

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

Financial Statements

June 30, 2002

(With Independent Auditors' Report Thereon)

UNIVERSITY OF RHODE ISLAND

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

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Independent Auditors' Report

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

We have audited the accompanying statement of net assets of the University of Rhode Island (a component unit of the State of Rhode Island and Providence Plantations) as of June 30, 2002, and the related statements of revenues, expenses and changes in net assets, and cash flows for the year then ended. These financial statements are the responsibility of the University of Rhode Island's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the University of Rhode Island as of June 30, 2002, and the changes in its financial position and its cash flows thereon for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in notes 1 and 17, the University of Rhode Island adopted the provisions of the Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – For State and Local Governments*, GASB Statement No. 35, *Basic Financial Statements – and Management's Discussion and Analysis – for Public Colleges and Universities*, GASB Statement No. 37, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus*, and GASB Statement No. 38, *Certain Financial Statement Note Disclosures*, as of July 1, 2001.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 27, 2002 on our consideration of University of Rhode Island's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The Management's Discussion and Analysis on pages 3 to 11 is not a required part of the financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the supplementary information and express no opinion on it.

KPMG LLP

September 27, 2002

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

Management's Discussion and Analysis

Fiscal year ended June 30, 2002

(Unaudited)

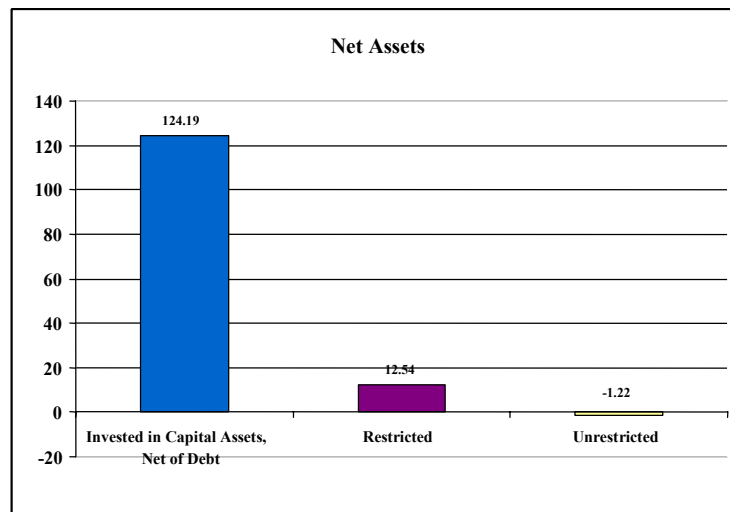
The following discussion and analysis provides management's view of the financial position of the University of Rhode Island (the University) as of June 30, 2002, and the results of operations for the year then ended. This analysis should be read in conjunction with the University's financial statements and notes thereto that are also presented in this document.

Financial Highlights

The University implemented the provisions of Government Accounting Standards Board (GASB) Statement 35-*Basic Financial Statements-and Management's Discussion and Analysis-for Public Colleges and Universities* as of July 1, 2001, the beginning of fiscal year 2002. As provided by GASB Statement 35, comparative financial data is not displayed in financial statements for fiscal year 2001. Prior year comparative data will be displayed in financial statements for fiscal years 2003 forward.

The University's financial position as of June 20, 2002, as reported under GASB Statement 35, showed a net income of \$1.86 million for the year, before other revenue, expense, gains or losses. With the infusion of capital and private funds totaling \$30.66 million, net assets increased by \$32.52 million in the same year. These funds were used to finance about 47% of the construction in progress and building improvements costs incurred during the year.

The following chart provides a graphical breakdown of net assets by category for the fiscal year ended June 30, 2002.



UNIVERSITY OF RHODE ISLAND
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Management's Discussion and Analysis

Fiscal year ended June 30, 2002

(Unaudited)

At June 30, 2002, the University's assets of \$303.08 million exceeded its liabilities of \$167.57 million by \$135.51 million. The resulting net assets are summarized into the following categories (in millions):

Invested in capital assets, net of related debt	\$ 124.19
Restricted, expendable	12.54
Unrestricted	<u>(1.22)</u>
Total net assets	\$ <u>135.51</u>

The restricted, expendable net assets may be expended for the purposes for which the donor or grantor intended.

Overview of the Financial Statements

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

The Financial Statements. The financial statements are designed to provide readers with a broad overview of the University's finances and are comprised of three basic statements.

The *Statement of Net Assets* presents information on all of the University's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the University is improving or deteriorating.

The *Statement of Revenues, Expenses and Changes in Net Assets* presents information showing how the University's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will result in cash flows only in future fiscal periods (e.g. the payment for accrued for compensated absences, or the receipt of amounts due from students and others for services rendered).

The *Statement of Cash Flows* is reported on the direct method. The direct method of cash flow reporting portrays net cash flows from operations as major classes of operating receipts (e.g. tuition and fees) and disbursements (e.g. cash paid to employees for services.) The Government Accounting Standards Board (GASB) Statements 34 and 35 require this method to be used.

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

UNIVERSITY OF RHODE ISLAND
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Management's Discussion and Analysis

Fiscal year ended June 30, 2002

(Unaudited)

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 University 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 page 15-32 of this report.

Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of the University's financial position. In the case of the University, assets exceeded liabilities by approximately \$135.51 million at the close of fiscal year 2002.

By far the largest portion of the University's net assets, \$124.19 million reflects its investment in capital assets (such as land, buildings, machinery, and equipment), less any related outstanding debt, including capital leases, used to acquire those assets. The University uses these capital assets to provide services to students, faculty and administration; consequently, these assets are not available for future spending. Although the University'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 University's financial statement, 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. Additional financing for certain capital projects is provided by the issuance of revenue bonds by the Rhode Island Health and Educational Building Corporation (RIHEBC), a quasi-public state agency. Borrowings by the State are not reflected in these financial statements.

University of Rhode Island's Net Assets
(in millions)

Current assets	\$	53.37
Non-current assets		249.71
Total assets	\$	303.08
Current liabilities		41.32
Non-current liabilities		126.25
Total liabilities	\$	167.57
Net assets:		
Invested in capital assets, net of related debt		124.19
Restricted, non-expendable		12.54
Unrestricted		(1.22)
Total net assets	\$	135.51

UNIVERSITY OF RHODE ISLAND
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Management's Discussion and Analysis

Fiscal year ended June 30, 2002

(Unaudited)

Resources that are subject to external restrictions on how they must be used represent 9% of the University's net assets.

During fiscal year 2002, the University's net assets increased by \$32.52 million which is largely due to capital and private funds received. Operating expenses outpaced operating revenues by \$89.73 million. Though the University added \$71.93 million in capital assets this year, the depreciation expense on its depreciable capital assets was \$9.94 million. There was also a prior period adjustment of \$141.64 million related to accumulated depreciation and other capital charges required by the adoption of GASB Statement 35.

