Community College's ten-institution regional peer group. Nonresident tuition and mandatory fees were \$11,496 and ranked the Community College ninth highest in its regional peer group.

The Community College's average enrollment in fiscal year 2017 decreased by 987 (6.3%) over the prior year's average enrollment. Future Community College enrollments may be affected by a number of factors, including any material increase in tuition, other mandatory charges and any material decrease in State appropriations as well as the condition of the state and national economies.

COMMUNITY COLLEGE OF RHODE ISLAND
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Management's Discussion and Analysis (Unaudited) - Continued

June 30, 2017

Fiscal Planning

The Community College will continue to control expenses in accordance with available resources and established priorities. The Business and Finance team actively inform the administration of the Community College's current fiscal picture, offer options and considerations for revenue and expenditure changes, and plan in a fiscally prudent and long-term manor.

Information Systems

The Community College of Rhode Island utilizes the Ellucian Resource Management ("ERP") system. The key Banner modules deployed includes; Student Information System ("SIS"), Human Capital Management ("HCM"), Finance and Financial Aid. Banner is deployed in over 1,400 higher education institutions in 40 countries. Over the next year, the Community College will be migrating from version 8 to version 9 of Banner to maintain currency and access added features and functionality. The Community College's applications portfolio includes additional systems that integrate with the Banner ERP and support the college's teaching and learning mission.

Request for Information

This financial report is designed to provide a general overview of the Community College's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Office of the Controller, Community College of Rhode Island, 400 East Avenue, Warwick, RI 02886.

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

Statement of Net Position

June 30, 2017

	<u>Primary</u> <u>Government</u>	<u>Component Unit</u> <u>Foundation</u>
Assets and Deferred Outflow of Resources		
Current Assets:		
Cash and equivalents (Note 2)	\$ 14,769,457	\$ 928,182
Cash held by State Treasurer	2,024,459	-
Accounts receivable, net (Note 3)	4,406,062	-
Inventory and other assets	1,009,159	-
Pledges receivable	<u>-</u>	<u>40,228</u>
Total Current Assets	<u>22,209,137</u>	<u>968,410</u>
Noncurrent Assets:		
Pledges receivable	-	12,923
Investments	-	3,578,156
Capital assets, net of accumulated depreciation (Note 4)	<u>84,148,801</u>	<u>-</u>
Total Noncurrent Assets	<u>84,148,801</u>	<u>3,591,079</u>
Total Assets	<u>106,357,938</u>	<u>4,559,489</u>
Deferred Outflow of Resources:		
Net difference between projected and actual earnings on plan investments (Note 6)	2,196,117	-
Contributions made subsequent to measurement date (Note 6)	<u>2,529,226</u>	<u>-</u>
Total Deferred Outflows of Resources	<u>4,725,343</u>	<u>-</u>
Liabilities, Deferred Inflows of Resources and Net Position		
Current Liabilities:		
Accounts payable and accrued liabilities	5,527,026	162,008
Student deposits and unearned revenues	2,849,376	-
Funds held for others	1,205,368	-
Compensated absences (Note 5)	3,721,412	-
Current portion of due to State of Rhode Island (Note 5)	705,000	-
Current portion of bonds payable (Note 5)	<u>274,221</u>	<u>-</u>
Total Current Liabilities	<u>14,282,403</u>	<u>162,008</u>
Noncurrent Liabilities:		
Compensated absences (Note 5)	356,507	-
Due to State of Rhode Island (Note 5)	2,250,000	-
Bonds payable (Note 5)	1,808,174	-
Net pension liability (Note 6)	30,765,991	-
Annuity payable	<u>-</u>	<u>6,489</u>
Total Noncurrent Liabilities	<u>35,180,672</u>	<u>6,489</u>
Total Liabilities	<u>49,463,075</u>	<u>168,497</u>
Deferred Inflows of Resources:		
Differences between expected and actual experience (Note 6)	814,728	-
Changes of assumptions (Note 6)	152,756	-
Changes in proportion and differences between employer contributions and proportionate share of contributions (Note 6)	<u>318,272</u>	<u>-</u>
Total Deferred Inflows of Resources	<u>1,285,756</u>	<u>-</u>
Net Position:		
Net investment in capital assets	79,111,406	-
Restricted - expendable (Note 8)	58,705	1,577,768
Permanently restricted	-	2,455,818
Unrestricted	<u>(18,835,661)</u>	<u>357,406</u>
Total Net Position	<u>\$ 60,334,450</u>	<u>\$ 4,390,992</u>

See accompanying notes to the financial statements.

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

Statements of Revenues, Expenses, and Changes in Net Position

For the Year Ended June 30, 2017

	Primary <u>Government</u>	Component <u>Unit</u>
	<u>College</u>	<u>Foundation</u>
Operating Revenues:		
Tuition and fees	\$ 50,165,573	\$ -
Less scholarship allowances	<u>(25,002,976)</u>	<u>-</u>
Net Student Fees	<u>25,162,597</u>	<u>-</u>
Federal, state, local, and private grants and contracts	33,179,256	-
Auxiliary enterprises	7,539,061	-
Sales and services of educational activity	3,744,847	-
Other	<u>-</u>	<u>255,647</u>
Total Operating Revenues	<u>69,625,761</u>	<u>255,647</u>
Operating Expenses (Note 10):		
Instruction	53,138,271	-
Academic support	7,220,421	-
Student services	12,114,018	-
Scholarships and fellowships	4,193,991	159,156
Public service	1,038,335	-
Operation and maintenance of plant	11,089,499	-
Institutional support	20,182,088	128,894
Depreciation	7,665,289	-
Auxiliary enterprises	7,511,157	-
Other	<u>-</u>	<u>199,605</u>
Total Operating Expenses	<u>124,153,069</u>	<u>487,655</u>
Net Operating Loss	<u>(54,527,308)</u>	<u>(232,008)</u>
Nonoperating Revenues (Expenses):		
State appropriations (Note 11)	48,936,035	-
Gifts	-	464,750
Investment income, net of expenses	108,392	413,790
Interest expense	<u>(171,745)</u>	<u>-</u>
Net Nonoperating Revenues	<u>48,872,682</u>	<u>878,540</u>
Increase (Decrease) in Net Position Before Capital Appropriations	<u>(5,654,626)</u>	<u>646,532</u>
Capital appropriations (Note 11)	<u>3,827,815</u>	<u>-</u>
Total Increase (Decrease) in Net Position	<u>(1,826,811)</u>	<u>646,532</u>
Net Position, Beginning of Year	<u>62,161,261</u>	<u>3,744,460</u>
Net Position, End of Year	<u>\$ 60,334,450</u>	<u>\$ 4,390,992</u>

See accompanying notes to the financial statements.

