

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

Financial Statements

June 30, 2003

(With Independent Auditors' Report Thereon)

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

**Table of Contents**

	<b>Page</b>
Independent Auditors' Report	1
Management's Discussion and Analysis (Unaudited)	3
Statement of Net Assets	18
Statement of Revenues, Expenses, and Changes in Net Assets	19
Statement of Cash Flows	20
Notes to Financial Statements	21
Auditors' Report on Compliance and on Internal Control over Financial Reporting in Accordance with Government Auditing Standards	43



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

## **Independent Auditors' Report**

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

We have audited the accompanying 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, 2003 and the related statements of revenues, expenses, and changes in net assets, and cash flows for the year then ended. These financial statements are the responsibility of the University of Rhode Island's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from the University's 2002 financial statements and, in our report dated September 27, 2002, 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 audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our 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, 2003 and the changes in its financial position and its cash flows thereon for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 14, 2003 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 1 to 17 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

November 14, 2003

**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, 2003

(Unaudited)

**Introduction**

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

The University is the only publicly supported research institution in the State of Rhode Island (the State) and is charged with providing an opportunity to state residents for undergraduate and graduate study at a Land Grant, Urban Grant and Sea Grant research university. As such, the University receives federal funding for land and sea research. The University had its beginning as the State Agricultural School chartered in 1888. The Morrill Act of 1862 provided the framework within which the school became the State's land-grant institution, and in 1892 the school became the Rhode Island College of Agriculture and Mechanic Arts. In 1909, the name of the College was changed to Rhode Island State College, and the program of study was revised and expanded. In 1951, the College became known as the University of Rhode Island by the act of the State's General Assembly. The Board of Governors for Higher Education became the governing body for the University in 1981.

The mission of the University is firmly rooted in the tradition of America's unique land-grant idea that universities exist to expand knowledge, to transmit it and to foster its application in the daily life of the nation. As set forth in its Vision Statement, the University has three major responsibilities: (1) to provide traditional as well as innovative opportunities for education at undergraduate and graduate levels, (2) to pursue research and other scholarly and creative activities; (3) to serve the unique need of the people of Rhode Island by making knowledge and information readily available to individual citizens, to community groups, and to business, industry, labor and government. This Vision Statement has served as a guideline for reconciling the University's past with its future, its mission with its resources.

The University has a combined enrollment of about 14,400 students and offers undergraduate and graduate degree programs through the doctoral level. Its main campus is located in Kingston, Rhode Island, 30 miles south of Providence in the northeastern metropolitan corridor between New York and Boston. In addition to the Kingston Campus, the University has three other campuses. The 165-acre Narragansett Bay Campus, which is the site of the Graduate School of Oceanography; the Alan Shawn Feinstein College of Continuing Education located in downtown Providence; and the W. Alton Jones Campus located in the western section of the State, 20 miles from Kingston. Its 2,300 acres of woods, fields, streams and ponds is the site of the environmental education research programs and contains conference facilities for both public and private use.

**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, 2003

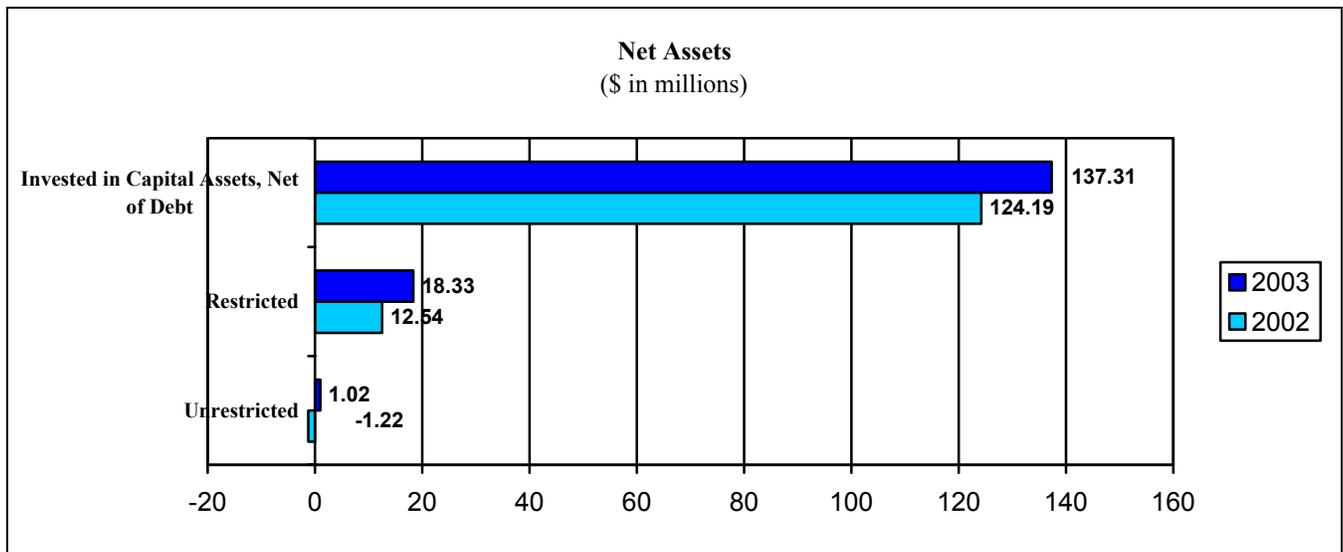
(Unaudited)

The University has adopted a three-year strategic plan, which seeks to: (1) enhance student enrollment success and persistence; (2) increase organizational and operational efficiency; and (3) support research and outreach which most directly support Rhode Island's goals for economic development. These strategic initiatives are being facilitated by community members, including University's senior administration, the Joint Strategic Planning Committee and each of the divisions on campus. Collectively, these initiatives should help guide the decision-making at all levels in order to align limited resources with University priorities.