University of Rhode Island Changes in Net Assets
(in millions)

Operating revenues:	
Tuition and fees, net of tuition waivers and remissions	\$ 99.90
Operating grants and contributions	60.15
Other sources	27.48
Total operating revenues	187.53
Operating expenses:	
Salaries and benefits	197.93
Operating expenses	20.86
Scholarships, grants and contracts	9.19
Auxiliaries	39.34
Depreciation and amortization	9.94
Total operating expenses	277.26
Net operating loss	(89.73)
Non-operating revenues (expenses):	
State appropriation	84.27
Capital appropriations	13.76
Net investment income	2.57
Interest expense	(4.32)
Total non-operating revenues	96.28
Private gifts	9.06
State contributed capital	10.26
Capital gifts	6.64
Increase in net assets	32.52
Net assets – July 1, 2002	102.99
Net assets – June 30, 2002	\$ 135.51

UNIVERSITY OF RHODE ISLAND
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Management's Discussion and Analysis

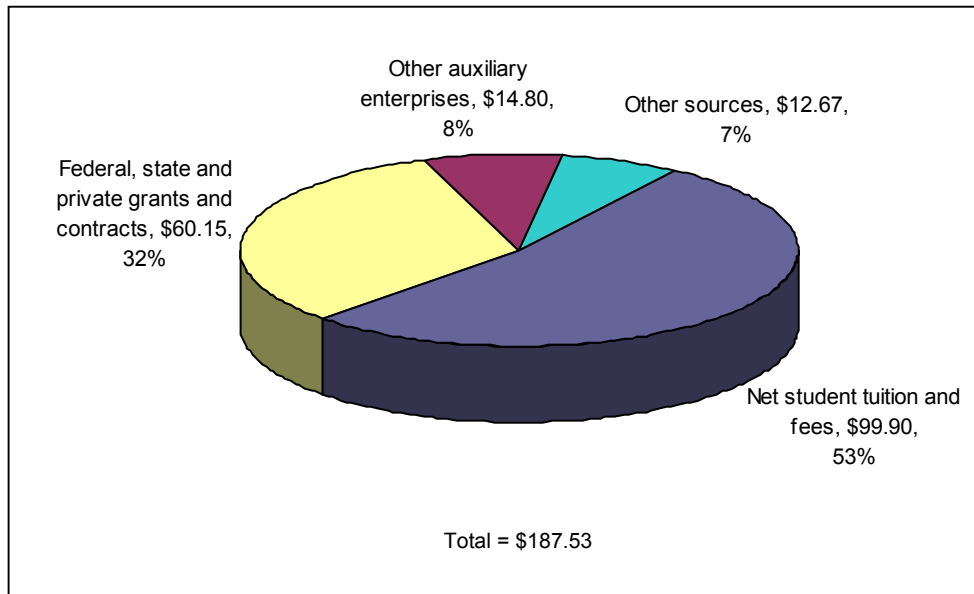
Fiscal year ended June 30, 2002

(Unaudited)

Revenues

The following pie chart provides a graphical breakdown of revenues by category for the year ended June 30, 2002.

Operating Revenues by Category
(in millions)



The total operating revenues were up by \$3.11 million or by 2% as compared with those of the preceding year. This is largely attributable to the tuition and fee rate increase.

Tuition and fees received by the University of Rhode Island included the following (in millions):

Tuition	\$	78.72
Student service fees		14.37
Health service fees		3.37
Housing fees		15.19
Dining service fees		9.42
Miscellaneous student fees		2.00
		<hr/>
Total		123.08
Tuition waived or remitted		(23.18)
		<hr/>
Net	\$	<u>99.90</u>

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Management's Discussion and Analysis

Fiscal year ended June 30, 2002

(Unaudited)

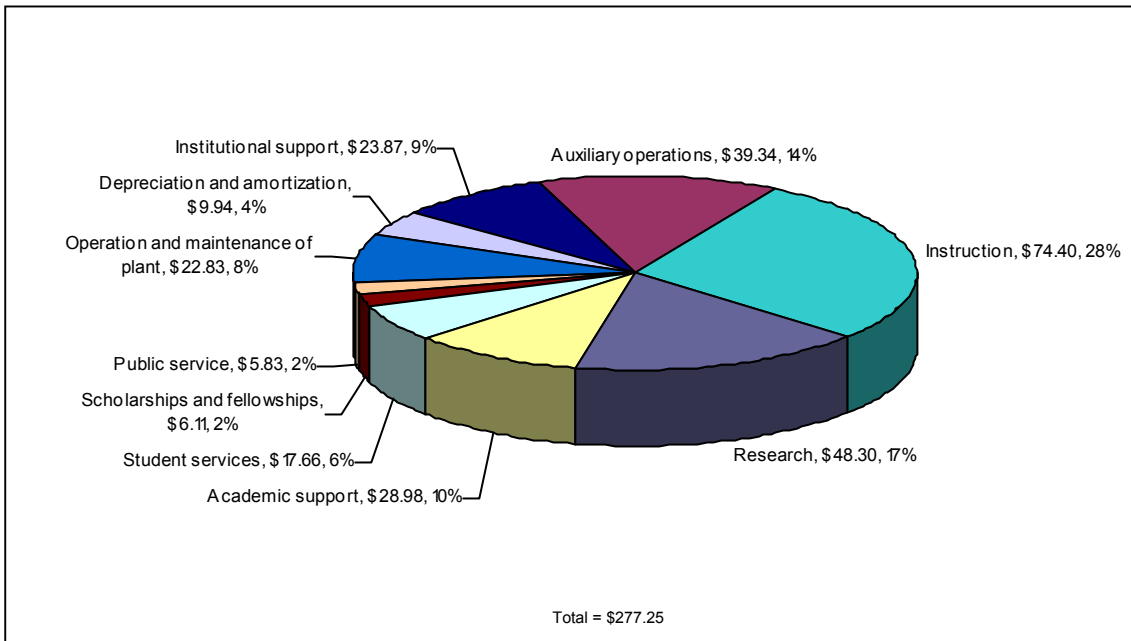
The following summary (in millions) shows where major grant and contract expenditures, including indirect cost charges, occurred during the year.

Agency	Amount
National Science Foundation	\$ 7.68
Department of Health and Human Services	6.90
Department of Defense	5.64
Agency for International Development	4.74
Department of Agriculture	4.12
Department of Commerce	3.75
NASA	1.64
Department of Education	1.64

Expenses

The pie chart below illustrates the University's operating expenses by function for the fiscal year ended June 30, 2002, excluding scholarship allowances applied against tuition and fees.

**Operating Expenses by Function
(in millions)**



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Management's Discussion and Analysis

Fiscal year ended June 30, 2002

(Unaudited)

The operating expenses for the current fiscal year totaled \$ 277.26 million. These expenses are shown by their functional classification in the Statement of Revenues, Expenses and Changes in Net Assets. The expenditures for fiscal 2001 were shown by natural category or object class, that is, according to materials or capital purchased or services received, such as personnel services, staff benefits, travel, repairs, and capital. Comparison of actual operating expenses was not made as a result of the change in expense classification (functional in contrast to natural object code) as reported in the Statement of Revenues, Expenses and Changes in Net Assets.

Non-Operating Revenues and Expenses

For non-operating revenues and expenses, the State's unrestricted appropriation increased by \$5.64 or by 7%. Investment income was down \$.54 million or by 17% due to reduced short-term rates of return.

