

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

FINANCIAL STATEMENTS
AND
SUPPLEMENTARY INFORMATION

Fiscal Years Ended June 30, 2007 and 2006

THE COLLEGE CRUSADE OF RHODE ISLAND
(A Component Unit of the State of Rhode Island)
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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
The College Crusade of Rhode Island
Providence, Rhode Island

We have audited the accompanying Statement of Net Assets of The College Crusade of Rhode Island, formerly The Rhode Island Children's Crusade for Higher Education, (the "Crusade") (A Component Unit of the State of Rhode Island) as of and for the fiscal year ended June 30, 2007, and the related Statements of Revenues, Expenses, and Changes in Net Assets and Cash Flows for the fiscal year then ended. These financial statements are the responsibility of the Crusade's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year information has been derived from the Crusade's 2006 financial statements and, in our report dated August 29, 2006; we expressed an unqualified opinion on those financial statements.

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

As discussed in Note 1, the Crusade is an independent 501(c)(3) not-for-profit corporation, with its own Board of Directors and control over its assets, which the State of Rhode Island treats as a discreetly presented component unit for financial statement reporting purposes only.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The College Crusade of Rhode Island as of June 30, 2007, and the respective changes in financial position and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 16, 2007, on our consideration of The College Crusade 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The College Crusade of Rhode Island has not presented the Management Discussion and Analysis and Budgetary Comparison Schedule that accounting principles generally accepted in the United States has determined is necessary to supplement, although not required to be part of, the basic financial statements.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise The College Crusade of Rhode Island's basic financial statements. The Schedule of Expenditures of Federal Awards and Schedule of Operating Revenues, Expenses and Changes in Net Assets are presented for purposes of additional analysis and are not a required part of the basic financial statements. These supplemental schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

JAMES N. NADEAU + COMPANY, LLP

August 17, 2007

THE COLLEGE CRUSADE OF RHODE ISLAND
(A Component Unit of the State of Rhode Island)
 STATEMENTS OF NET ASSETS
 June 30, 2007 and 2006

	<u>2007</u>	<u>2006</u>
<u>ASSETS</u>		
CURRENT ASSETS		
Cash and cash equivalents	\$ 241,506	\$ 58,763
Restricted cash	337,000	389,287
Investments	5,739,622	6,612,586
Prepaid rent	18,468	18,468
Interest receivable	13,999	20,661
Grants receivable	552,218	1,033,690
Pledges receivable	6,486	7,377
Miscellaneous accounts receivable	5,461	2,096
TOTAL CURRENT ASSETS	<u>6,914,760</u>	<u>8,142,928</u>
NON-CURRENT ASSETS		
Prepaid rent	52,335	70,803
Net furniture and equipment	38,322	39,826
TOTAL NON-CURRENT ASSETS	<u>90,657</u>	<u>110,629</u>
TOTAL ASSETS	<u>7,005,417</u>	<u>8,253,557</u>
<u>LIABILITIES</u>		
CURRENT LIABILITIES		
Accounts payable and accrued expenses	437,814	441,906
Line of credit	530,000	800,000
Grants payable	163,529	175,638
Carnegie grant advance	131,261	217,965
Accrued scholarship costs	1,293,242	1,781,031
TOTAL CURRENT LIABILITIES	<u>2,555,846</u>	<u>3,416,540</u>
TOTAL LIABILITIES	<u>2,555,846</u>	<u>3,416,540</u>
<u>NET ASSETS</u>		
NET ASSETS		
Invested in capital assets, net of related debt	38,322	39,826
Restricted	337,000	389,287
Unrestricted	4,074,249	4,407,904
TOTAL NET ASSETS	<u>\$ 4,449,571</u>	<u>\$ 4,837,017</u>

The accompanying notes are an integral part of these financial statements.

THE COLLEGE CRUSADE OF RHODE ISLAND
(A Component Unit of the State of Rhode Island)
 STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
 Fiscal Years Ended June 30, 2007 and 2006