**Financial Highlights**

The University's financial position as of June 30, 2003 showed a net loss of \$8.68 million for the year, after nonoperating revenues and expenses. This loss is largely due to reduced nonoperating revenues and an increase in operating expenses, notably depreciation and interest expense. However, with the infusion of capital and private funds totaling \$29.83 million, net assets increased by \$21.15 million during the fiscal year. These funds were used to finance about 69% of the construction in progress and building improvements costs incurred in 2003.

The following chart displays the components of the University's net assets for the fiscal years ended June 30, 2003 and 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, 2003

(Unaudited)

At June 30, 2003 and 2002, the University's total assets of \$331.44 million and \$303.08 million exceeded its total liabilities of \$174.78 million and \$167.57 million by \$156.66 million and \$135.51 million, respectively. The resulting net assets are summarized into the following categories (\$ in millions):

	<b>2003</b>	<b>2002</b>
Invested in capital assets, net of related debt	\$ 137.31	124.19
Restricted expendable	18.33	12.54
Unrestricted	1.02	(1.22)
Total net assets	\$ 156.66	135.51

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

Management's Discussion and Analysis

Fiscal year ended June 30, 2003

(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 pages 20-41 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 \$156.66 million and \$135.51 million at the close of fiscal years 2003 and 2002, respectively.

By far the largest portion of the University's net assets, \$137.31 million and \$124.19 million, respectively, reflects its investment in capital assets (such as land, buildings, machinery, and equipment), net of any related outstanding debts, 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 debts noted above, which are reflected in the University's financial statements, the State of Rhode Island regularly provides financing for certain capital projects through the issuance of general obligation bonds and appropriations from the Rhode Island Capital Plan Fund. Additional financing for certain capital projects is provided by the issuance of revenue bonds by the Rhode Island Health and Educational Building Corporation, a quasi-public state agency. Borrowings by the State are not reflected in these financial statements.

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

	<u>2003</u>	<u>2002</u>
Current assets	\$ 52.95	52.75
Noncurrent assets	<u>278.49</u>	<u>250.33</u>
Total assets	<u>\$ 331.44</u>	<u>303.08</u>
Current liabilities	37.81	41.32
Noncurrent liabilities	<u>136.97</u>	<u>126.25</u>
Total liabilities	<u>\$ 174.78</u>	<u>167.57</u>
Net assets:		
Invested in capital assets, net of related debt	137.31	124.19
Restricted, expendable	18.33	12.54
Unrestricted	<u>1.02</u>	<u>(1.22)</u>
Total net assets	<u>\$ 156.66</u>	<u>135.51</u>

**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, 2003

(Unaudited)

During fiscal years 2003 and 2002, the University's net assets increased by \$21.15 million and \$32.52 million, respectively, which is largely due to capital and private funds received. The University also closed fiscal 2003 with positive unrestricted net assets of \$1.02 million in contrast to the fiscal 2002 deficit of \$1.22 million. In addition, the current ratio, which measures the University's liquidity, improved from 1.28 at the close of fiscal 2002 to 1.40 at the close of fiscal 2003.

The University's current assets include cash and cash equivalents, accounts receivable and inventories, while current liabilities include accounts payable and accrued expenses, deposits, deferred revenues and current portion of long-term debts.

During fiscal 2003, the University's net cash and cash equivalents decreased by \$6.45 million which is attributed to the increase in accounts receivable, inventories, capital assets net of depreciation, decrease in accounts payable and accrued expenses offset by the increase in long-term debts and increase in net assets.

The major component of the University's current asset is accounts receivable. During fiscal 2003, accounts receivable increased by \$5.98 million. Of this amount, \$3.59 million was due to timing differential between billing and collections of grant and contract receivables, and \$2.06 million receivable from the State for unreimbursed capital expenditures incurred in connection with the renovations to student dormitories which are being funded by the state general obligation bonds proceeds.

**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, 2003

(Unaudited)

The restricted expendable net assets consist of resources that are subject to external restrictions on how they must be used, and they represent 12% and 9% of the University's net assets at June 30, 2003 and 2002, respectively.

**University of Rhode Island's Condensed Revenues,  
Expenses and Changes in Net Assets**  
(\$ in millions)

	<u>2003</u>	<u>2002</u>
Operating revenues:		
Tuition and fees, net of tuition waivers and remissions	\$ 112.06	99.02
Operating grants and contributions	68.78	60.15
Other sources	33.55	28.39
Total operating revenues	<u>214.39</u>	<u>187.56</u>
Operating expenses:		
Salaries and benefits	210.48	197.84
Operating expenses	34.68	24.02
Scholarships, grants and contracts	7.71	6.11
Auxiliaries	45.57	39.34
Depreciation and amortization	12.12	9.94
Total operating expenses	<u>310.56</u>	<u>277.25</u>
Net operating loss	<u>(96.17)</u>	<u>(89.69)</u>
Nonoperating revenues (expenses):		
State appropriation	81.99	84.24
Net investment income	0.80	2.57
Private gifts	10.40	9.06
Interest expense	(5.70)	(4.31)
Total nonoperating revenues	<u>87.49</u>	<u>91.56</u>
(Loss) income before other revenues, expenses, gains or losses	<u>(8.68)</u>	<u>1.87</u>
Capital appropriations	9.38	13.76
State contributed capital	13.25	10.25
Capital gifts	7.20	6.64
Increase in net assets	<u>21.15</u>	<u>32.52</u>
Net assets – beginning of year	<u>135.51</u>	<u>102.99</u>
Net assets – ending of year	<u>\$ 156.66</u>	<u>135.51</u>