Interest cost was up 13% or \$0.5 million reflecting additional accruals for the year.

Direct State Appropriation

The University has a long tradition of using the state appropriation to support its operating expenses. During fiscal year 2002, the University received state appropriation of \$84.27 million, which was not sufficient to cover operating expenses to the extent of \$5.46 million as the schedule below indicates. Because operating costs have been increasing over the years the State appropriations have not risen enough to cover operating expenses, student tuition and fees have played an increasingly important role in funding (36% in fiscal year 2002) of the University's operations. It is important to note that the Rhode Island General Assembly presets tuition and fees after reviewing recommendations from the Board of Governors for Higher Education and the University.

Tuition and fee revenue	\$	99.91
Other revenue		87.64
Operating expenses		<u>(277.25)</u>
Operating loss		(89.72)
State direct appropriations		<u>84.27</u>
Net loss	\$	<u><u>(5.45)</u></u>

Capital Assets and Debts of the University

Capital Assets

The University's investment in capital assets as of June 30, 2002 amounts to \$227.32 million net of accumulated depreciation. This investment in capital assets includes, land, buildings, (including improvements,) furnishings and equipment, (including the cost of capital leases). Capital assets increased during the year by \$61.99 million or 37%.

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Management's Discussion and Analysis

Fiscal year ended June 30, 2002

(Unaudited)

During fiscal year 2002, the University expended and capitalized \$71.93 million on plant related projects. This amount includes \$30.41 million on the Thomas Ryan Center, \$7.64 million on the Boss Ice Arena, \$14.74 million on academic buildings, \$9.77 million on student residence halls, and approximately \$1.91 million on scientific equipment for research and instruction.

The University generally has funded its capital plans through a combination of funds received from University operations, bonds issued by the Rhode Island Health and Educational Building Corporation, State appropriations and general obligation bonds, Federal appropriations, and private fund raising. The execution of the University's capital improvement plan is contingent upon approval and sufficient funding from the State.

The Board of Governors submits a running five fiscal year capital improvement plan to the General Assembly and State Executive each year. The plan includes proposed capital projects for the entire system of public higher education in Rhode Island, including the University. The FY 2004-2008 plan for the University totals \$219 million and includes all continuing and planned projects, whether funded or not. This plan forms the basis for discussions on funding the various projects from all available funding sources.

Additional information about the University's capital assets can be found in note 6 to the financial statements.

Debt. The University carries \$118.81 million in debt, including loans and bonds payable and accruals for compensated absences, workers compensation and capital lease obligations. The accrual for compensated absences consists of sick and vacation leaves, and salary deferrals, relating to employees on the University's payroll.

The University has no independent bonding authority. All bonds must be approved by and arranged through the Board of Governors. All general obligation and revenue bond related indebtedness is reflected on the financial accounts of the entity issuing the bonds. Moody's rating service has given the Board of Governors' general revenue bonds a rating of A1 and its auxiliary revenue bonds a rating of A2. Neither rating has changed from the prior year. Moody's has assigned a rating of A2 to State of Rhode Island general obligation bonds. This is the same as the prior year. More detailed information about the University's long-term liabilities is presented in note 7 to the financial statements.

Economic Factors and Next Year's Tuition and Student Fee Rates

The seasonally adjusted unemployment rate for the State of Rhode Island, from which the University primarily draws students decreased from 5% in June of 2001 to 4.5% in June of 2002, according to the Federal Reserve Bank of Boston. This compares to an increase from 4.6% to 5.9%, respectively on a national level. Historically, in times of economic slowdowns, public colleges/universities have experienced increases in their enrollments as unemployed and underemployed workers seek to update and upgrade their skills. The University cannot predict the extent to which enrollment may vary in this current environment.

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Management's Discussion and Analysis

Fiscal year ended June 30, 2002

(Unaudited)

Because of limited economic growth in the State of Rhode Island and increased demand for state resources, the unrestricted appropriation originally requested for fiscal year 2003 by the University of \$91.38 million was reduced to \$81.88 million or by 10.4%, and this amount is \$2.36 million or 2.8% less than that of the current year. In response to this cutback, and due to scarce public resources in general, the Board of Governors and the University have recently taken the following actions:

- In July 2002, fiscal year 2003 in-state tuition and mandatory fees increases averaging 8.8% for undergraduate students and 9.0% for graduate and professional students were announced, to take effect beginning with the fall term. Out-of-state tuition and mandatory fees increases averaging 8.2% for undergraduate students and 8.3% for graduate and professional students will also take effect beginning with the fall term.
- Hiring restrictions of faculty, lecturers and staff
- Reduction in out-of-state travel by 50%
- Reduction of approximately 5% in operating budget for classrooms and laboratory materials.

As a result of the reduction in state funding, the University's current financial and capital plans are currently being reviewed to determine if the present service levels can be maintained.

The University's enrollment over the last five years showed slight increases through 2002, consistent with the University's efforts to manage housing and class enrollment.

Increases in in-state undergraduate student charges at the University have been held to an average of 2.9% since 1998. Out-of-state undergraduate student charges have been held to an average of 3.1% over the same period. Based upon in-state undergraduate charges during the 2002-2003 academic year, the University ranks third highest among the six New England public university systems. Future University enrollments may be affected by a number of factors, including any material increase in tuition and other mandatory charges and any material decrease in State appropriations.

Requests for Information

This financial report is designed to provide a general overview of the University's finances for all those with an interest in the University's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to: Mr. Dennis E. Stark, Vice President for Business and Finance, University of Rhode Island, 75 Lower College Road, Room 108, Kingston, RI 02881.

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

Statement of Net Assets

June 30, 2002

Assets

Current assets:	
Cash and cash equivalents (note 2)	\$ 19,534,615
Cash held by State Treasurer – capital projects (notes 2 and 3)	13,152,761
Cash held by State Treasurer – other (notes 2 and 3)	106,872
Accounts receivable, net (note 4)	16,878,717
Inventory and other current assets	<u>3,698,320</u>
Total current assets	<u>53,371,285</u>
Noncurrent assets:	
Cash and cash equivalents – restricted (note 2)	258,242
Cash held by State Treasurer – restricted (notes 2 and 3)	704,301
Funds on deposit with bond trustee – restricted	9,949,336
Loans receivable, net (note 5)	11,475,336
Capital assets, net of accumulated depreciation (notes 6 and 7)	<u>227,318,412</u>
Total noncurrent assets	<u>249,705,627</u>
Total assets	<u>\$ 303,076,912</u>

Liabilities

Current liabilities:	
Accounts payable and accrued liabilities	\$ 27,593,924
Compensated absences (note 8)	643,670
Funds held for others	761,425
Deferred revenues	10,325,783
Current portion of capital lease obligation (notes 6 and 7)	836,528
Current portion of bonds and notes payable (notes 6 and 7)	<u>1,160,220</u>
Total current liabilities	<u>41,321,550</u>
Noncurrent liabilities:	
Compensated absences (note 7)	15,031,905
Capital lease obligations (notes 6 and 7)	15,176,370
Bonds and loans payable (notes 6 and 7)	85,957,604
Grant refundable (note 8)	<u>10,080,041</u>
Total noncurrent liabilities	<u>126,245,920</u>
Total liabilities	<u>\$ 167,567,470</u>

Net Assets

Invested in capital assets, net of related debt	\$ 124,188,189
Restricted (note 9):	
Expendable:	
Loans	2,551,024
Capital projects	5,873,760
Debt service	4,093,565
Sponsored research	24,210
Unrestricted (deficit) (note 10)	<u>(1,221,306)</u>
Contingencies (note 11)	
Total net assets	<u>\$ 135,509,442</u>

See accompanying notes to financial statements.