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

Statement of Cash Flows

For the Year Ended June 30, 2017

Cash Flows from Operating Activities:	
Tuition and fees	\$ 25,506,580
Federal, state, local, and private grants and contracts	33,730,807
Payments to suppliers	(20,360,494)
Payments to employees	(91,293,399)
Payments for scholarships, fellowships and sponsored programs	(4,156,618)
Auxiliary enterprises	7,511,196
Sales and service of educational activities	<u>3,153,090</u>
Net Cash Applied to Operating Activities	<u>(45,908,838)</u>
Cash Flows from Non Capital Financing Activities:	
State appropriations	48,936,035
Funds held for others	<u>(103,673)</u>
Net Cash Provided by Non Capital Financing Activities	<u>48,832,362</u>
Cash Flows from Capital and Related Financing Activities:	
Capital appropriations	3,827,815
Purchases of capital assets	(9,175,259)
Principal paid on capital debt	(934,541)
Interest paid on capital debt	<u>(171,745)</u>
Net Cash Applied to Capital and Related Financing Activities	<u>(6,453,730)</u>
Cash Flows from Investing Activity:	
Interest on investments	<u>108,392</u>
Net Decrease in Cash and Equivalents	(3,421,814)
Cash and Equivalents, Beginning of Year	<u>20,215,730</u>
Cash and Equivalents, End of Year	<u>\$ 16,793,916</u>
Reconciliation of Net Operating Loss to	
Net Cash Applied to Operating Activities:	
Net operating loss	\$ (54,527,308)
Adjustments to reconcile net operating loss to net cash applied to operating activities:	
Depreciation	7,665,289
Amortization of bond premium	(11,775)
Recovery of bad debts	241,651
Net pension activity	(144,417)
Changes in assets and liabilities:	
Accounts receivable	(464,710)
Inventory and other assets	65,366
Accounts payable and accrued liabilities	1,221,326
Student deposits and unearned revenues	416,542
Compensated absences	<u>(370,802)</u>
Net Cash Applied to Operating Activities	<u>\$ (45,908,838)</u>

See accompanying notes to the financial statements.

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

Notes to the Financial Statements

June 30, 2017

Note 1 - **Summary of Significant Accounting Policies**

Organization

The Community College of Rhode Island (the "Community College") is New England's largest public, two year college offering an array of academic degree and transfer programs, occupational programs, and educational and training programs for local businesses and industries. The Community College is supported by the State of Rhode Island (the "State"), and is part of the State's system of public higher education. The Community College, a component unit of the State of Rhode Island and Providence Plantations, is governed by the Rhode Island Board of Education ("BOE") (successor of the Board of Higher Education effective January 1, 2013) a body politic and corporate established under Chapter 97 of Title 16 of the General Laws of Rhode Island. The BOE consists of public members appointed by the Governor.

The Rhode Island Office of the Postsecondary Commissioner, which operates under the direction of the Commissioner of Postsecondary Education, is the administrative and research arm of the BOE. The BOE is not a department of state government but an independent public corporation vested with the responsibility of providing oversight for the system of public education in Rhode Island. This public higher education system consists of three entities: the University of Rhode Island, Rhode Island College, and the Community College of Rhode Island. Articulation agreements exist between the schools for student transfer within this system.

The Rhode Island General Assembly established the BOE effective January 1, 2013, to oversee the elementary, secondary and postsecondary education for the state. In June 2014, the Rhode Island General Assembly approved the reorganization of the entire Rhode Island system of public education.

The legislation enlarged the BOE to seventeen (17) members in order for the BOE to populate two Councils: Council for Elementary and Secondary Education and the Council for Post-Secondary Education (the "Councils"). Each of the two Councils will be responsible for the significant portion of the governance and regulation per RIGL 16-60-1 and 16-60-4 for Elementary/Secondary and per RIGL 16-59-1 and 16-59-4 for Post-Secondary.

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

Notes to the Financial Statements - Continued

June 30, 2017

Note 1 - **Summary of Significant Accounting Policies - Continued**

Organization - Continued

The mission of the BOE is to provide long-range planning and coordination and evaluation of policies and programs for the public education systems of the State and specifically:

- To develop and adopt educational, financial and operational goals for the education systems of the State that represent achievable benchmarks for a 10-year and 20-year time frame to be implemented by the two Councils and the commissioners.
- To ensure that the education systems of the State are aligned with the projected opportunities in workforce development and economic development and that the education systems are preparing students to participate in the future workforce of Rhode Island.
- To coordinate programs and courses of study and promote collaboration between and among pre-kindergarten through higher education institutions and agencies.
- To present strategic budget and finance recommendations to the council on elementary and secondary education and the council on postsecondary education that are aligned with the long-range goals adopted by the board.

Basis of Presentation

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

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

Notes to the Financial Statements - Continued

June 30, 2017

Note 1 - **Summary of Significant Accounting Policies - Continued**

Basis of Presentation - Continued

The Community College's policies for defining operating activities in the statement of revenues and expenses 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 non-operating activities. These non-operating activities include the Community College's operating and capital appropriations from the State of Rhode Island, net investment income, gifts, and interest expense.

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

Community College of Rhode Island Foundation

The Community College of Rhode Island Foundation (the "Foundation") is a legally separate tax-exempt component unit of the Community College. The Foundation acts primarily as a fundraising organization to supplement the resources that are available to the Community College in support of its programs. The Board of the Foundation is self-perpetuating and primarily consists of graduates and friends of the Community College. All activity relating to the Community College of Rhode Island Alumni Association is included on the books and records of the Foundation. Although the Community College does not control the timing or the amount of receipts from the Foundation, the majority of resources received or held by the Foundation are restricted to the activities of the Community College by the donors. Because these resources held by the Foundation can only be used by or are for the benefit of the Community College, the Foundation is considered a component unit of the Community College and is discretely presented in the Community College's financial statements.

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

Notes to the Financial Statements - Continued

June 30, 2017

Note 1 - **Summary of Significant Accounting Policies - Continued**

Community College of Rhode Island Foundation - Continued

During the year ended June 30, 2017, the Foundation made no distributions to the Community College for capital purposes. The Foundation is a private nonprofit organization that reports in accordance with standards of the Financial Accounting Standards Board ("FASB"), including ASC 958-205, *Presentation of Financial Statements for Not-for-Profit Entities*, and ASC 958-605, *Revenue Recognition for Not-for-Profit Entities*. Accordingly, 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 Community College's financial reporting entity for these differences.

A complete copy of the financial statements for the Foundation can be obtained from the Office of Institutional Advancement, Community College of Rhode Island, 400 East Avenue, Warwick, RI 02886.

Net Position

Resources are classified for accounting purposes into the following three net position categories:

Net investment in capital assets: Capital assets, net of accumulated depreciation, accounts payable, accrued liabilities and outstanding principal balances of debt attributable to the acquisition, construction, repair or improvement of those assets.

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

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

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

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

Notes to the Financial Statements - Continued

June 30, 2017

Note 1 - **Summary of Significant Accounting Policies - Continued**

Cash and Equivalents

The Community College considers all highly liquid debt instruments purchased with an original maturity date of three months or less to be cash equivalents.

Allowance for Doubtful Accounts

Accounts receivable are periodically evaluated for collectability based on past history with students. Provisions for losses on receivables are determined on the basis of loss experience, known and inherent risks in the receivables portfolio, the estimated value of underlying collateral, and current economic conditions.