	<u>2007</u>	<u>2006</u>
OPERATING REVENUES		
Contributions	\$ 52,344	\$ 323,338
Grant - Carnegie	1,146,203	1,607,452
Grants - other	2,538,566	2,070,660
Special events	31,395	59,690
Interest and dividends	174,673	215,666
Net realized and unrealized gain on investments	638,635	249,437
Miscellaneous income	3,357	16,790
In-kind support	<u>745,244</u>	<u>693,835</u>
TOTAL OPERATING REVENUES	<u>5,330,417</u>	<u>5,236,868</u>
OPERATING EXPENSES		
Personnel costs	3,152,931	2,737,038
Carnegie grant expense - Providence School Department	813,262	1,319,744
Other grant program expenses	1,415,879	1,330,001
Cost of scholarships	892,639	1,726,494
Training	28,031	18,992
Consultants	180,945	114,265
Printing	46,556	53,964
Advertising	44,844	66,622
Special events	15,365	18,078
Occupancy costs	174,303	165,161
Postage	32,499	38,133
Office expenses	59,020	53,280
Travel	49,653	33,931
Professional fees	70,416	74,088
Telephone	15,065	18,714
Insurance	22,496	22,324
Dues and subscriptions	8,683	8,940
Depreciation	25,417	25,743
Trustee fees	35,674	41,499
Other	9,430	13,356
Interest	<u>33,299</u>	<u>12,149</u>
TOTAL OPERATING EXPENSES	<u>7,126,407</u>	<u>7,892,516</u>
OPERATING LOSS	<u>1,795,990</u>	<u>2,655,648</u>
NON-OPERATING REVENUES		
Operating transfers from primary government	<u>1,408,544</u>	<u>1,408,544</u>
TOTAL NON-OPERATING REVENUES	<u>1,408,544</u>	<u>1,408,544</u>
DECREASE IN NET ASSETS	387,446	1,247,104
NET ASSETS - July 1,	<u>4,837,017</u>	<u>6,084,121</u>
NET ASSETS - June 30,	<u>\$ 4,449,571</u>	<u>\$ 4,837,017</u>

The accompanying notes are an integral part of these financial statements.

THE COLLEGE CRUSADE OF RHODE ISLAND
(A Component Unit of the State of Rhode Island)
STATEMENTS OF CASH FLOWS
Fiscal Years Ended June 30, 2007 and 2006

	<u>2007</u>	<u>2006</u>
<u>CASH FLOWS FROM OPERATING ACTIVITIES</u>		
Cash received from contributions	\$ 53,235	\$ 345,381
Cash received from grants - Carnegie	1,059,499	1,513,166
Cash received from grants - other	3,016,681	1,390,947
Cash received from special events	31,395	59,690
Cash received - miscellaneous	3,357	16,790
Cash payments for personnel costs	(3,130,134)	(2,735,588)
Cash payments for grants - Carnegie	(880,430)	(1,370,609)
Cash payments for grants - other	(689,306)	(624,025)
Cash payments for scholarships	(1,380,428)	(2,396,903)
Cash payments - miscellaneous	(760,978)	(848,155)
NET CASH USED BY OPERATING ACTIVITIES	<u>(2,677,109)</u>	<u>(4,649,306)</u>
<u>CASH FLOWS FROM INVESTING ACTIVITIES</u>		
Cash received from interest and dividends	181,335	228,002
Net withdrawals from investments	1,511,599	2,070,774
NET CASH PROVIDED BY INVESTING ACTIVITIES	<u>1,692,934</u>	<u>2,298,776</u>
<u>CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES</u>		
Operating transfers from primary government	1,408,544	1,408,544
Net borrowings (payments) on line-of-credit	(270,000)	675,000
NET CASH PROVIDED BY NON-CAPITAL FINANCING ACTIVITIES	<u>1,138,544</u>	<u>2,083,544</u>
<u>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</u>		
Acquisition of furniture and equipment	(23,913)	(16,662)
NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(23,913)</u>	<u>(16,662)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS AND RESTRICTED CASH	130,456	(283,648)
CASH AND CASH EQUIVALENTS AND RESTRICTED CASH - July 1,	448,050	731,698
CASH AND CASH EQUIVALENTS AND RESTRICTED CASH - June 30,	<u>\$ 578,506</u>	<u>\$ 448,050</u>
<u>RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES:</u>		
Operating loss	\$ (1,795,990)	\$ (2,655,648)
<i>Adjustments to reconcile operating loss to net cash provided (used) by operating activities:</i>		
Depreciation	25,417	25,743
Interest and dividends	(181,335)	(228,002)
Net realized and unrealized gain on investments	(638,635)	(249,437)
Loss on disposal of furniture and equipment	-	2,057
<i>(Increase) decrease in operating assets:</i>		
Prepaid rent	18,468	(89,271)
Interest receivable	6,662	12,336
Grants receivable	481,472	(673,177)
Pledges receivable	891	22,043
Miscellaneous accounts receivable	(3,365)	8,899
<i>Increase (decrease) in operating liabilities:</i>		
Accounts payable and accrued expenses	(4,092)	(71,471)
Grants payable	(12,109)	17,853
Carnegie grant advance	(86,704)	(100,822)
Accrued scholarship costs	(487,789)	(670,409)
TOTAL ADJUSTMENTS	<u>(881,119)</u>	<u>(1,993,658)</u>
NET CASH USED BY OPERATING ACTIVITIES	<u>\$ (2,677,109)</u>	<u>\$ (4,649,306)</u>

The accompanying notes are an integral part of these financial statements.