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

Management's Discussion and Analysis

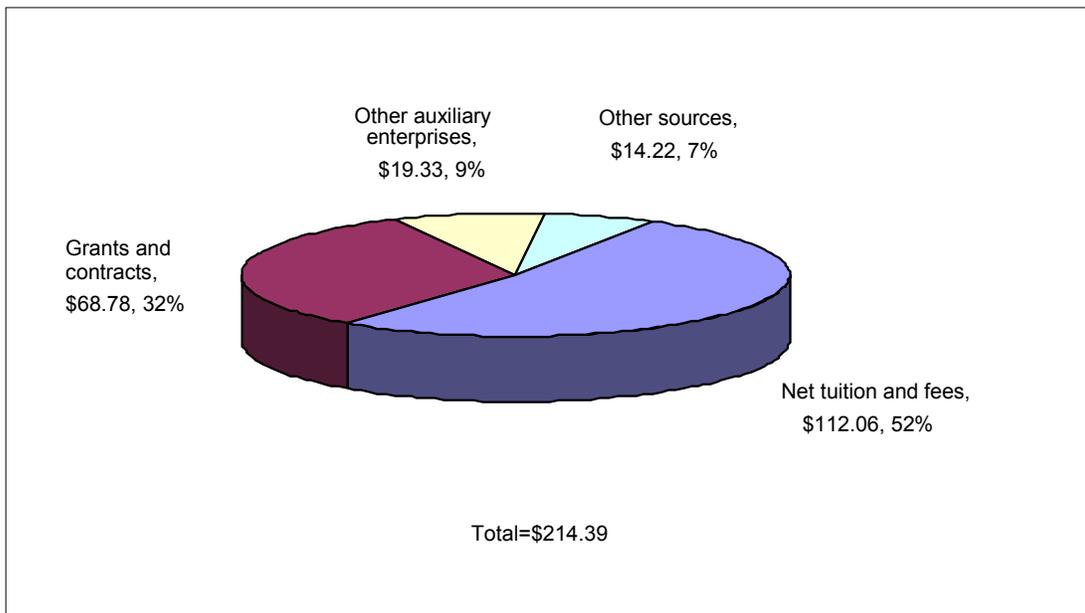
Fiscal year ended June 30, 2003

(Unaudited)

**Operating Revenues**

The following pie chart provides a graphical breakdown of operating revenues by category for the year ended June 30, 2003.

**Operating Revenues by Category**  
(\$ in millions)



The total operating revenues were up by \$ 26.83 million or by 14% as compared with those of the preceding year. This is largely attributable to the tuition and fee rate increase as well as to the increase in revenue from grants and contracts.

**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, 2003

(Unaudited)

Tuition and fees received by the University included the following (\$ in millions):

	<b>2003</b>	<b>2002</b>
Tuition	\$ 88.08	78.72
Student service fees	14.33	14.37
Health service fees	3.57	3.37
Housing fees	16.12	14.32
Dining service fees	10.56	9.42
Miscellaneous student fees	4.00	2.00
	136.66	122.20
Total	136.66	122.20
Tuition waived or remitted	(24.60)	(23.18)
	112.06	99.02
Net	\$ 112.06	99.02

The following summary shows a steady growth in the amount of grants and contracts awarded to the University during the last five years (\$ in millions).

	<b>Amount</b>
Year:	
1998-1999	\$ 42.67
1999-2000	48.98
2000-2001	57.14
2001-2002	58.11
2002-2003	60.03

The recognition of revenue from grants and contracts awarded but not expended is deferred until such time that services are performed to fulfill the requirements of the grants and contracts. Hence, awards received are not reflected in the accompanying financial statements.

The awards received during fiscal 2003 included the Enhancement for Biomedical Research in Rhode Island for \$2 million and the University of Rhode Island Transportation Center for \$1.83 million.

The award for the Enhancement of Biomedical Research in Rhode Island is a part of a \$7.6 million federal grant to stimulate research across the state, and it is used to fund the Centralized Research Core Facility, which opened in July 2003 at the University's Kingston campus. This facility provides researchers with the latest analytical equipment to investigate such areas as cancer generation, the effects of toxic chemicals on reproduction, drug metabolism, and the identification of health products.

The University is the lead institution in this statewide initiative.