Inventories

Inventories are stated at the lower of cost (first-in, first-out retail inventory method) or market and consist of bookstore items. Inventory amounted to \$703,688 at June 30, 2017.

Capital Assets

Real estate assets, including improvements, are generally stated at cost. Furnishings and equipment are stated at cost as of date of acquisition or, in the case of gifts, at fair value as of date of donation. In accordance with the BOE'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 at least \$5,000 are capitalized. Land Improvements, 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. However, the Community College has not incurred such interest costs. Community College capital assets, with the exception of land and construction in progress, are depreciated on a straight-line basis over their estimated useful lives, which range from 5 to 50 years. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

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

Notes to the Financial Statements - Continued

June 30, 2017

Note 1 - **Summary of Significant Accounting Policies - Continued**

Compensated Absences and Salary Reduction Plan – Continued

Community College employees are granted vacation and sick leave in varying amounts. In the event of termination, an employee is paid for those accumulated vacation and sick days allowable in accordance with the applicable union contract or in the case of non-union personnel, according to State or Community College policy.

Amounts of vested and accumulated vacation and sick leave are reported as compensated absences. Amounts are determined based upon the compensation rates in effect as of the statement of net position date.

Amounts related to Salary Reduction Plans adopted during fiscal years 1991, 1992 and 1993 can be distributed in the form of paid leave, payment at the time of separation from the Community College or to an employee's estate.

Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Employees' Retirement System ("ERS") and the additions to/deductions from ERS' fiduciary net position have been determined on the same basis as they are reported by ERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Post Employment Benefits

GASB 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions*, requires governments to account for other postemployment benefits ("OPEB") on the accrual basis, rather than pay as you go (cash basis). Furthermore, the determination of the OPEB liability is dependent upon the type of plan in which the employer participates. Effective July 1, 2011, the State of Rhode Island established an independent entity titled the OPEB Board, to manage OPEB benefits for all state government employers including the Community College. A separate legal OPEB entity classified as a cost sharing multiple employer plan, as established by the State, assesses the annual required contribution ("ARC") of each participating entity based on the plan's parameters to each participating employer. To the extent the employer does not pay the entire ARC or contractual obligation, they will have an OPEB related liability. As discussed later, GASB 75 replaces GASB 45 and will require a restatement of balances at July 1, 2017.

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

Notes to the Financial Statements - Continued

June 30, 2017

Note 1 - **Summary of Significant Accounting Policies - Continued**

Health Insurance

The State offers one state paid health plan to each of its participating agencies. The premiums for these plans are divided among the agencies based upon their number of eligible employees. All employees share in health care costs. Employee contributions range from 15-25% of health care premiums for non-classified and classified staff. Part-time employee contributions range from 20-35% of healthcare premiums. The costs are automatically deducted through the payroll system on a biweekly basis. The Community College pays the balance of the healthcare costs. Expenses incurred by the Community College to the State for 2017 health premiums were approximately \$9,328,000. Employee contributions for 2017 were approximately \$1,963,000.

Assessed Fringe Benefit Administrative Fund

In July 2000, the State established the Assessed Fringe Benefit Administrative Fund. The fund is used to make all payments relating to workers' compensation charges, unemployment compensation payments, and payments to employees for unused vacation and sick leave upon their termination from State service. The State funds this account by assessing a charge based on the biweekly payrolls of all State agencies. The weighted average fringe benefit assessment rate for 2017 for non-faculty was 4.49% and 3.69% for faculty. The assessed fringe benefit cost was approximately \$1,840,000 for fiscal year 2017.

Student Deposits and Unearned Revenue

Student deposits and advance payments received for tuition and fees related to certain summer programs and for the following academic year are reported as unearned revenue in the current year and as earned revenue in the following year.

Student Fees

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

Funds Held for Others

The Community College holds funds for student and other organizations affiliated with the Community College. These funds are pooled with the Community College's funds and net returns are allocated to the Community College organizations' asset balances.

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

Notes to the Financial Statements - Continued

June 30, 2017

Note 1 - **Summary of Significant Accounting Policies - Continued**

Tax Status

The Community 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.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions about future events. These 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, as well as the reported amounts of revenues and expenses during the reporting period. Management evaluates the estimates and assumptions on an ongoing basis using historical experience and other factors that management believes to be reasonable under the circumstances. Adjustments to estimates and assumptions are made as facts and circumstances require. As future events and their effects cannot be determined with certainty, actual results may differ from the estimates used in preparing the accompanying financial statements. Significant estimates and assumptions are required as part of estimating an allowance for doubtful accounts, depreciation, and determining the net pension liability.

Risk Management

The Community College is exposed to various risks of loss related to general liability, property and casualty, workers' compensation, unemployment, and employee health insurance claims. Insurance is maintained for general liability with limits of \$1 million per occurrence and \$3 million in the aggregate with a \$25,000 deductible as well as a \$25 million umbrella. Coverage under the Medical Professional 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, Educators Legal Liability, for wrongful acts with limits of \$4 million per claim and \$4 million for the annual aggregate with a \$150,000 deductible. Crime coverage for college employees is carried with a limit of \$25 million with a deductible ranging from \$75,000 to \$150,000.

As an agency of the State of Rhode Island and Providence Plantations, the Community College participates in a group property program. In fiscal year 2017, buildings and contents were insured against fire, theft, and natural disaster with a limit of \$200 million and a \$100,000 deductible per occurrence.

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

Notes to the Financial Statements - Continued

June 30, 2017

Note 1 - **Summary of Significant Accounting Policies - Continued**

Risk Management – Continued

Included in this policy is boiler and machinery coverage with the same policy limit and deductible. A separate inland marine policy insures specifically listed high value property items such as computer equipment, valuable papers, fine arts, contractor's equipment, and miscellaneous property at various limits of insurance and deductibles.

All vehicles are owned by the State, which insures them for liability through an outside carrier. The policy is a loss retrospective program where premiums can be adjusted for claims incurred. Workers' compensation, unemployment, and employee health and life insurance claims are self-insured and managed by the State. The settlement amounts have not exceeded insurance coverage during the past three years.

New Governmental Accounting Pronouncements

GASB Statement 75 – *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* is effective for periods beginning after June 15, 2017. This Statement replaces Statement 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pension Plans* and Statement 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*. The objective of Statement 75 is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions (“OPEB”). It also requires additional information by state and local governmental employers about financial support for OPEB that is provided by other entities. The Statement establishes standards for recognizing and measuring liabilities, deferred outflows and inflows of resources, and expense/expenditures. GASB 75 also identifies the assumptions and methods that are required to be used to project benefit payments, discount projected benefit payments to their actuarial present value and attribute that present value to periods of employee service for defined benefit OPEB. As discussed in Note 12, management is anticipating a restatement of balances during the upcoming fiscal year to include the effect of this Statement.

GASB Statement 83 – *Certain Asset Retirement Obligations* (“AROs”) is effective for periods beginning after June 15, 2018. An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. This Statement establishes criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources for AROs and requires that recognition occur when the liability is both incurred and reasonably estimable. Management has not completed its review of the requirements of this standard and its applicability.