UNIVERSITY OF RHODE ISLAND
(A Component Unit of the State of Rhode Island and Providence Plantations)
Statement of Revenues, Expenses, and Changes in Net Assets
Year ended June 30, 2002

Operating revenues:	
Tuition and fees	\$ 92,798,613
Residence, dining, student union, and health fees	30,280,783
Less scholarship allowances	<u>(23,176,095)</u>
Net student fees	99,903,301
Federal, State, local, and private grants and contracts	60,150,447
Other auxiliary enterprises	14,803,997
Other sources	<u>12,673,860</u>
Total operating revenues	<u>187,531,605</u>
Operating expenses (note 12):	
Instruction	74,399,038
Research	48,302,198
Academic support	28,980,799
Student services	17,662,690
Scholarships and fellowships	6,109,051
Public service	5,826,549
Operation and maintenance of plant	22,828,809
Depreciation and amortization	9,942,522
Institutional support	23,866,736
Auxiliary operations	<u>39,335,996</u>
Total operating expenses	<u>277,254,388</u>
Operating loss	<u>(89,722,783)</u>
Nonoperating revenues (expenses):	
State appropriation (note 13)	84,267,168
Net investment income	2,566,053
Private gifts	9,056,541
Interest expense	<u>(4,306,289)</u>
Net nonoperating revenues	<u>91,583,473</u>
Income before other revenues, expenses, gains or losses	1,860,690
Capital appropriations (note 13)	24,014,854
Capital gifts	<u>6,641,665</u>
Increase in net assets	32,517,209
Net assets, at beginning of year (note 17)	<u>102,992,233</u>
Net assets, at end of year	<u>\$ 135,509,442</u>

See accompanying notes to financial statements.

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

Statement of Cash Flows
Year ended June 30, 2002

Cash flows from operating activities:	
Tuition and fees	\$ 100,136,907
Grants and contracts	64,068,364
Payments to suppliers	(55,364,127)
Payments to employees	(197,731,771)
Payments for scholarships, fellowships, and sponsored programs	(9,190,441)
Auxiliary enterprises	15,251,058
Other receipts payments	11,007,040
	<u>11,007,040</u>
Net cash used by operating activities	<u>(71,822,970)</u>
Cash flows from noncapital financing activities:	
State appropriations	84,267,168
Gifts for other than capital purposes	9,056,541
Funds held for others	154,556
	<u>154,556</u>
Net cash provided by noncapital financing activities	<u>93,478,265</u>
Cash flows from capital and related financing activities:	
Capital appropriations	13,755,922
State contributed capital	10,258,932
Capital gifts	6,641,665
Net loss on disposal of capital assets	920,267
Purchase of capital assets	(71,621,026)
Principal paid on capital debt and leases	(1,948,947)
Interest paid on capital debt and leases	(2,643,229)
Deposit with trustee	25,336,036
	<u>25,336,036</u>
Net cash used by capital and related financing activities	<u>(19,300,380)</u>
Cash flows from investing activities:	
Interest on investments	902,993
	<u>902,993</u>
Net cash provided by investing activities	<u>902,993</u>
Net increase in cash	3,257,908
Cash – beginning of the year	<u>30,498,883</u>
Cash – end of year	<u>\$ 33,756,791</u>
Reconciliation of net operating revenues (expenses) to net cash used by operating activities:	
Operating loss	(89,722,783)
Adjustments to reconcile net loss to net cash used by operating activities:	
Depreciation and amortization	9,942,522
Changes in assets and liabilities:	
Accounts receivable	1,986,707
Inventory and other current assets	(707,057)
Loans receivable	(54,551)
Accounts payable and accrued liabilities	5,743,344
Deferred revenues	732,205
Compensated absences	(10,760)
Refundable grant	267,403
	<u>267,403</u>
Net cash used by operating activities	<u>\$ (71,822,970)</u>
Supplemental disclosure of cash flows information:	
New capital leases	\$ 307,503

See accompanying notes to financial statements.

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

Notes to Financial Statements

June 30, 2002

(1) Summary of Significant Accounting Policies

(a) Organization

The University is the State Land-Sea-and-Urban-Grant University. Chartered in 1951, the University offers undergraduate and graduate degree programs through to the doctoral level. The University has three campuses throughout Rhode Island in addition to the main campus located in Kingston, Rhode Island. The University is accredited by the New England Association of Schools and Colleges. In addition, certain courses and programs of study have been approved by national accrediting agencies.

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

(b) Basis of Presentation

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

The University has determined that it functions as a Business Type Activity, as defined by GASB. Business Type Activities are financed in whole or in part by fees charged to external parties for goods and services.

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

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

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

Notes to Financial Statements

June 30, 2002

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

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

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

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

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

(c) Net Assets

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

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

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

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

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

(d) Cash Equivalents

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

(e) Inventories

Inventories are stated at the lower of cost (first-in, first-out, and retail inventory method) or market, and consist primarily of bookstore, dining, health, and residential life services items.

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(f) Capital Assets

Real estate assets, including improvements, are generally stated at cost. Furnishings and equipment are stated at cost at date of acquisition or, in the case of gifts, at fair value at date of donation. In accordance with the Rhode Island Board of Governors for Higher Education's capitalization policy, all land is capitalized, regardless of value. Vehicles, equipment, computer software for internal use, and works of art and historical treasures with a unit cost of \$5,000 or more are capitalized. Land, building, leasehold, and infrastructure improvements with a unit cost of \$50,000 or more are capitalized. Interest costs on debt related to capital assets is capitalized during the construction period and then depreciated over the life of the project. University capital assets, with the exception of land and construction in progress are depreciated on a straight-line basis over their estimated useful lives, which range from 5 to 50 years.

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

(g) Compensated Absences and Salary Reduction Plan

University employees are granted vacation and sick leave in varying amounts. The University is committed to one separate union contract which contains different policies for the employees covered under the specific contract. In the event of termination, an employee is paid for those accumulated vacation and sick days allowable under the union contract or in the case of nonunion personnel, according to State or University policy.

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

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

(h) Health

The State of Rhode Island offers one state paid health plan to each of its participating agencies, including the University. The premiums for these plans are divided among the sixteen participants based upon their number of lives (eligible employees). Thus, the University pays 100% for their health care costs and is required to budget for these costs based on the estimated number of lives. The costs are automatically deducted through the payroll system on a biweekly basis. Amounts paid by the University to the State for the 2002 health premiums were \$17,192,726.