**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, 2003

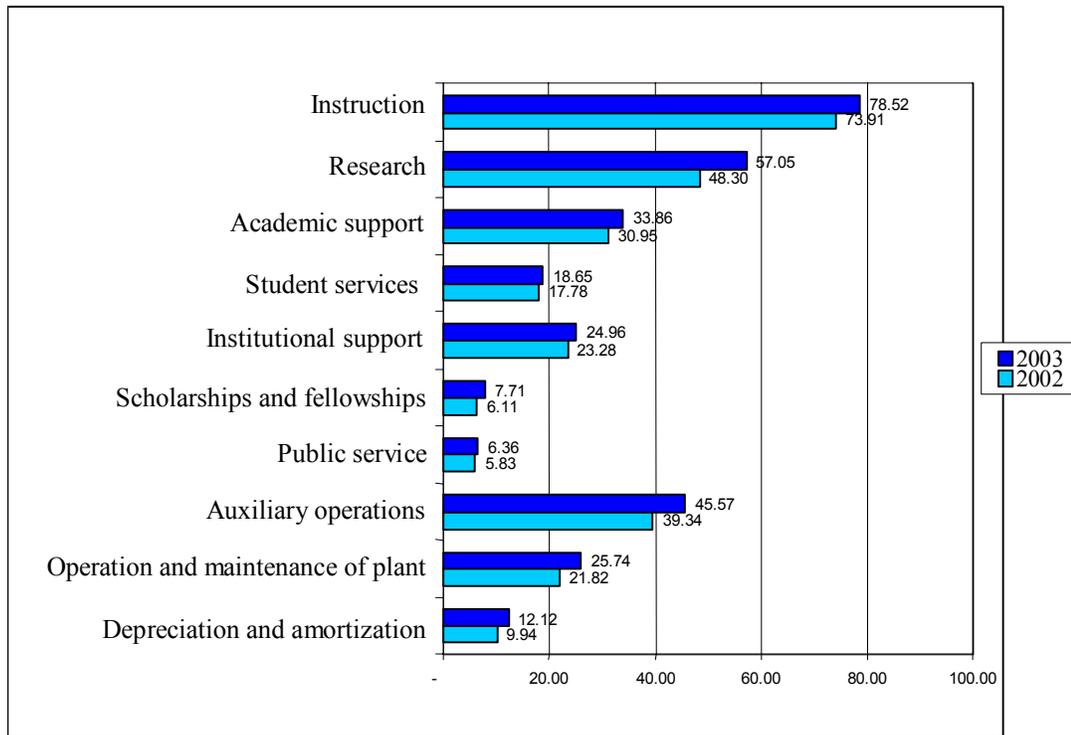
(Unaudited)

The University's Transportation Center is one of 33 such centers funded by the U.S. Department of Transportation to conduct multidisciplinary research, education, technology transfer, and outreach for surface transportation system. While each center has its own theme, the University's Transportation Center is unique because of its close ties to the Rhode Island Department of Transportation, which has vested interest in the products being produced, both in engineering students and research.

**Operating Expenses**

The bar chart below illustrates the University's operating expenses by function for the fiscal years ended June 30, 2003 and 2002, excluding scholarship allowances applied against tuition and fees.

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



The operating expenses for the fiscal years 2003 and 2002 totaled \$310.56 million, an increase of \$33.30 million or 12% over those of fiscal 2002, which is due in large part to normal salary and fringe benefit costs increases, steady growth in sponsored research awards to the University, and to increases in building and ground maintenance-related costs. In addition the expenditures of private gifts to support academic programs increased by almost \$2 million during fiscal 2003 compared with those of fiscal 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, 2003

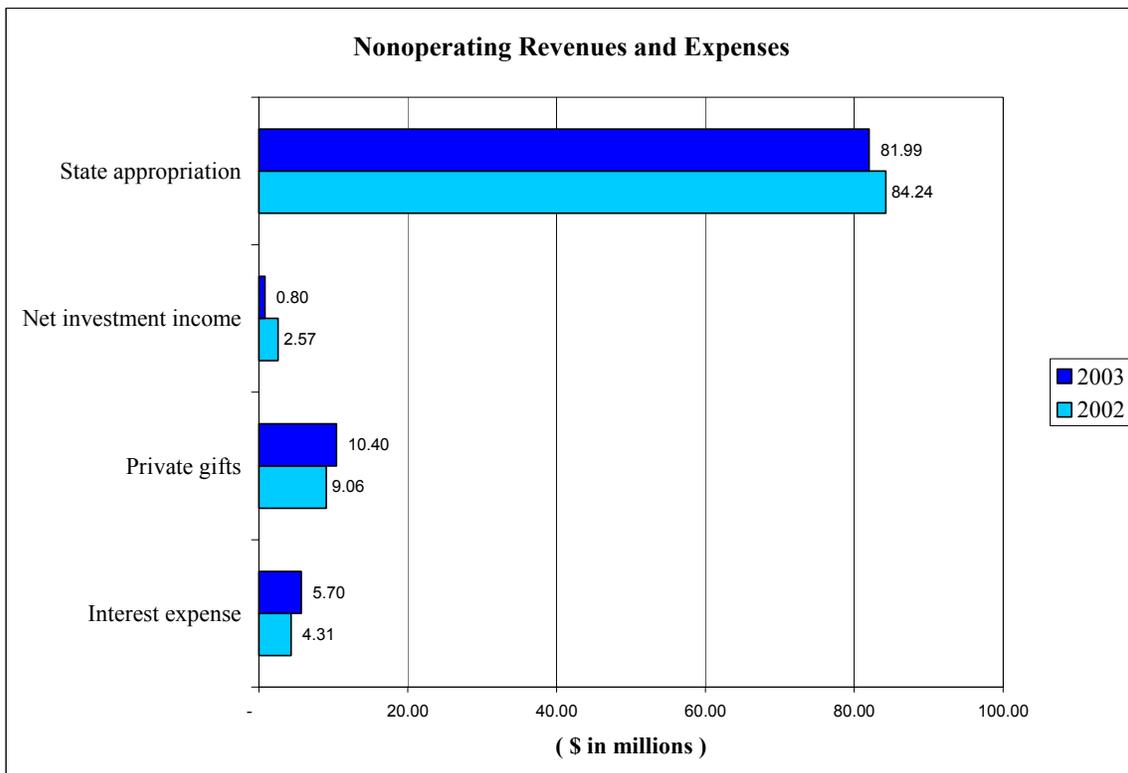
(Unaudited)

The following summary shows where major grant and contract expenditures, including indirect cost charges, occurred during 2003 and 2002 (\$ in millions).