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

Notes to the Financial Statements - Continued

June 30, 2017

Note 1 - **Summary of Significant Accounting Policies – Continued**

New Governmental Accounting Pronouncements – Continued

GASB Statement 84 – *Fiduciary Activities* is effective for periods beginning after December 15, 2018. The objective of this Statement is to establish criteria for identifying fiduciary activities. Activity meeting the established criteria would then be presented in a statement of fiduciary net position and a statement of changes in fiduciary net position. Pension and other employee benefit trust funds, investment trust funds, private-purpose trust funds and custodial funds would be reported, as applicable, according to this Statement. Information of component units of a primary government would be combined and shown in the aggregate with the fiduciary funds of the primary government. Under this Statement, a liability could be recognized to the beneficiaries in a fiduciary fund if the government has been compelled to disburse fiduciary resources. Management has not yet evaluated the effects of the implementation of this Statement.

GASB Statement 85 – *Omnibus 2017* is effective for periods beginning after June 15, 2017. The objective of this Statement is to address practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits). Management has not completed its review of the requirements of this standard and its applicability.

GASB Statement 86 – *Certain Debt Extinguishment Issues* is effective for reporting periods beginning after June 15, 2017. The primary objective of this Statement is to improve consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources—resources other than the proceeds of refunding debt—are placed in an irrevocable trust for the sole purpose of extinguishing debt. This Statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and disclosures in the financial statements for debt that is defeased in substance. Management has not completed its review of the requirements of this standard.

GASB Statement 87 – *Leases* is effective for periods beginning after December 15, 2019. Implementation of this standard will require lessees to recognize on their statement of net position the rights and obligations resulting from leases categorized as operating leases as assets, liabilities, or deferred inflows / outflows of resources. It provides for an election on leases with terms of less than twelve months to be excluded from this Standard. Management is in the process of evaluating this standard and has not yet determined its impact on the financial statements.

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

Notes to the Financial Statements - Continued

June 30, 2017

Note 2 - **Cash, Equivalents and Investments**

The Community College's policy is in accordance with RIGL Chapter 35-10.1 regarding depository institutions holding deposits of the State, its agencies or governmental subdivisions of the State, which indicates that they shall at a minimum, insure or pledge eligible collateral equal to one hundred percent of time deposits with maturities greater than 60 days. Any of these institutions which do not meet minimum capital standards prescribed by federal regulations shall insure or pledge eligible collateral equal to one hundred percent of deposits, regardless of maturity.

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

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

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

Bank balances covered by federal depository insurance ("FDIC") at June 30, 2017 approximated \$10,281,000. In addition, approximately \$4,171,000 at June 30, 2017 was collateralized with securities held by the pledging financial institution in the Community College's name. These balances reflect FDIC insurance and guarantee programs in effect at their respective periods.

Cash Held by State Treasurer

Cash held by State Treasurer represents accrued expenses to be funded from state appropriated funds at June 30, 2017. The Community College has recorded a comparable dollar amount of cash held by State Treasurer for the benefit of the Community College, which was subsequently utilized to pay for such liabilities.

Investments of the Foundation

Foundation investments are presented in the financial statements at fair value and are summarized as follows at June 30, 2017:

Equities	\$ 2,338,198
Fixed income	<u>1,239,958</u>
Total Investments	<u>\$ 3,578,156</u>

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

Notes to the Financial Statements - Continued

June 30, 2017

Note 3 - **Accounts Receivable**

Accounts receivable, which are anticipated to be collected within one year, include the following at June 30, 2017:

Student accounts receivable	\$ 2,666,656
Grants receivable	524,775
Other receivables	<u>2,582,520</u>
	5,773,951
Less: allowance for doubtful accounts	<u>(1,367,889)</u>
	<u><u>\$ 4,406,062</u></u>

Note 4 - **Capital Assets**

Capital assets consist of the following at June 30, 2017:

	Estimated lives (in years)	Beginning Balance	Additions	Reclassification	Ending Balance
Capital assets not depreciated:					
Land	—	\$ 1,490,837	\$ -	\$ -	\$ 1,490,837
Construction in progress	—	<u>5,758,119</u>	<u>6,785,959</u>	<u>(3,564,034)</u>	<u>8,980,044</u>
Total not depreciated		<u>7,248,956</u>	<u>6,785,959</u>	<u>(3,564,034)</u>	<u>10,470,881</u>
Capital assets depreciated:					
Land improvements	15	72,057			\$ 72,057
Buildings, including improvements	10-50	133,492,637	1,807,973	3,564,034	138,864,644
Furnishings and equipment	5-15	<u>22,719,277</u>	<u>581,327</u>	<u>-</u>	<u>23,300,604</u>
Total depreciated		<u>156,283,971</u>	<u>2,389,300</u>	<u>3,564,034</u>	<u>162,237,305</u>
Total capital assets		<u>163,532,927</u>	<u>9,175,259</u>	<u>-</u>	<u>172,708,186</u>
Less: accumulated depreciation:					
Land improvements		2,402	4,804	-	7,206
Building, including improvements		65,839,292	5,134,017	-	70,973,309
Furnishings and equipment		<u>15,052,402</u>	<u>2,526,468</u>	<u>-</u>	<u>17,578,870</u>
Total accumulated depreciation		<u>80,894,096</u>	<u>7,665,289</u>	<u>-</u>	<u>88,559,385</u>
Capital Assets, Net		<u><u>\$ 82,638,831</u></u>	<u><u>\$ 1,509,970</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 84,148,801</u></u>

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

Notes to the Financial Statements - Continued

June 30, 2017

Note 5 - Long-Term Liabilities

Long-term liabilities consist of the following at June 30, 2017:

	<u>Beginning Balances</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balances</u>	<u>Current Portion</u>
Bonds payable:					
Revenue bonds payable	\$ 2,254,506	\$ -	\$ 254,541	\$ 1,999,965	\$ 262,446
Premium on bonds payable	<u>94,205</u>	<u>-</u>	<u>11,775</u>	<u>82,430</u>	<u>11,775</u>
Total bonds payable	<u>2,348,711</u>	<u>-</u>	<u>266,316</u>	<u>2,082,395</u>	<u>274,221</u>
Other long-term liabilities:					
Due to State of Rhode Island	3,635,000	-	680,000	2,955,000	705,000
Compensated absences	4,448,721	-	370,802	4,077,919	3,721,412
Net pension liability	<u>29,073,002</u>	<u>1,692,989</u>	<u>-</u>	<u>30,765,991</u>	<u>-</u>
Total long-term liabilities	<u>\$ 39,505,434</u>	<u>\$ 1,692,989</u>	<u>\$ 1,317,118</u>	<u>\$ 39,881,305</u>	<u>\$ 4,700,633</u>

Revenue Bonds Payable

The following is a summary of the Community College's long-term debt for the year ended June 30, 2017:

Revenue bonds payable:

Rhode Island Health and Educational Building
 Corporation Educational and General Revenue
 Refunding Issue, Series 2013B. Original Amount
 of debt issued - \$2,995,995, 2% to 3% due
 semiannually through 2024.