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(i) Assessed Fringe Benefit Administrative Fund

In July 2000, the State established the Assessed Fringe Benefit Administrative Fund. This fund is used to make all payments relating to workers' compensation charges, unemployment payments, and payments to employees for unused vacation and sick leave at the time of retirement or termination from State service. The State funds this account by assessing a charge against the biweekly payrolls of all State agencies, including the University. The fringe benefit assessment rate for fiscal 2002 was 3.8%.

(j) Students' Deposits and Unearned Revenues

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

(k) Student Fees

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

(l) Tax Status

The University is a component unit of the State of Rhode Island and Providence Plantations and is therefore generally exempt from income taxes under Section 115 of the Internal Revenue Code.

(m) Use of Estimates

The presentation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(n) Risk Management

The University is exposed to various risks of loss related to general liability, property and casualty, workers' compensation, unemployment, and employee health and life insurance claims.

Buildings are fully insured against fire, theft, and natural disaster to the extent that losses exceed \$25,000 per incident.

All vehicles are owned by the State which insures them for liability through an outside carrier. The policy is a loss retrospective program where premiums can be adjusted for claims incurred. Premiums paid by the University amounted to \$137,502 for the year ended June 30, 2002.

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The University is insured for general liability with an outside carrier. The policy limits are \$1 million per claim and \$2 million in the aggregate, and there is a \$25,000 deductible. This policy does not apply to actions relating to federal/civil rights, eminent domain, and breach of contract. Such claims are insured under the United Educator's Policy for wrongful acts. This policy sets limits of \$1 million per claim and \$1 million for the annual aggregate, and there is a \$100,000 deductible.

Additionally, in January 2000 the University obtained supplementary insurance coverage for workers compensation and general and excess liabilities related to construction on campus. The insurance policies, now in effect under the Owner Controlled Insurance Program (OCIP) negotiated with an insurance carrier, cover three years through 2003. The policy for general liability limits the general annual aggregate to \$5 million, personal injury to \$2 million per occurrence, fire damage to \$100,000 per occurrence, and medical expense to \$5,000. The policy for excess liability limits the coverage to \$50 million per occurrence, while the policy for workers compensation/employer's liability limits the coverage to \$1 million per accident.

The total premium for workers compensation and general liability coverage for three years is \$1,957,000, and the premium for the excess liability coverage for the same period is \$112,500.

During fiscal 2002 the insurance premiums and broker's fees paid by the University under the OCIP totaled \$779,355, and this amount covered about 25 construction projects.

(2) Cash and Cash Equivalents

The following summary presents the amount of University deposits representing cash and cash equivalents that are fully insured or collateralized with securities held by the University or its agent in the University's name (Category 1), those deposits that are collateralized with securities held by the pledging financial institution's trust department or agent in the University's name (Category 2) and those deposits that are not collateralized (Category 3) at June 30, 2002:

	Category			Total bank balance	Carrying amount
1	2	3			
\$ 36,735,701	—	923,031	37,658,732	33,756,791	

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

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(3) Cash Held by State Treasurer

Accounts payable and accrued salaries to be funded from state-appropriated funds totaled \$13,963,934 at June 30, 2002. The University has recorded a comparable dollar amount of cash held by the State Treasurer for the benefit of the University, which was subsequently utilized to pay for such liabilities.

(4) Accounts Receivable

Accounts receivable include the following at June 30, 2002:

Student accounts receivable	\$	2,725,201
Grants receivable		3,405,270
Unbilled receivables		6,107,100
Other receivables		<u>7,023,062</u>
		19,260,633
Less allowance for doubtful accounts		<u>(2,381,916)</u>
	\$	<u><u>16,878,717</u></u>

The University anticipates that all of its accounts receivable will be collected within a one-year time frame.

(5) Loans Receivable

Loans receivable include the following at June 30, 2002:

Perkins loans receivable	\$	9,074,905
Nursing loans receivable		1,031,395
Health profession loans receivable		1,442,252
Other		<u>424,132</u>
		11,972,684
Less allowance for doubtful accounts		<u>(497,348)</u>
	\$	<u><u>11,475,336</u></u>

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(6) Capital Assets

Capital assets consist of the following at June 30, 2002:

	Estimated lives (in years)	Beginning balance	Additions	Ending balance
Capital assets not being depreciated:				
Land	—	\$ 888,172	—	888,172
Construction in progress	—	<u>20,357,226</u>	<u>53,375,355</u>	<u>73,732,581</u>
Total not being depreciated		<u>21,245,398</u>	<u>53,375,355</u>	<u>74,620,753</u>
Capital assets being depreciated:				
Land improvements	15-25	22,995,947	1,487,009	24,482,956
Buildings, including improvements	10-50	195,724,033	11,760,780	207,484,813
Furnishings and equipment (including cost of capital leases)	5-15	<u>44,439,279</u>	<u>5,305,384</u>	<u>49,744,663</u>
Total being depreciated		<u>263,159,259</u>	<u>18,553,173</u>	<u>281,712,432</u>
Less accumulated depreciation:				
Land improvements		2,156,362	1,047,938	3,204,300
Building, including improvements		89,702,030	5,600,893	95,302,923
Furnishings and equipment		<u>27,213,859</u>	<u>3,293,691</u>	<u>30,507,550</u>
Total accumulated depreciation		<u>119,072,251</u>	<u>9,942,522</u>	<u>129,014,773</u>
Capital assets, net		<u>\$ 165,332,406</u>	<u>61,986,006</u>	<u>227,318,412</u>

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(7) Long-Term Liabilities

Long-term liabilities at June 30, 2002 consist of:

	<u>Beginning balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending balance</u>	<u>Current portion</u>
Leases and bonds payable:					
Lease obligations	\$ 16,767,838	468,957	1,223,897	16,012,898	836,528
Revenue bonds payable	87,323,283	—	1,001,403	86,321,880	1,048,647
Loans payable	847,549	—	51,605	795,944	111,573
Total leases and bonds payable	104,938,670	468,957	2,276,905	103,130,722	1,996,748
Other long-term liabilities:					
Compensated absences	22,005,805	—	6,330,230	15,675,575	643,670
Total long-term liabilities	\$ 126,944,475	468,957	8,607,135	118,806,297	2,640,418

(a) Bonds Payable

Auxiliary Facilities

The bonds issued for auxiliary facilities consist of revenue and refunding issues. The 1972 Graduate Housing Revenue Bonds included in this category were issued under trust indentures and are collateralized by a pledge of revenues from the facilities financed. These facilities include the University housing, dining, and student union operations. The \$685,000 balance of these bonds as of June 30, 2002 is payable semiannually until 2007. Also included in this category are the 1999 Series A Bonds, which were issued by the Rhode Island Higher Education Building Corporation (the Corporation) in October 1999 to finance the renovations of housing facilities at the University. They were authorized by the Loan and Trust Agreement dated as of September 15, 1999 between the Corporation and the Board of Governors for Higher Education acting on behalf of the University. The 1999 Series A Bonds are payable from the loan payments paid to the trustee for the account of the Corporation, auxiliary enterprise revenues derived from the University, and from moneys in the debt service reserve fund. The 1999 Series A Bonds are issued as alternate parity debt and are secured on a parity with the portion of the revenues securing the 1993 Series A Bonds as described below. The \$19,410,000 outstanding balance of the 1999 Series A Bonds as of June 30, 2002 is payable semiannually until 2030.