Agency	Amount	
	2003	2002
National Science Foundation	\$ 8.94	7.68
Department of Health and Human Services	9.28	6.90
Department of Defense	7.03	5.64
Agency for International Development	5.94	4.74
Department of Agriculture	4.73	4.12
Department of Commerce	4.08	3.75
NASA	1.59	1.64
Department of Education	1.50	1.64

**Nonoperating Revenues and Expenses**

The following chart provides a graphical breakdown of the University's nonoperating revenues and expenses.



**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, 2003

(Unaudited)

The State's unrestricted appropriation is the largest component of the University's nonoperating revenues. The amount originally requested for fiscal 2003 was \$92.02 million. However, the amount appropriated by the State was \$81.99 million resulting in an appropriation for fiscal 2003 that was \$2.25 million or 2.8% less than that of fiscal 2002.

Investment income was down \$1.77 million or 69% due to reduced short-term rates of return and to the major decline in funds available for investment by the bond trustee during the year. Interest expense was up by \$1.39 million or 32% because the interest that became due during the year on bonds issued to finance the construction of Thomas Ryan Center and Boss Arena was charged to operations as these facilities opened for business at the start of fiscal 2003. However, the interest paid in fiscal 2002 on the same bond issues was capitalized because the same facilities were under construction during that year. GASB allows the capitalization of interest where the proceeds of debt are utilized to finance the construction or renovation of capital assets.

**Direct State Appropriation**

The University has a long tradition of using the state appropriation to support its operating expenses. During fiscal years 2003 and 2002, the University received state appropriation of \$81.99 million and \$84.24 million, respectively, which was not sufficient to cover operating expenses to the extent of \$14.18 million and \$5.46 million, respectively, as the schedule below indicates. Because operating costs have been increasing over the years and 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 years 2003 and 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 and the University.

	<b>(\$ in millions)</b>	
	<b>2003</b>	<b>2002</b>
Tuition and fee revenue	\$ 112.06	99.02
Other revenue	102.33	88.53
Operating expenses	(310.56)	(277.25)
Operating loss	(96.17)	(89.70)
State direct appropriations	81.99	84.24
Net loss	\$ (14.18)	(5.46)

**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, 2003

(Unaudited)

**Capital Assets and Debts Administration**

***Capital Assets***

The University's investment in capital assets as of June 30, 2003 and 2002 amounts to \$250.16 million and \$227.32 million, respectively, 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 \$22.84 million or 10%. Legal title to all land and real estate assets is vested in the Rhode Island Board of Governors for Higher Education or the State of Rhode Island. A summary of capital asset balances as of June 30, 2003 and 2002 is presented below.

**Summary Schedule of Net Capital Assets**  
(\$ in millions)

	<b>2003</b>	<b>2002</b>
Land and improvements	\$ 27.70	22.17
Building and improvements	189.25	112.18
Furnishings and equipment	21.72	19.24
Construction in progress	11.49	73.73
Total	\$ 250.16	227.32

Major capital additions including constructions in progress in fiscal 2002, which were completed during fiscal 2003 consisted of the following:

- Thomas Ryan Center - \$54.16; this was funded by bonds proceeds, capital gifts and State capital appropriation.
- Boss Arena - \$10.23; this was funded by bonds proceeds, capital gifts and State capital appropriation.
- Academic buildings - \$22.97; this was funded by State capital appropriation and capital gifts.
- Student residence halls - \$18.62; this was funded by State capital appropriation and auxiliary operations.

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

**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, 2003

(Unaudited)

**Capital Plan**

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 2005-2009 plan for the University totals \$297 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.

**Debt**

As of June 30, 2003, the University had \$112.85 million in outstanding debt, an increase of \$9.72 million over that of prior year. The table below summarizes the types of debt instruments.

**Summary Schedule of Debt**  
(\$ in millions)

	2003	2002
Loans payable	\$ 0.25	0.80
Capital lease obligations	16.25	16.01
Revenue bonds	96.35	86.32
Total	\$ 112.85	103.13

Debt repayments of \$2.45 million were made during the year. Additions to revenue bonds payable included \$7.98 million to finance the construction of parking facilities and \$3.10 million to finance the construction of a three-story Alumni Center building.

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. Both Moody's and Standard and Poor's rating services have given the Board of Governors' general revenue bonds a rating of AAA. The State of Rhode Island general obligation bonds are rated by Moody's at Aa3, Fitch's at AA, and Standard and Poor's at AA-. More detailed information about the University's long-term liabilities is presented in note 7 to the financial statements.

**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, 2003

(Unaudited)

**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, increased from 4.8% in June of 2002 to 5.7 % in June of 2003, according to the Bureau of Labor Statistic of the U.S. Department of Labor. This compares to an increase from 5.8% to 6.4%, respectively on a national level. Historically, in times of economic slowdowns, public colleges/universities have experienced increases in their enrollments as unemployed and underemployed workers seek to update and upgrade their skills. The University cannot predict the extent to which enrollment may vary in this current environment.

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 \$92.02 million was reduced to \$81.99 million or by 11%, and this amount is \$2.25 million or 3% less than that of the previous year. To support their strategic priorities in this financially challenging time, the Board of Governors and the University took 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 2003, 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 mandatory tuition and fee charges during the 2002-2003 academic year, the University ranks second from the last 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.