THE COLLEGE CRUSADE OF RHODE ISLAND
(A Component Unit of the State of Rhode Island)
NOTES TO FINANCIAL STATEMENTS
June 30, 2007 and 2006

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of The College Crusade of Rhode Island (the “Crusade”) have been prepared in conformity with Generally Accepted Accounting Principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant accounting policies are described below:

THE FINANCIAL REPORTING ENTITY

CRUSADE OPERATIONS

The Crusade is a Rhode Island non-profit corporation formed in November 1989 for the purpose of fostering the education of economically disadvantaged youth through Crusader support programs for parents and students along with student scholarship awards. Effective June 26, 2007 the Crusade changed its name from The Rhode Island Children’s Crusade for Higher Education to The College Crusade of Rhode Island, which better reflects its current mission.

For financial statement reporting purposes, the Crusade has been determined to be a component unit of the State of Rhode Island (the State) based on the State’s significant financial support of the Crusade and the Crusade’s ability to potentially impose a moral financial burden or moral obligation on the State. However, the Crusade is an independent 501(c)(3) not-for-profit corporation with oversight by its own Board of Directors and control over its assets.

BASIS OF PRESENTATION

On July 1, 2002, the Crusade adopted the provisions of Governmental Accounting Standards Board Statement No. 34 “*Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments*”. Statement No. 34 established standards for external financial reporting for all state and local governmental entities, which includes a statement of net assets, a statement of revenues, expenses, and changes in net assets, and a statement of cash flows. It requires the classification of net assets into three components – invested in capital assets, net of related debt; restricted; and unrestricted. These classifications are defined as follows:

- *Invested in capital assets, net of related debt* – This component of net assets consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balance of any debt attributable to those assets. The Crusade had no such debt at June 30, 2007 and 2006.
- *Restricted* – This component of net assets consists of constraints placed on net assets used through external constraints imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation. The Crusade’s restricted net assets are restricted by the Carnegie Grant.
- *Unrestricted* – This component of net assets consists of net assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt”.

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2007 and 2006

On July 1, 2004, the Crusade adopted the provisions of Governmental Accounting Standards Board Statement No. 40 "*Deposit and Investment Risk Disclosures*". This statement established and modified disclosure requirements related to investment risks: credit risk (including custodial credit risk and concentrations of credit risk), interest rate risk, and foreign currency risk. This statement also established and modified disclosure requirements for deposit risks: custodial credit risk and foreign currency risk.

BASIS OF ACCOUNTING

The financial statements of the Crusade have been prepared on the accrual basis of accounting. 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 imposed by the provider have been met.

In accordance with SGAS No. 20, the Crusade has elected to apply the applicable GASB pronouncements, as well as the following pronouncements issued on or before November 30, 1989: FASB Statements and Interpretations; APB Opinions and ARBS, unless these pronouncements conflict with or contradict GASB pronouncements.

CASH AND CASH EQUIVALENTS

The Crusade considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents. For purposes of the statements of cash flows, none of the investments held in the Crusade's investment portfolio (Note 4) are included as cash and cash equivalents, regardless of the type of investment, as it is the Crusade's intention that the funds deposited in the investment account are not for current purposes. The Crusade had no cash equivalents at June 30, 2007 and 2006.

The AmeriCorp Federal program requires that the Crusade maintain a separate program bank account.

PLEDGES RECEIVABLE

Unconditional promises to give that are expected to be collected within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of estimated future cash flows. The discount on these pledges is computed using a risk-free interest rate applicable to the year in which the promise is expected to be received. Amortization of the discount is netted against contribution revenue. Conditional promises to give are not recognized in revenue until such time as the conditions are substantially met. All pledges are expected to be received within one year.

INVESTMENTS

The Crusade's portfolio is managed by an outside investment manager who operates within the guidelines established by the Investment Committee of the Board of Directors. The Investment Committee has established and communicated to the investment manager, policies relating to the nature of permitted investment instruments, diversification, and the use of derivatives.

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 NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 June 30, 2007 and 2006

All long-term investments have been reported in the financial statements at their current market value in the case of marketable securities and at estimated fair value for certain nonmarketable securities. The net increase (decrease) in realized and unrealized appreciation (depreciation) in the market value of such investments has been included in the statement of revenues, expenses, and changes in net assets.

Management is not aware of any derivative financial instruments through its investment managers' investment strategy and mutual fund investments. Derivatives, such as forward foreign currency contracts and futures, are used to hedge against foreign currency and price risk. Management has estimated that the risk, if any, associated with these derivatives is not material to the Crusade as of June 30, 2007 and 2006.

FURNITURE AND EQUIPMENT

Furniture and equipment is recorded at cost. Depreciation is provided using the straight-line method over estimated useful lives of respective assets. Useful lives of assets are as follows:

<u>Asset Category</u>	<u>Estimated Useful Lives</u>	<u>Capitalization Threshold</u>
Office Furniture & Equipment	5 years	\$2,000
Computer Equipment	3 years	\$3,000

CONTRIBUTED SERVICES

Unpaid volunteers have made contributions of their time to develop the Crusade's programs and to assist in registering students in these programs. The value of this contributed time is not reflected in these financial statements since it is not susceptible to objective measurement or valuation.