\$ 1,999,965

COMMUNITY COLLEGE OF RHODE ISLAND
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Notes to the Financial Statements - Continued

June 30, 2017

Note 5 - **Long-Term Liabilities - Continued**

Revenue Bonds Payable - Continued

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

Years Ending June 30,	Principal	Interest	Total
2018	\$ 262,446	\$ 53,975	\$ 316,421
2019	270,351	45,983	316,334
2020	278,256	38,798	317,054
2021	282,999	31,422	314,421
2022	292,485	22,790	315,275
2023-2024	<u>613,428</u>	<u>18,545</u>	<u>631,973</u>
Totals	<u>\$ 1,999,965</u>	<u>\$ 211,513</u>	<u>\$ 2,211,478</u>

Due to State of Rhode Island

The following is a summary of the Community College's Due to State of Rhode Island for the year ended June 30, 2017:

Due to State of Rhode Island:

Certificates of participation ("COP") energy

Conservation bonds due to the State of

Rhode Island. Original amount of debt issued

\$6,560,000, 2% to 4% due annually through 2021.

\$ 2,955,000

COMMUNITY COLLEGE OF RHODE ISLAND
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Notes to the Financial Statements - Continued

June 30, 2017

Note 5 - **Long-Term Liabilities - Continued**

Due to State of Rhode Island - Continued

Annual principal and interest on Due to State of Rhode Island through maturity are as follows:

Years Ending			
<u>June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 705,000	\$ 100,025	\$ 805,025
2019	725,000	78,875	803,875
2020	750,000	55,313	805,313
2021	<u>775,000</u>	<u>29,062</u>	<u>804,062</u>
Totals	<u>\$ 2,955,000</u>	<u>\$ 263,275</u>	<u>\$ 3,218,275</u>

Interest expense on all debt for the year ended June 30, 2017 was \$183,520. The amortization of bond premium is included with interest expense.

The COP energy conservation bonds were issued by the State of Rhode Island. It is anticipated that the estimated energy and other utility savings generated by improvements funded by the bond proceeds will exceed total debt costs.

The State of Rhode Island has issued bonds for the development of certain Community College facilities. These bonds are not obligations of the Community College and, therefore, are not recorded as liabilities in the accompanying financial statements.

COMMUNITY COLLEGE OF RHODE ISLAND
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Notes to the Financial Statements - Continued

June 30, 2017

Note 6 - **Pension**

Plan Description

Certain employees of the Community College participate in a cost-sharing multiple-employer defined benefit plan, the Employees' Retirement System Plan (the "ERS"), administered by the Employees' Retirement System of the State of Rhode Island (the "System"). Under a cost-sharing plan, pension obligations for employees of all employers are pooled and plan assets are available to pay the benefits of the employees of any participating employer providing pension benefits through the plan, regardless of the status of the employers' payment of its pension obligation to the plan. The ERS provides retirement and disability benefits and death benefits to plan members and beneficiaries.

The System issues a publicly available financial report that includes financial statements and required supplementary information for the plans. The report may be obtained at <http://www.ersri.org>.

Benefit Provisions

The level of benefits provided to participants is established by Chapter 36-10 of the General Laws, which is subject to amendment by the General Assembly. Member benefit provisions vary based on service credits accumulated at dates specified in various amendments to the General Laws outlining minimum retirement age, benefit accrual rates and maximum benefit provisions. In general, members accumulate service credits for each year of service subject to maximum benefit accruals of 80% or 75%. For those hired after June 30, 2012, the benefit accrual rate is 1% per year with a maximum benefit accrual of 40%. Members eligible to retire at September 30, 2009 may retire with 10 years of service at age 60 or after 28 years of service at any age. The retirement eligibility age increases proportionately for other members reflecting years of service and other factors until it aligns with the Social Security Normal Retirement Age, which applies to any member with less than 5 years of service as of July 1, 2012. Members are vested after 5 years of service.

The ERS provides for survivor's benefits for service-connected death and certain lump sum death benefits. Joint and survivor benefit provision options are available to members.

COMMUNITY COLLEGE OF RHODE ISLAND
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Notes to the Financial Statements - Continued

June 30, 2017

Note 6 - **Pension – Continued**

Benefit Provisions – Continued

Cost of living adjustments are provided but are currently suspended until the collective plans covering state employees and teachers reach a funded status of 80%. Until the plans reach an 80% funded status, interim cost of living adjustments are provided at four-year intervals.

The ERS also provides nonservice-connected disability benefits after five years of service and service-connected disability benefits with no minimum service requirement.

Contributions

The funding policy, as set forth in the General Laws, Section 36-10-2, provides for actuarially determined periodic contributions to the plan. For fiscal 2017, Community College employees, with less than 20 years of service as of July 1, 2015, were required to contribute 3.75% of their annual covered salary. Employees with more than 20 years of service as of July 1, 2015 were required to contribute 11% of their annual covered salary. The Community College is required to contribute at an actuarially determined rate; the rate was 25.34% of annual covered payroll for the fiscal year ended June 30, 2017. The Community College contributed \$2,529,226, \$2,306,819 and \$2,281,752 for the fiscal years ended June 30, 2017, 2016 and 2015, respectively, equal to 100% of the required contributions for each year.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources

At June 30, 2017 the Community College reported a liability of \$30,765,991 for its proportionate share of the net pension liability related to its participation in ERS. The net pension liability was measured as of June 30, 2016, the measurement date, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2015 rolled forward to June 30, 2016. The Community College's proportion of the net pension liability was based on its share of contributions to the ERS for fiscal year 2016 relative to the total contributions of all participating employers for that fiscal year. At June 30, 2016, the Community College proportion was 1.45%.

COMMUNITY COLLEGE OF RHODE ISLAND
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Notes to the Financial Statements - Continued

June 30, 2017

Note 6 - **Pension – Continued**

*Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and
Deferred Inflows of Resources - Continued*

For the year ended June 30, 2017 the Community College of Rhode Island recognized pension expense of \$2,384,810. At June 30, 2017 the Community College reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

Deferred Outflow of Resources

Net difference between projected and actual earnings on pension plan investments	\$ 2,196,117
Contributions made subsequent to measurement date	<u>2,529,226</u>
	<u>\$ 4,725,343</u>

Deferred Inflows of Resources

Differences between expected and actual experience	\$ 814,728
Changes of assumptions	152,756
Changes in proportion and differences between employer contributions and proportionate share of contributions	<u>318,272</u>
	<u>\$ 1,285,756</u>

COMMUNITY COLLEGE OF RHODE ISLAND
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Notes to the Financial Statements - Continued

June 30, 2017

Note 6 - **Pension – Continued**

Contributions of \$2,529,226 are reported as deferred outflows of resources related to pensions resulting from the Community College’s contributions in fiscal year 2017 subsequent to the measurement date, and will be recognized as a reduction of the net pension liability at the June 30, 2017 measurement date. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as an increase in annual pension expense as follows:

Years Ended <u>June 30,</u>	
2018	\$ 11,239
2019	11,239
2020	545,837
2021	<u>342,046</u>
	<u>\$ 910,361</u>

Actuarial Assumptions

The total pension liability was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.75%
Salary increases	3.50% to 6.50%
Investment rate of return	7.50%

Mortality rates were based on 115% (males) and 95% (females) of the RP-2000 combined healthy mortality tables with white collar adjustments projected with scale AA from 2000.