**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, 2003

(Unaudited)

**Fiscal Planning**

The University will continue to control expenses in accordance with available resources and established priorities. To achieve this, efforts are focused on increasing resources through retention programs as well as increasing efficiencies throughout the organization. The Program Contribution Analysis along with other financial and programmatic analyses continues to be utilized as one of the tools to balance mission and resources. The University has established plans to increase revenue over the next three years as reflected in the University's Three-Year Strategic Plan.

**Information System**

One of the major initiatives with technology continues to be the implementation of PeopleSoft's Student Administration, Financials, and Human Resources software. While the solutions developed are sound, they also are extremely expensive. On July 1, 2003 the University implemented a portion of the Financial Records System module, a portion of the Purchasing module, the Student Financial module, and three internal payroll modules, which are a portion of the Human Resource module. These modules and the ones that will be implemented in the future will improve and integrate the University's data tracking system on student recruitment, enrollment, matriculation, transfer, attrition and graduation. The University continues to reassess the progress of the actual implementation on a regular basis and refocus efforts on the PeopleSoft systems to yield the most effective outcome for students, faculty, and staff.

**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: Ms. Linda Barrett, Interim Vice President for Administration, 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, 2003

(with comparative financial information for June 30, 2002)

<b>Assets</b>	<b>2003</b>	<b>2002</b>
<b>Current assets:</b>		
Cash and cash equivalents (note 2)	\$ 24,154,095	18,906,772
Cash held by State Treasurer – capital projects (notes 2 and 3)	1,257,245	13,152,761
Cash held by State Treasurer – other (notes 2 and 3)	—	106,872
Accounts receivable, net (note 4)	22,855,466	16,878,717
Inventory and other current assets	4,684,296	3,698,320
Total current assets	52,951,102	52,743,442
<b>Noncurrent assets:</b>		
Cash and cash equivalents – restricted (note 2)	1,830,856	886,085
Cash held by State Treasurer – restricted (notes 2 and 3)	67,808	704,301
Funds on deposit with bond trustee – restricted	15,128,022	9,949,336
Loans receivable, net (note 5)	11,305,102	11,475,336
Capital assets, net of accumulated depreciation (notes 6 and 7)	250,156,736	227,318,412
Total noncurrent assets	278,488,524	250,333,470
Total assets	\$ 331,439,626	303,076,912
<b>Liabilities</b>		
<b>Current liabilities:</b>		
Accounts payable and accrued liabilities	\$ 24,719,746	27,593,924
Compensated absences (note 8)	700,457	643,670
Funds held for others	294,886	761,425
Deferred revenues	9,865,693	10,325,783
Current portion of capital lease obligation (notes 6 and 7)	1,081,903	836,528
Current portion of bonds and loans payable (notes 6 and 7)	1,144,175	1,160,220
Total current liabilities	37,806,860	41,321,550
<b>Noncurrent liabilities:</b>		
Compensated absences (note 7)	15,937,408	15,031,905
Capital lease obligations (notes 6 and 7)	15,165,264	15,176,370
Bonds and loans payable (notes 6 and 7)	95,455,399	85,957,604
Grant refundable (note 8)	10,415,033	10,080,041
Total noncurrent liabilities	136,973,104	126,245,920
Total liabilities	\$ 174,779,964	167,567,470
<b>Net Assets</b>		
Invested in capital assets, net of related debt	\$ 137,309,995	124,188,189
Restricted – expendable (note 9)	18,326,283	12,542,559
Unrestricted (deficit) (note 10)	1,023,384	(1,221,306)
Contingencies (note 11)		
Total net assets	\$ 156,659,662	135,509,442

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, 2003

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

	<u>2003</u>	<u>2002</u>
Operating revenues:		
Tuition and fees	\$ 102,438,954	92,798,613
Residence, dining, student union, and health fees	34,215,423	29,398,533
Less scholarship allowances	<u>(24,596,383)</u>	<u>(23,176,095)</u>
Net student fees	112,057,994	99,021,051
Federal, State, local, and private grants and contracts	68,775,528	60,150,447
Other auxiliary enterprises	19,334,328	15,686,247
Other sources	<u>14,219,315</u>	<u>12,697,545</u>
Total operating revenues	<u>214,387,165</u>	<u>187,555,290</u>
Operating expenses (note 12):		
Instruction	78,521,491	73,908,034
Research	57,045,903	48,299,000
Academic support	33,857,699	30,952,653
Student services	18,654,226	17,777,446
Scholarships and fellowships	7,713,975	6,109,051
Public service	6,359,552	5,826,549
Operation and maintenance of plant	25,744,276	21,820,260
Depreciation and amortization	12,123,084	9,942,522
Institutional support	24,959,686	23,282,877
Auxiliary operations	<u>45,574,876</u>	<u>39,335,996</u>
Total operating expenses	<u>310,554,768</u>	<u>277,254,388</u>
Operating loss	<u>(96,167,603)</u>	<u>(89,699,098)</u>
Nonoperating revenues (expenses):		
State appropriation (note 13)	81,989,847	84,243,483
Net investment income	796,831	2,566,053
Private gifts	10,400,278	9,056,541
Interest expense	<u>(5,702,957)</u>	<u>(4,306,289)</u>
Net nonoperating revenues	<u>87,483,999</u>	<u>91,559,788</u>
(Loss) income before other revenues, expenses, gains or losses	(8,683,604)	1,860,690
Capital appropriations (note 13)	22,631,057	24,014,854
Capital gifts	<u>7,202,767</u>	<u>6,641,665</u>
Increase in net assets	21,150,220	32,517,209
Net assets, at beginning of year (note 17)	<u>135,509,442</u>	<u>102,992,233</u>
Net assets, at end of year	<u>\$ 156,659,662</u>	<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, 2003