GRANT EXPENSES

Grants payable in future periods by the Crusade, and not requiring subsequent review and approval for payment, are recorded as expenses and liabilities when the grants are first awarded. When a grant's time period lapses with awarded funds unexpended, the Crusade treats the unexpended funds as income.

INCOME TAXES

The Crusade is a not-for-profit organization determined by the Internal Revenue Service to be exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code.

USE OF ESTIMATES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

OPERATING REVENUES AND EXPENSES

Operating revenues and expenses are distinguished from non-operating items in the statements of revenues, expenses, and changes in net assets. Operating revenues and expenses result from providing

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2007 and 2006

services in connection with the Crusade's principal ongoing operations. Principal operating revenues of the Crusade are received through various grants. Operating expenses include grant program expenses, cost of scholarships, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. The non-operating revenues of the Crusade are operating transfers from the State of Rhode Island.

ADVERTISING COSTS

The Crusade expenses advertising costs as they are incurred.

LIABILITY FOR COMPENSATED ABSENCES

Employees are allowed to accrue ten vacation days and thirty sick days. Employees are entitled to receive full pay for the number of vacation days accrued at the time of termination. Per the Crusade policy, employees' sick leave accrual does not vest and accordingly, employees may only utilize sick time when sick or when appropriately approved for personal reasons. Since the employees accumulating rights to receive compensation for future absences are contingent upon the absences being caused by future illness and such amounts can not be reasonably estimated, a liability for unused sick leave is not recorded in the financial statements.

NOTE 2 – CASH AND CASH EQUIVALENTS

In accordance with R.I. Gen. Laws § 35-10.1-1, *et seq*, Rhode Island depository institutions holding deposits of the State, its agencies or governmental subdivisions of the State, shall at a minimum, insure or pledge eligible collateral equal to one hundred percent (100%) of the deposits which are time deposits with maturities greater than sixty (60) days. Any of these institutions which do not meet minimum capital standards prescribed by federal regulators shall insure or pledge eligible collateral equal to one hundred percent (100%) of the deposits, regardless of maturity. At June 30, 2007 and 2006, the Crusade had no deposits that were required to be collateralized.

The following summary presents the Crusade's deposits at June 30, 2007 and 2006. Category 1 includes deposits which are fully insured or collateralized with securities held by the Crusade or its agents in the Crusade's name. Category 2 includes deposits that are collateralized with securities held by the pledging financial institution's trust department or agent in the Crusade's name. Category 3 includes deposits that are not insured or collateralized.

THE COLLEGE CRUSADE OF RHODE ISLAND
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 NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 June 30, 2007 and 2006

	2007		
	Category		
	1	2	3
Demand Deposits	\$ 100,000	\$ -	\$ 200,017
Restricted Cash - Carnegie Grant	-	-	337,000
	<u>\$ 100,000</u>	<u>\$ -</u>	<u>\$ 537,017</u>
		Bank Balance	Carrying Value
Demand Deposits		\$ 300,017	\$ 241,506
Restricted Cash - Carnegie Grant		337,000	337,000
		<u>\$ 637,017</u>	<u>\$ 578,506</u>
	2006		
	Category		
	1	2	3
Demand Deposits	\$ 100,000	\$ -	\$ 238,018
Restricted Cash - Carnegie Grant	-	-	389,287
	<u>\$ 100,000</u>	<u>\$ -</u>	<u>\$ 627,305</u>
		Bank Balance	Carrying Value
Demand Deposits		\$ 338,018	\$ 58,763
Restricted Cash - Carnegie Grant		389,287	389,287
		<u>\$ 727,305</u>	<u>\$ 448,050</u>

Custodial Credit Risk – Deposits: Custodial credit risk is the risk that in the event of a bank failure, the Crusade’s deposits may not be returned to it. The Crusade does not have a deposit policy for custodial credit risk. As of June 30, 2007, \$537,017 of the Crusade’s bank balance of \$637,017 was exposed to custodial credit risk. As of June 30, 2006, \$627,305 of the Crusade’s bank balance of \$727,305 was exposed to custodial credit risk.

NOTE 3 – GRANTS RECEIVABLE

The following is a summary of grants receivable at June 30, 2007 and 2006:

	2007	2006
GEARUP Grant	\$ 531,682	\$ 992,072
AmeriCorps Grant	16,536	41,618
Nellie Mae Foundation Grant	4,000	-
	<u>\$ 552,218</u>	<u>\$ 1,033,690</u>

Management believes, due to the nature of the grants receivable, the amounts are fully collectible.