The auxiliary facilities category also includes the Auxiliary Enterprise Revenue Issue Series 1993 A. The Series 1993 A Bonds and the Various Purpose Educational Facilities Issue-Series 1993 B Bonds comprised the Facility Revenue and Refunding Bonds, which were issued by the Corporation in July 1993. The proceeds from these bonds were used to defease the outstanding obligations of the University, Rhode Island College, and the Community College of Rhode Island relative to the previous Series A and B issues of 1990 and 1992, respectively, and to finance the acquisition of

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library capital, building renovations at the three institutions, cost of debt issuance, and to fund the debt service fund. Also, certain of the proceeds of these bond issues were deposited with an Escrow Trustee pursuant to the two separate escrow agreements with the Corporation and the Board solely for the payment of the prior bonds. As such, neither the assets on deposit with the Escrow Trustee nor the bonds defeased are included in the accompanying statement of net assets. At June 30, 2002, \$2,855,000 of the 1990 Series A and B and 1992 Series A and B Bonds remained unpaid, and \$3,002,197 remained on deposit with the Escrow Trustee. The \$11,077,073 outstanding balance of Series 1993 A Bonds, auxiliary facility portion, as of June 30, 2002 is payable semiannually until 2023 and is secured by a pledge of auxiliary enterprise revenues.

Enterprise Facilities

The bonds issued for enterprise facilities consist of the University of Rhode Island Educational and General Issue Series 2000 B and the Auxiliary Enterprise Revenue Issue Series 1993A. The second amendment to the Loan and Trust Agreement dated as of September 1, 1997 authorized the issuance of the Series 2000 B Bonds in November 2000. The proceeds of Series B Bonds applicable to the enterprise fund were utilized to finance the design, construction, furnishing, and equipping of the Athletic Complex Thomas Ryan Center and the Athletic Complex Boss Arena Facility, and the issuance costs. Also, certain of the bonds proceeds were deposited in the capitalized interest fund, which will be used to finance the interest due until 2004. The \$37,840,000 outstanding balance of Series 2000 B bonds owed by the enterprise funds at June 30, 2002 is payable semiannually until 2031. The Series 2000 B Bonds are special limited obligation of the Corporation and are secured by the pledge of revenues of the Board derived from the University, and state appropriations for the University, except auxiliary enterprise revenues. The Series 1993 A Bonds enterprise facility portion had \$1,453,552 outstanding balance as June 30, 2002.

General and Educational Facilities

The bonds issued for general and educational facilities include the 1993 Series B Facility Revenue and Refunding Bonds Various Purpose Educational Facilities as described above. The \$7,906,255 outstanding balance as of June 30, 2002 is payable semiannually until 2023. This category also includes the Higher Education Facility Revenue Bonds – University of Rhode Island Issue, Series 1997, which the Corporation authorized in August 1997. The proceeds of Series 1997 Bonds, including accrued interest to the date of delivery, were used to finance the construction of an addition to the Social Science Center, completion of renovation to the Multicultural Center, and the costs of issuance. The Series 1997 Bonds are payable from and are secured by a lien on loan payments to the trustee for the account of the Corporation, revenues of the Board derived from the University, and state appropriation except auxiliary enterprise revenues, and money in the debt service reserve fund. The \$1,940,000 outstanding balance of Series 1997 Bonds as of June 30, 2002 will mature in 2015 and is payable semiannually. The required payments for the Series 1997 Bonds are secured by a pledge of revenues on a parity with certain revenues derive from the University and pledged as security for the 1993 Series B Bonds.

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Also included in this category are the Series 1999 B Bonds authorized pursuant to the First Amendment to Loan and Trust Agreement dated September 15, 1999. The bonds are payable solely from the loan payments paid to the trustee for the account of the Corporation, revenues derived from the University and state appropriations, except auxiliary enterprise revenues, and from money in the debt service reserve fund. The Series 1999 B Bonds, with \$3,690,000 outstanding as of June 30, 2002, are secured on a parity with the outstanding Series 1997 Bonds and on a parity as to certain revenues with the 1993 Series B Bonds.

Certain of the proceeds of the Series 2000 B Bonds, as described above, were also used to finance the construction of a modular building. The outstanding balance of Series 2000 B Bonds included in the general and educational issue category was \$2,320,000 at June 30, 2002, which is payable semiannually until 2031.

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

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Year ending June 30:			
2003	\$ 1,048,647	3,678,332	4,726,979
2004	1,093,907	4,672,664	5,766,571
2005	1,122,531	4,635,895	5,758,426
2006	1,873,396	4,579,664	6,453,060
2007	1,947,664	4,502,634	6,450,298
2008-2012	11,300,905	20,434,436	31,735,341
2013-2017	14,621,700	16,949,990	31,571,690
2018-2022	19,081,610	12,464,354	31,545,964
2023-2027	19,361,520	6,855,468	26,216,988
2028-2032	14,870,000	1,630,821	16,500,821
	<u>\$ 86,321,880</u>	<u>80,404,258</u>	<u>166,726,138</u>

(b) Loans Payable

On June 21, 1999, the Board of Governors for Higher Education (the Board) entered into an agreement with the University of Rhode Island Foundation to loan the University \$650,000 for the purchase of certain high technology equipment. The loan agreement calls for 120 monthly payments of \$8,146, including interest at the rate of 8.75% beginning in 1999. The loan is secured by the unrestricted revenues of the University. The outstanding balance due to the Foundation as of June 30, 2002 was \$544,604.

On May 26, 2001, the University obtained a loan from the Rhode Island State Energy Office (RISEO) Revolving Loan Fund for \$251,340 to finance the installation of energy conservation measurers in various buildings operated by the University. The loan is payable in five equal installments of \$50,268 commencing August 15, 2002 through August 15, 2006. The University also

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agrees to pay RISEO the sum of \$25,134, a one-time administrative fee, in five equal payments of \$5,026, also commencing August 15, 2002 through August 15, 2006.

All loan and administrative fee payments due from the University to RISEO are contingent upon the appropriation of funds by the State of Rhode Island General Assembly.

As of June 30, 2002, the future payments on loans payable to the Foundation and RISEO were as follows:

	Principal	Interest	Total
Year ending June 30:			
2003	\$ 111,573	44,830	156,403
2004	108,014	40,009	148,023
2005	113,274	34,749	148,023
2006	119,014	29,009	148,023
2007	125,777	22,747	148,024
2008-2010	218,792	25,596	244,388
	\$ 795,944	196,940	992,884

(c) Lease Obligations

On April 15, 1988, the University entered into a lease-purchase agreement with a related party, the University of Rhode Island Foundation (the Foundation). Under the terms of the agreement, the Foundation provided funding for the construction of a building to house the fisheries program on the University's East Farm site, which, upon completion, would be leased by the University over a period of 180 months. The agreement also provides the University with an option to purchase the building at the end of the lease term for \$1. The building was completed in December 1989, at which time the 180 month lease term began. The University accounted for this lease as a capital lease and recorded the building at \$478,344, the present value of minimum lease payments.