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

	<b>2003</b>	<b>2002</b>
Cash flows from operating activities:		
Tuition and fees	\$ 111,325,897	100,136,907
Grants and contracts	65,433,960	64,068,364
Payments to suppliers	(81,903,774)	(55,364,127)
Payments to employees	(208,938,528)	(197,731,771)
Payments for scholarships, fellowships, and sponsored programs	(10,393,676)	(9,190,441)
Auxiliary enterprises	18,700,309	15,251,058
Other receipts	13,846,584	11,950,992
	<u>(91,929,228)</u>	<u>(70,879,018)</u>
Cash flows from noncapital financing activities:		
State appropriations	81,989,847	84,243,483
Gifts for other than capital purposes	10,400,278	9,056,541
Funds held for others	(466,539)	154,556
	<u>91,923,586</u>	<u>93,454,580</u>
Cash flows from capital and related financing activities:		
Proceeds from capital debt	11,075,000	—
Capital appropriations	9,382,037	13,755,922
State contributed capital	13,249,020	10,258,932
Capital gifts	7,202,767	6,641,665
Purchase of capital assets	(34,816,187)	(71,621,026)
Principal paid on capital debt and leases	(2,448,970)	(1,948,947)
Interest paid on capital debt and leases	(5,702,957)	(2,643,229)
Deposit with trustee	(5,178,686)	25,336,036
	<u>(7,237,976)</u>	<u>(20,220,647)</u>
Cash flows from investing activities:		
Interest on investments	796,831	902,993
	<u>796,831</u>	<u>902,993</u>
Net (decrease) increase in cash	(6,446,787)	3,257,908
Cash – beginning of the year	33,756,791	30,498,883
Cash – end of year	<u>\$ 27,310,004</u>	<u>33,756,791</u>
Reconciliation of net operating revenues (expenses) to net cash used by operating activities:		
Operating loss	\$ (96,167,603)	(89,699,098)
Adjustments to reconcile net loss to net cash used by operating activities:		
Depreciation and amortization	12,123,084	9,942,522
Net loss on disposal of capital assets	944,768	920,267
Changes in assets and liabilities:		
Accounts receivable	(5,976,749)	1,986,707
Inventory and other current assets	(985,976)	(707,057)
Loans receivable	170,234	(54,551)
Accounts payable and accrued liabilities	(2,874,178)	5,743,344
Deferred revenues	(460,090)	732,205
Compensated absences	962,290	(10,760)
Refundable grant	334,992	267,403
	<u>(91,929,228)</u>	<u>(70,879,018)</u>
Supplemental disclosure of cash flows information:		
New capital leases	\$ 1,089,989	468,957

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, 2003

**(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.

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

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

Notes to Financial Statements

June 30, 2003

In June 2001, GASB Statement No. 38, *Certain Financial Statement Note Disclosures*, was issued. This statement was 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 three net asset categories:

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

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

**(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,

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

Notes to Financial Statements

June 30, 2003

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. 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 2003 and 2002 health premiums were \$19,245,471 and \$17,192,726, respectively.

**(i) *Assessed Fringe Benefit Administrative Fund***

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

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

Notes to Financial Statements

June 30, 2003

of all State agencies, including the University. The fringe benefit assessment rate for fiscal 2003 and 2002 was 3.8%. The assessed fringe benefit cost for the University was \$4,577,302 for fiscal year 2003 and \$4,444,017 for fiscal year 2002.

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

All vehicles are owned by the State which insures them for liability through an outside carrier. The policy is a loss retrospective program where premiums can be adjusted for claims incurred. Premiums paid by the University amounted to \$182,972 and \$137,502 for the years ended June 30, 2003 and 2002, respectively.

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. 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 \$2 million for the annual aggregate. Coverage is provided for certain acts of terrorism.

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

Notes to Financial Statements

June 30, 2003

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, under the Owner Controlled Insurance Program (OCIP) negotiated with an insurance carrier, covered a three-year period through 2003. In fiscal year 2004, this policy was extended for another year. 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 the extended contract is \$1,074,425, and the premium for the excess liability coverage for the same period is \$1,057,675.

During fiscal 2003 and 2002, the insurance premiums and broker's fees paid by the University under the OCIP totaled \$565,646 and \$779,355, respectively, and this amount covered 25 construction projects.

**(o) Reclassification**

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

**(2) Cash and Cash Equivalents**

The following summary presents the amount of 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:

2003					
	Category			Total bank	Carrying
	1	2	3	balance	amount
\$	31,658,428	—	430,403	32,088,831	27,310,004

2002					
	Category			Total bank	Carrying
	1	2	3	balance	amount
\$	36,735,701	—	923,031	37,658,732	33,756,791

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

Notes to Financial Statements

June 30, 2003

In accordance with RI General Laws, Chapter 35-10.1, depository institutions holding deposits of the State, its agencies or governmental subdivisions of the State, 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.