COMMUNITY COLLEGE OF RHODE ISLAND
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Notes to the Financial Statements - Continued

June 30, 2017

Note 6 - **Pension – Continued**

Actuarial Assumptions - Continued

The actuarial assumptions used in the June 30, 2015 valuations rolled forward to June 30, 2016 and the calculation of the total pension liability at June 30, 2016 were consistent with the results of an actuarial experience study performed as of June 30, 2013.

The long-term expected rate of return best-estimate on pension plan investments was determined by the actuary using a building-block method. The actuary started by calculating best-estimate future expected real rates of return (expected returns net of pension plan investment expense and inflation) for each major asset class, based on a collective summary of capital market expectations from 35 sources. The June 30, 2016 expected arithmetic returns over the long-term (20 years) by asset class are summarized in the following table:

<u>Type of Investment</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Global Equity:	38.00%	
U.S. Equity		6.98%
International Developed		7.26%
International Emerging Markets		9.57%
Equity Hedge Funds	8.00%	4.10%
Private Equity	7.00%	10.15%
Core Fixed Income	15.00%	2.37%
Absolute Return Hedge Funds	7.00%	4.10%
Infrastructure	3.00%	5.58%
Real Estate	8.00%	5.33%
Other Real Return Assets:	11.00%	
Master Limited Partnerships		4.97%
Credit		4.97%
Inflation Linked Bonds		1.76%
Cash, Overlay and Money Market	3.00%	0.82%
	<u>100.00%</u>	

COMMUNITY COLLEGE OF RHODE ISLAND
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Notes to the Financial Statements - Continued

June 30, 2017

Note 6 - **Pension – Continued**

Actuarial Assumptions - Continued

These return assumptions are then weighted by the target asset allocation percentage, factoring in correlation effects, to develop the overall long-term expected rate of return best-estimate on an arithmetic basis.

Discount Rate

The discount rate used to measure the total pension liability was 7.5 percent. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current contribution rate and that contributions from the employers will be made at statutorily required rates, actuarially determined. Based on those assumptions, the pension plan’s fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

In May 2017, the Employees’ Retirement System of Rhode Island Board voted to lower the investment rate of return assumption from 7.5% to 7.0% which will be reflected in the determination of the net pension liability for the various plans administered by ERS beginning with the June 30, 2017 measurement date valuations.

Sensitivity of the Net Pension Liability (Asset) to Changes in the Discount Rate

The following presents the net pension liability (asset) calculated using the discount rate of 7.5 percent as well as what the net pension liability (asset) would be if it were calculated using a discount rate that is 1-percentage-point lower or 1-percentage-point higher than the current rate.

1.00% Decrease (6.50%)	Current Discount Rate (7.5%)	1.00% Increase (8.50%)
\$ 37,674,186	\$ 30,765,991	\$ 25,110,534

Pension Plan Fiduciary Net Position

As noted earlier, ERS issues a publicly available financial report that includes financial statements and required supplementary information for the plans. The report may be obtained at <http://www.ersri.org>. The report contains detailed information about the pension plan’s fiduciary net position.

COMMUNITY COLLEGE OF RHODE ISLAND
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Notes to the Financial Statements - Continued

June 30, 2017

Note 7 - **Other Retirement Plans**

State of Rhode Island Employees' Retirement System ("ERS") Defined Contribution:

Plan Description

Certain employees participating in the defined benefit plan (those with less than 20 years of service as of July 1, 2015), as described in Note 6, also participate in a defined contribution plan of the Employees' Retirement System as authorized by General Law Chapter 36-10.3. The defined contribution plan was established under IRS section 401(a) and is administered by TIAA-CREF. The Retirement Board is the plan administrator and plan trustee. The employees may choose among various investment options available to plan participants. The State Investment Commission is responsible for implementing the investment policy of the plan and selecting the investment options available to members.

Contributions

Certain employees (those with less than 20 years of service as of July 1, 2015) contribute 5% of their annual covered salary and employers contribute at the following percentages of annual covered salary for these employees based on their years of service as of July 1, 2015:

Years of Service	Employer
<u>As of 7/1/2015</u>	<u>Contribution Rate</u>
15 - 20 Years	1.50%
10 - 15 Years	1.25%
0 - 10 Years	1.00%

Employee contributions are immediately vested while employer contributions are vested after three years of contributory service. Contributions required under the plan by both the employee and employer are established by the General Laws of the State of Rhode Island, which are subject to amendment by the General Assembly.

The Community College contributed and recognized as pension expense \$89,582 and \$83,903 for the fiscal years ended June 30, 2017 and 2016, respectively, equal to 100% of the required contributions for these years.

Plan Vesting and Contribution Forfeiture Provisions

The total amount contributed by the member, including associated investment gains and losses, shall immediately vest in the member's account and is non-forfeitable. The total amount contributed by the employer, including associated investment gains and losses, vests with the member and is non-forfeitable upon completion of three years of contributory service. Non-vested employer contributions are forfeited upon termination of employment. Such forfeitures can be used by employers to offset future remittances to the plan.

COMMUNITY COLLEGE OF RHODE ISLAND
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Notes to the Financial Statements - Continued

June 30, 2017

Note 7 - **Other Retirement Plans – Continued**

Retirement Benefits

Benefits may be paid to a member after severance from employment, death, plan termination, or upon a deemed severance from employment for participants performing qualified military service. At a minimum, retirement benefits must begin no later than April 1 of the calendar year following the year in which the member attains age 70½ or terminates employment, if later.

The ERS 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 at <http://www.ersri.gov>.

Rhode Island Board of Governors for Higher Education Alternate Retirement Plan:

Plan Description

Certain employees of the Community College, (principally faculty and administrative personnel) are covered by individual annuity contracts under a defined contribution retirement plan, Alternate Retirement Plan, established by the Rhode Island Board of Education which is also responsible for amending it. Eligible employees who have reached the age of 30, and who have two (2) years of service are required to participate in either the Teachers' Insurance and Annuity Association (TIAA), the Metropolitan Life Insurance Company or Variable Annuity Life Insurance Company retirement plan. The BOE establishes and amends contribution rates. Eligible employees must contribute at least 5% of their gross biweekly earnings. These contributions may be made on a pre-tax basis.

Funding Policy

The Community College contributes 9% of the employee's gross biweekly earnings. Total expenditures by the Community College for such 403(b) annuity contracts amounted to approximately \$3,036,000 during 2017. The employee contribution amounted to approximately \$1,686,000.