Additionally, on May 9, 2000, the Foundation and the Board, acting on behalf of the University, entered into a lease/purchase agreement for the lease to the Board of the property and structure referred to as "the premises" located at 177 Plains Road, South Kingstown, Rhode Island.

The Foundation provided the funding for the acquisition of the premises. Under the terms of the agreement, the Board shall pay all the costs associated with the renovation of the premises beyond the acquisition cost. The monthly lease payment of \$4,504 shall be payable on the first day of each month commencing on July 1, 2000. Such lease payments shall be that amount which would be necessary to amortize the aggregate amounts therefore paid by the Foundation for the acquisition of the premises over a term of 60 (sixty) months with interest at a rate of 10% per annum. As provided in the purchase option of the agreement, the Board has the right to purchase said property for the sum of one dollar (\$1) following the date of full payment of the aggregate lease payments.

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The University accounted for the above lease as a capital lease and recorded the property and structure at \$212,000, the present value of the minimum lease payments.

On May 21, 1998, the Board and the University (individually and collectively called University) entered into a Development and a Steam Service Agreement with ERI Services, Inc., the Seller, a Delaware corporation. Under this agreement, the Seller is required to deliver and the University is required to purchase certain quantities of acceptable steam required by the University in connection with its operation. The Seller's commitment for steam service to the University is for a duration of twenty years from the initial delivery date, which corresponds to the completion of the construction of the new steam plant.

The Seller assumed the construction costs of this facility, which is located on the University's property. In addition, the Seller is responsible for the costs of operating this facility and for making such additional repairs to the steam/condensate distribution system as directed by the University at a cost of up to \$1.5 million.

The Seller is required to supply the University with 320,000,000 pounds of steam annually until 2019. If the Seller is unable to supply this requirement, the University may purchase steam in excess of that produced by the Seller from any other source, and the Seller cannot sell steam produced at the facility to any party other than the University without prior consent from the University. Each year, the actual consumption of steam is recorded and a year-end adjustment is effectuated to assure that all operation and maintenance costs are addressed.

The monthly charges for services under the contract consist of a capacity charge and a variable charge for acceptable steam delivered. For contract years 1 through 20, the capacity charged is fixed at \$108,000 per month. The variable charge for the same period is calculated as the sum of commodity charges for gas and fuel oil consumed at the plant plus gas transportation and delivery charge, including operation and maintenance charge for acceptable steam delivered per thousand pounds. The O & M charge is adjusted for the current consumer price index.

On May 15, 1999, the Rhode Island Economic Development Corporation (EDC) issued the \$16,395,000 Rhode Island Economic Development Corporation Revenue Bonds (University of Rhode Island Steam Facility Project) Series 1999 and made the proceeds available to ERI to fund the construction of the steam plant. On June 3, 1999, the University, ERI, EDC, and the Chase Manhattan Bank, as Trustee, entered into a Consent, Amendment, and Assignment Agreement to ensure the continued payment of the capacity charge. The agreement requires the University to include in each annual budget a specific line item request for the capacity charge. This includes a specific reference to the capacity charge as the source of payment of the debt service on the Rhode Island Economic Development Corporation Revenue Bonds (University of Rhode Island Steam Facility Project) Series 1999. Also during the term of the Indenture Agreement covering this bond issue, the University is obligated to make payments of the capacity charge directly to the Trustee.

The construction of the facility was completed in November 1999, and the University owns the facility throughout the term of the Steam Agreement and thereafter.

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The University accounted for the amounts due under the above steam agreement as a capital lease and recorded the steam plant at \$16,395,000, the present value of the minimum lease payments.

The following schedule summarizes future minimum payments under noncancelable leases at June 30, 2002:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Year ending June 30:			
2003	\$ 836,528	749,553	1,586,081
2004	841,949	708,723	1,550,672
2005	796,235	666,920	1,463,155
2006	668,186	632,208	1,300,394
2007	675,000	603,403	1,278,403
2008-2012	3,835,000	2,528,354	6,363,354
2013-2017	4,840,000	1,486,916	6,326,916
2018-2020	3,520,000	255,083	3,775,083
	<u>\$ 16,012,898</u>	<u>7,631,160</u>	<u>23,644,058</u>

(8) Grant Refundable

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

(9) Restricted Net Assets

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

Restricted – expendable:	
Loans	\$ 2,551,024
Capital programs	5,873,760
Debt service	4,093,565
Sponsored research	<u>24,210</u>
	<u>\$ 12,542,559</u>

(10) Unrestricted Net Assets

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

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(11) Contingencies

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

At June 30, 2001, the University is a guarantor of loans to fraternities and sororities in the amount of \$588,532.

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

The University, along with RIC and CCRI, has begun a technology modernization of core administrative systems with PeopleSoft administrative systems. The PeopleSoft procurement effort was effectuated systemwide through the Office of Higher Education and will be financed over a seven-year period beginning in fiscal year 2000 at a total cost of approximately \$8.5 million, of which the University's share is approximately \$3.7 million.

(12) Operating Expenses

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

Compensation and benefits	\$ 197,932,762
Supplies and services	60,188,663
Depreciation and amortization	9,942,522
Scholarships and fellowships	<u>9,190,441</u>
	<u>\$ 277,254,388</u>

(13) State Appropriation

(a) Direct Appropriations

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

The original and supplemental appropriations are acted upon by a vote of the Board. As part of the University's annual budget allocation process for general funds, the Board allocates specific amounts in the budget which are internally allocated for the following categories: (1) salaries and wages; (2) operating expenditures; and (3) outlays for personnel costs, utilities, out-of-state travel, repairs,

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capital, and student aid, as well as the overall total budget allocation. Any increases or decreases in the specific allocations, including any transfers among those line items not specifically allocated are reported to the Board for its approval at the mid-year financial review at which time the final allocation is authorized.

(b) State Capital Plan Funds

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

During fiscal year 2002, the State allocated \$6.2 million to the University for asset protection and \$5 million and \$1.8 million toward the constructions of the Thomas Ryan Center and the Boss Arena, respectively.

(c) State Contributed Capital

In November 1996, the Rhode Island voters approved the issuance of \$40.6 million General Obligation Bonds to fund the upgrade of telecommunication technologies at the three state-supported institutions of higher education. The bonds provide funding with \$29 million slated for the University, \$7.6 million for RIC, and \$4 million for CCRI. The project calls for cabling, infrastructure improvements to accommodate the new technology, installation of network systems, voice and video equipment, and work stations. Also approved in November 1996 was the issuance of \$33.8 million General Obligation Bonds for higher education facilities. The bonds provided the University with \$9.8 million for the renovations of Ballentine, Green and Ranger halls, \$9.5 million to Rhode Island College for the construction of a performing arts classroom facility, and \$14.5 million to the Community College of Rhode Island for the construction of a five-level addition to its Knight Campus megastructure. From the proceeds of these general obligation bond issues, the University spent \$3,639,764 on telecommunication upgrades and \$3,840,769 on the renovations of the three buildings at its Kingston Campus during fiscal year 2002.