Note 8 - **Restricted Net Position**

The Community College is the recipient of funds that are subject to various external constraints upon their use, either as to purpose or time. At June 30, 2017, these funds are restricted for grant programs.

COMMUNITY COLLEGE OF RHODE ISLAND
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Notes to the Financial Statements - Continued

June 30, 2017

Note 9 - **Contingencies**

Various lawsuits are pending or threatened against the Community 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 Community College's financial position.

The Community 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 Community College. In the opinion of management, such adjustments, if any, are not expected to materially affect the financial condition of the Community College.

Note 10 - **Operating Expenses**

The Community College's operating expenses, on a natural classification basis, are composed of the following at June 30, 2017:

Compensation and benefits	\$ 91,565,250
Supplies and services	20,728,539
Depreciation	7,665,289
Scholarships and fellowships	<u>4,193,991</u>
	<u>\$ 124,153,069</u>

Note 11 - **State Appropriations**

Direct Appropriations

Pursuant to Rhode Island General Law 16-59-9, the legislative enacted budget reflects the budget passed by the General Assembly and signed by the Governor, as well as any re-appropriations. The BOE reviews and approves the unrestricted and restricted budgets and makes recommendations to the Governor and General Assembly for revisions to the current year's budget and the ensuing year's budget for the entities it oversees. As part of the Community College's annual budget process for unrestricted and restricted funds, the General Assembly allocates specific amounts in the budget which are allocated for the following categories: (1) salaries and wages; (2) operating expenditures; and (3) outlays for personnel costs, utilities, repairs, capital, and student aid, as well as the overall budget allocation.

COMMUNITY COLLEGE OF RHODE ISLAND
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Notes to the Financial Statements - Continued

June 30, 2017

Note 11 - **State Appropriations - Continued**

State Capital Plan Funds

The Rhode Island Capital Plan Fund ("RICAP") was modeled on a financial technique originating in the State of Delaware. In fiscal year 2017, the State reserved 3% of its general revenues to fund a Budget Reserve Fund and Cash Stabilization Fund. Once the fund reaches a maximum threshold (5% of total fiscal year financial resources), the balance is transferred to the RICAP Fund. The RICAP 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 allocations through this program since fiscal 1995.

The Community College's State appropriations are composed of the following for the year ended June 30, 2017:

Direct appropriations	\$ 48,936,035
State contributed capital and RICAP funds	3,582,815
Office of Higher Education	<u>245,000</u>
	<u>\$ 52,763,850</u>

In accordance with each fiscal year's General Assembly Budget Article 1, notwithstanding the provisions of Chapter 35-3-15 of the general laws, all unexpended or unencumbered balances as of year-end are re-appropriated to the next fiscal year. The Office of Higher Education appropriation related to the Community College's computer software (Banner) project for the fiscal year ended June 30, 2017.

Note 12 - **Other Post-Employment Benefits (OPEB)**

Rhode Island Retiree Health Care Benefit Plan (RIRHCBP):

Plan Description

The Community College contributes (for certain employees) to the State Employees' defined benefit post-employment health care plan, a cost sharing multiple employer plan administered through the Rhode Island State Employees' and Electing Teachers OPEB System (OPEB System). The State of Rhode Island OPEB Board (Board) was authorized, created and established under Chapter 36-12.1 of RI General Laws. The Board was established to independently hold and administer, in trust, the funds of the OPEB system. The plan provides medical benefits to certain retired employees of participating employers including the Community College.

COMMUNITY COLLEGE OF RHODE ISLAND
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Notes to the Financial Statements - Continued

June 30, 2017

Note 12 - **Other Post-Employment Benefits (OPEB) - Continued**

Rhode Island Retiree Health Care Benefit Plan (RIRHCBP) – Continued:

Plan Description - Continued

Pursuant to legislation enacted by the General Assembly, a trust has been established to accumulate assets and pay benefits and other costs associated with the system.

The OPEB System issues a stand-alone financial report. A copy can be obtained from the State Controller's Office, 1 Capitol Hill, Providence, RI 02908.

Funding Policy

RIGL Chapters 36-12.1, 36-12-2.2, and 36-12-4 govern the provisions of the OPEB System. The contribution requirements of plan members, the State, and other participating employers are established and may be amended by the General Assembly. Active employees make no contribution to the OPEB plan. Employees who retired after October 1, 2008 must contribute 20% of the annual estimated benefit cost (working rate) or annual premium for Medicare supplemental coverage. Employees retiring before October 1, 2008 have varying co-pay percentages ranging from 0% to 50% based on age and years of service at retirement. Further information about the contributions of plan members can be found in the financial report of the OPEB System.

For fiscal 2017, employers were required to contribute 5.97% of covered payroll. The employer required contribution rate is determined on an actuarially determined basis consistent with a funding approach outlined in the General Laws and as adopted by the OPEB System Board. The Community College fully funded its required contribution to the plan for the years ended June 30, 2017, 2016 and 2015 which were approximately \$596,000 \$586,000 and \$663,000 respectively.

COMMUNITY COLLEGE OF RHODE ISLAND
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Notes to the Financial Statements - Continued

June 30, 2017

Note 12 - **Other Post-Employment Benefits (OPEB) - Continued**

Rhode Island Board of Education Health Care Insurance Retirement Plan:

Plan Description

The Community College contributes (for certain employees) to the Rhode Island Board of Education (BOE) health care insurance retirement program (Plan), medical coverage only, for eligible employees who participate in the BOE's Alternate Retirement Plan (ARP) and per union contracts. The BOE established a defined benefit healthcare plan effective July 1, 1998 for employees of the University of Rhode Island (URI), Rhode Island College (RIC) and Community College of Rhode Island (CCRI). The BOE's ARP is considered a cost-sharing multiple employer plan. Rhode Island State law established the "Rhode Island State Employees' and Electing Teachers OPEB System" (OPEB system), as defined in G.L. 36-12.1-5, which is managed by an OPEB Board for the purpose of providing and administering OPEB Benefits for retired employees of the State, includes the Board Plan. The State of Rhode Island OPEB Board (Board) was authorized, created and established under Chapter 36-12.1 of the RI General Laws.

The Board was established to independently hold and administer, in trust, the funds of the OPEB system. The plan provides medical benefits to certain retired employees of participating employers including the Community College.

Pursuant to legislation enacted by the General Assembly, a trust was established in fiscal year 2011 to accumulate assets and pay benefits and other costs associated with the system. The OPEB system issues a stand-alone financial report. A copy can be obtained from the State Controller's Office, 1 Capitol Hill, Providence, RI 02908.

Funding Policy

RIGL Sections 36-12.1, 36-12-2.2, and 36-12-4 govern the provisions of the OPEB System. The contribution requirements of plan members and the Community College are established and may be amended by the Board. Effective in fiscal year 2011, all participating employers are required by law to fund the actuarially required contribution (ARC) which for fiscal year 2017 and 2016 was 3.11% and for 2015 was 2.30% of payroll covered by the Board Plan. Active employees contribute 0.9% of payroll to the OPEB plan. Retired employees have varying co-pay percentages ranging from 0% to 50% based on age and years of service at retirement. Further information about the contributions of plan members can be found in the financial report of the OPEB System.

COMMUNITY COLLEGE OF RHODE ISLAND
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Notes to the Financial Statements - Continued

June 30, 2017

Note 12 - **Other Post-Employment Benefits (OPEB) - Continued**

Rhode Island Board of Education Health Care Insurance Retirement Plan – Continued:

Funding Policy - Continued

For fiscal year 2017, the Community College contribution to the plan was approximately \$999,000. For fiscal years 2016 and 2015 the Community College contribution to the plan was approximately \$958,000 and \$692,000 respectively.

New Accounting Guidance Effective for Fiscal 2018

As discussed in Note 1, GASB 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* is effective for fiscal 2018 and is applicable for employees participating in a cost-sharing multiple employer plans such as Rhode Island Retiree Health Care Benefit Plan and the Rhode Island Board of Education Health Care Insurance Retirement Plan. The Community College will be required to restate beginning net position as of July 1, 2017 to recognize the employer's proportionate share of the plan's net OPEB obligation. OPEB expense reported in the Community College's financial statements will reflect the change in the net OPEB liability for the fiscal year.

Note 13 - **Pass-Through Loans**

The Community College distributed approximately \$14,424,000 during fiscal 2017, for student loans through the U.S. Department of Education federal direct lending program. These distributions and related funding sources are not included as expenses and revenues or as cash disbursements and cash receipts in the accompanying financial statements.

REQUIRED SUPPLEMENTARY INFORMATION

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

Schedule of the Community College's Proportionate Share of the Net Pension Liability (Unaudited)

Employees' Retirement System

Year ended	June 30, 2017	June 30, 2016	June 30, 2015
Measurement date	June 30, 2016	June 30, 2015	June 30, 2014
Valuation date	June 30, 2015	June 30, 2014	June 30, 2013
Community College's proportion of the net pension liability	1.45%	1.46%	1.47%
Community College's proportionate share of the net pension liability	\$ 30,765,991	\$ 29,073,002	\$ 26,224,040
Community College's covered-employee payroll	\$ 9,758,118	\$ 9,780,334	\$ 9,619,971
Community College's proportionate share of the net pension liability as a percentage of its covered-employee payroll	315.29%	297.26%	272.60%
Plan fiduciary net position as a percentage of the total pension liability	51.88%	55.03%	58.58%

Notes:

The amounts presented for each fiscal year were determined as of June 30 measurement date prior to the fiscal year-end.

The GASB pronouncement requiring the presentation of the information on this schedule became effective for years beginning after June 15, 2014 and is intended to provide data for the most recent ten years.

See accompanying notes to the required supplementary information.

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

Schedule of the Community College's Contributions (Unaudited)

Employees' Retirement System

For the Years Ended June 30,

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Statutorily required contribution	\$ 2,529,226	\$ 2,306,819	\$ 2,281,752
Contributions in relation to the statutorily required contribution	<u>(2,529,226)</u>	<u>(2,306,819)</u>	<u>(2,281,752)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Community College's covered-employee payroll	\$ 9,981,160	\$ 9,758,118	\$ 9,780,334
Contributions as a percentage of covered-employee payroll	25.34%	23.64%	23.33%

Notes:

Employers participating in the State Employees' Retirement System are required by RI General Laws, Section 36-10-2, to contribute an actuarially determined contribution rate each year.

The GASB pronouncement requiring the presentation of the information on this schedule became effective for years beginning after June 15, 2014 and is intended to provide data for the most recent ten years.

See accompanying notes to the required supplementary information.

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

Notes to the Required Supplementary Information (Unaudited)

Pension Schedules

Note 1 - **Factors Affecting Trends for Amounts Related to the Net Pension Liability**

There were no changes in actuarial methods or assumptions or benefits reflected in the calculation of the net pension liability as of the June 30, 2016 measurement date compared to the June 30, 2015 measurement date. Benefits were also unchanged between these measurement dates.

There were no changes in actuarial methods or assumptions reflected in the calculation of the net pension liability as of the June 30, 2015 measurement date compared to the June 30, 2014 measurement date.

Benefit changes, which resulted from the settlement of the pension litigation and the subsequent enactment of those settlement provisions by the General Assembly, are reflected in the calculation of the net pension liability at the June 30, 2015 measurement date. Significant benefit changes are summarized below:

- Employees with more than 20 years of service at July 1, 2012 will increase their employee contribution rates to 11% for state employees and participate solely in the defined benefit plan effective July 1, 2015 – service credit accruals will increase from 1% to 2% per year.
- Members are eligible to retire upon the attainment of: age 65 with 30 years of service, 64 with 31 years of service, 63 with 32 years of service or 62 with 33 years of service. Members may retire earlier if their RI Retirement Security Act date is earlier or are eligible under a transition rule.
- The COLA formula was adjusted to 50% of the COLA is calculated by taking the previous 5-year average investment return, less the discount rate (5 year return – 7.5%, with a max of 4%) and 50% calculated using the previous year's CPI-U (max of 3%) for a total max COLA of 3.5%. The COLA is calculated on the first \$25,855, effective, 01/01/2016, and indexed as of that date as well.
- Other changes included providing interim cost of living increases at four rather than five year intervals, providing a one-time cost of living adjustment of 2% (applied to first \$25,000), two \$500 stipends, and minor adjustments.

**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***



INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTARY INFORMATION

The Board of Education of
State of Rhode Island and Providence Plantations
Providence, Rhode Island

We have audited the accompanying schedules of net position, expenses, revenues and changes in net position, maturities of long-term debt, and changes in long-term debt of the Community College of Rhode Island (the "Community College"), a component unit of the State of Rhode Island and Providence Plantations, as of and for the year ended June 30, 2017, and the related notes to the schedules.

Management's Responsibility for the Schedules

Management is responsible for the preparation and fair presentation of these schedules in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the schedules that is free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on the schedules based on our audit. The financial statements of Community College of Rhode Island Foundation, Inc. (the "Foundation") as of and for the year ended June 30, 2017 were audited by other auditors for which an unmodified opinion was expressed. Our opinion on the accompanying schedules, insofar as it relates to the discretely presented amounts for the Foundation for fiscal year ended June 30, 2017, is based solely upon the report of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the schedules are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the schedules. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the schedules, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the schedules in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the schedules.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the schedules of net position, expenses, revenues and changes in net position, maturities of long-term debt, and changes in long-term debt referred to above present fairly, in all material respects, the net position, expenses, revenues and changes in net position, maturities of long-term debt and changes in long-term debt of the Community College of Rhode Island as of and for the year ended June 30, 2017, in accordance with the reporting requirements of the State of Rhode Island and Providence Plantations.

Other Matter

We have audited, 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, the financial statements of the Community College of Rhode Island as of and for the year ended June 30, 2017, and our report thereon dated September 29, 2017, expressed an unmodified opinion on those financial statements.

O'Connor and Duen, P.C.

**Certified Public Accountants
Braintree, Massachusetts**

September 29, 2017