In November 2000, the Rhode Island voters approved the issuance of \$36.950 million General Obligation Bonds to fund improvements to the University, Rhode Island College (RIC), and the Community College of Rhode Island (CCRI). The bonds provides funding until 2008 with \$22 million to fund the major renovations and upgrades of student residence halls and surrounding landscape at the University, \$4.015 million to fund the renovations and upgrades of student residence halls and surrounding landscape at RIC, and \$10.935 million to fund the construction of a building for the Newport campus of the CCRI. During fiscal 2002, the University spent \$5 million on renovations and upgrades of two student residence halls.

The expenditures funded from the proceeds of the above-mentioned general obligation bonds and capitalized during fiscal year 2002 totaled \$10,258,932.

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

Notes to Financial Statements

June 30, 2002

The University's State appropriation is composed of the following at June 30, 2002:

Direct appropriations	\$	84,267,168
State Capital Plan Funds		13,755,922
State contributed capital		<u>10,258,932</u>
	\$	<u>108,282,022</u>

(14) Pension, Early, and Post-Retirement Plans

Certain employees of the University, RIC, CCRI, and the Office of Higher Education (principally faculty and administrative personnel) are covered by individual annuity contracts with the Teachers' Insurance and Annuity Association (TIAA), Variable Annuity Life Insurance Company (VALIC), and Metropolitan Life Insurance Company (Metlife). Total expenditures by the University for such 403(b) annuity contracts amounted to \$7,049,826 during the year. On June 21, 1999 the Board of Governors for Higher Education established a revised plan for post-retirement health care insurance coverage for such employees. The plan is identical to that available to civil service personnel. All current and future covered employees are subject to a mandatory payroll deduction of 0.25%. Under the cost sharing formula indicated below, the total contributions of the three institutions' employees, including those of the Office of Higher Education amounted to \$677,028 during the year. This amount was credited to a University account and is shown as a deposit held in custody for others, consistent with the arrangement made with the Office of Higher Education.

Pre-65 Medical coverage

Years of service	Age at retirement	Employer's share	Employee's share
10-15	60	50%	50%
16-22	60	70%	30%
23-27	60	80%	20%
28+	Any	90%	10%
28+	60	100%	0%
35+	Any	100%	0%

Post-65 Medicare supplemental coverage

Years of service	Employer's share	Employee's share
10-15	50%	50%
16-19	70%	30%
20-27	90%	10%
28+	100%	0%

Other employees of the University (principally civil service personnel) participate in the Employees' Retirement System of the State of Rhode Island (System), a multiple-employer, cost-sharing, public employee retirement system. The plan provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. The level of benefits provided to state

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

Notes to Financial Statements

June 30, 2002

employees is established by Chapter 36-10 of the General Laws which is subject to amendment by the general assembly. The System issues a publicly available financial report that includes financial statements and required supplementary information for plans administered by the system. The report may be obtained by writing to the Employees' Retirement System, 40 Fountain Street, Providence, RI 02903. The payroll expense of University employees covered by the system was \$32,572,794 for the year ended June 30, 2002. The University's total payroll expense for the year ended June 30, 2002 was \$164,340,572.

All full-time employees of the University who are not covered by 403(b) annuity contracts are eligible to participate in the System. Employees who retire at or after age 60 with 10 years of credited service, or at any age with 28 years of credited service, are entitled to a retirement benefit. Benefits are equal to various percentages of annual earnings, ranging from 1.7% to 3.0% for each of the first 35 years of service, to a maximum benefit of 80.0% of final average salary after 35 years of service. Final average salary is the three highest consecutive years of earned salary excluding overtime, bonuses, or severance pay. The System also provides certain death and disability benefits. Benefits are established by State statutes.

Employer and employee required contributions to the System are established by the State of Rhode Island and are based on percentages established by the State of Rhode Island and are based on percentages of covered employees' gross salaries, which are calculated annually by the fund's actuaries. Covered employees in the System were required to contribute 7.99% of salaries paid while the University was required to pay 10.83% of salaries paid for the year ending June 30, 2002. In addition, the University is required to contribute 0.98% for post-retirement health benefits. Employees contributed approximately \$2,850,000 and the University's contribution to the System for the years ended June 30, 2002, 2001, and 2000 were approximately \$2,212,000, \$2,826,000, and \$2,798,000, respectively, representing 100% of the required contribution for each of the three years.

(15) Related Parties

(a) *Related Organizations*

The University of Rhode Island Foundation, Inc. (the Foundation) is an independent nonprofit organization for the purpose of encouraging and providing support from private sources for the University and is responsible for administering assets donated to the Foundation for the use and benefit of the University. The University's governing body, the Rhode Island Board of Governors for Higher Education does not appoint a voting majority of the Foundation's Board, nor is the University able to impose its will or financial transactions on the Foundation which affect the University. Additionally, the University is not financially accountable for the Foundation. Therefore, in accordance with generally accepted accounting principles, its financial statements are not consolidated with those of the University.

Securities and other assets held in trust by the Foundation for the future use of the University and its faculty and students are not reflected in the accompanying basic financial statements. The total market value of investments at June 30, 2002 as confirmed by the Foundation amounted to \$68,728,573. Distributions to the University including the Thomas Ryan Center were \$13,601,375 during the year ended June 30, 2002 and are included in the statement of revenues, expenses, and changes in net assets under nonoperating revenue as private and capital gifts.

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

Notes to Financial Statements

June 30, 2002

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

(b) Joint Venture

Municipal joint ventures pool resources to share the costs, risks, and rewards of providing services to their participants, the general public, or others. The University, in coordination with the Town of South Kingstown and the Town of Narragansett, share in the maintenance costs of the regional waste water system, which was constructed during the late 1970's. Each is responsible for its share of the net capital and administrative costs of the project. The University's fiscal 2002 share of capital expenditures amounted to \$23,737.

In addition to capital costs, the University is responsible for its proportionate share of the total operating costs of the regional waste water system. Its share of the operating costs shall be in proportion to its share of the total flow into the common facilities as determined by metering devices and a predetermined percentage of operating costs of certain other facilities. The University's share of operating costs amounted to \$355,918 in 2002. Financial information may be obtained at the Town of South Kingstown, 180 High Street, Wakefield, Rhode Island 02879.

(16) Pass Through Grants

The University distributed \$36,881,276 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.

(17) Reconciliation of Beginning Net Assets

The provisions of GASB Statements No. 34 and 35 have been applied to the beginning net assets. The following is a reconciliation of total previously reported fund balances as of June 30, 2001 to the total net asset balances:

Total fund balances	\$ 358,236,718
Compensated absences	6,319,470
Recognition of long-term liabilities	(87,569,954)
Federal portion of Perkins loan program	(9,812,638)
Capital asset adjustment	(23,940,966)
Accumulated depreciation on capital assets	(141,640,461)
Other	<u>1,400,064</u>
Total net assets, beginning of year	<u><u>\$ 102,992,233</u></u>



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

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

We have audited the financial statements of University of Rhode Island (a component unit of the State of Rhode Island and Providence Plantations) (the University) as of and for the year ended June 30, 2002, and have issued our report thereon dated September 27, 2002. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

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

Internal Control over Financial Reporting

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

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

We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving internal control over financial reporting that we have reported to management of the University in a separate letter dated month September 27, 2002.



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

KPMG LLP

September 27, 2002