**(3) Cash Held by State Treasurer**

Accounts payable and accrued salaries to be funded from state-appropriated funds totaled \$1,325,053 and \$13,963,934 at June 30, 2003 and 2002, respectively. 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:

	<b>2003</b>	<b>2002</b>
Student accounts receivable	\$ 3,452,288	2,725,201
Grants receivable	3,054,909	3,405,270
Unbilled grants receivables	10,026,122	6,107,100
Other receivables	8,794,307	7,023,062
	25,327,626	19,260,633
Less allowance for doubtful accounts	(2,472,160)	(2,381,916)
	\$ 22,855,466	16,878,717

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:

	<b>2003</b>	<b>2002</b>
Perkins loans receivable	\$ 8,876,236	9,074,905
Nursing loans receivable	978,652	1,031,395
Health profession loans receivable	1,428,462	1,442,252
Other	492,270	424,132
	11,775,620	11,972,684
Less allowance for doubtful accounts	(470,518)	(497,348)
	\$ 11,305,102	11,475,336

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

Notes to Financial Statements

June 30, 2003

**(6) Capital Assets**

Capital assets consist of the following at June 30:

	2003					
	Estimated lives (in years)	Beginning balance	Additions	Reductions	Reclassifi- cations	Ending balance
Capital assets not being depreciated:						
Land	—	\$ 888,172	—	—	—	888,172
Construction in progress	—	73,732,581	10,366,145	—	(72,606,397)	11,492,329
Total not being depreciated		<u>74,620,753</u>	<u>10,366,145</u>	<u>—</u>	<u>(72,606,397)</u>	<u>12,380,501</u>
Capital assets being depreciated:						
Land improvements	15-25	24,482,956	6,733,454	—	—	31,216,410
Buildings, including improvements	10-50	207,484,813	11,686,826	—	72,606,397	291,778,036
Furnishings and equipment (including cost of capital leases)	5-15	49,744,663	7,119,751	(2,043,912)	—	54,820,502
Total being depreciated		<u>281,712,432</u>	<u>25,540,031</u>	<u>(2,043,912)</u>	<u>72,606,397</u>	<u>377,814,948</u>
Less accumulated depreciation:						
Land improvements		3,204,300	1,199,287	—	—	4,403,587
Building, including improvements		95,302,923	7,225,765	—	—	102,528,688
Furnishings and equipment		30,507,550	3,698,033	(1,099,145)	—	33,106,438
Total accumulated depreciation		<u>129,014,773</u>	<u>12,123,085</u>	<u>(1,099,145)</u>	<u>—</u>	<u>140,038,713</u>
Capital assets, net		<u>\$ 227,318,412</u>	<u>23,783,091</u>	<u>(944,767)</u>	<u>—</u>	<u>250,156,736</u>

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

Notes to Financial Statements

June 30, 2003

<b>2002</b>				
	<b>Estimated lives (in years)</b>	<b>Beginning balance</b>	<b>Additions</b>	<b>Ending balance</b>
Capital assets not being depreciated:				
Land	—	\$ 888,172	—	888,172
Construction in progress	—	20,357,226	53,375,355	73,732,581
Total not being depreciated		21,245,398	53,375,355	74,620,753
Capital assets being depreciated:				
Land improvements				
Buildings, including improvements	15-25 10-50	22,995,947 195,724,033	1,487,009 11,760,780	24,482,956 207,484,813
Furnishings and equipment (including cost of capital leases)	5-15	44,439,279	5,305,384	49,744,663
Total being depreciated		263,159,259	18,553,173	281,712,432
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		27,213,859	3,293,691	30,507,550
Total accumulated depreciation		119,072,251	9,942,522	129,014,773
Capital assets, net		\$ 165,332,406	61,986,006	227,318,412

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

Notes to Financial Statements

June 30, 2003

**(7) Long-Term Liabilities**

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

	<b>2003</b>				
	<b>Beginning balance</b>	<b>Additions</b>	<b>Reductions</b>	<b>Ending balance</b>	<b>Current portion</b>
Leases and bonds payable:					
Lease obligations	\$ 16,012,898	1,089,989	855,720	16,247,167	1,081,903
Revenue bonds payable	86,321,880	11,075,000	1,048,647	96,348,233	1,093,907
Loans payable	795,944	—	544,603	251,341	50,268
Total leases and bonds payable	103,130,722	12,164,989	2,448,970	112,846,741	2,226,078
Other long-term liabilities:					
Compensated absences	15,675,575	1,798,563	836,273	16,637,865	700,457
Total long-term liabilities	\$ 118,806,297	13,963,552	3,285,243	129,484,606	2,926,535
	<b>2002</b>				
	<b>Beginning balance</b>	<b>Additions</b>	<b>Reductions</b>	<b>Ending balance</b>	<b>Current portion</b>
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

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

Notes to Financial Statements

June 30, 2003

***Bonds Payable***

The revenue bonds payable totaling \$96,348,233 and \$86,321,880 as of June 30, 2003 and 2002, respectively, consist of the following:

	<u>2003</u>	<u>2002</u>
Revenue Bonds payable to U.S. Government:		
1972 Graduate Housing Revenue Bonds, 5.75%, due semiannually through 2007	\$ 590,000	685,000
Rhode Island Health and Education Building Corporation:		
1993 Series A Facility Revenue and Refunding Bonds - Auxiliary Enterprise Revenue, 4.375% to 5.560%, due semiannually through 2023 (note 17)	12,220,050	12,530,625
1993 Series B Facility Revenue and Refunding Bonds - Various Purpose Educational Facilities, 4.60% to 5.50%, due semiannually through (note 17)	7,733,183	7,906,255
1997 Series Higher Education Revenue Bonds - University of Rhode Island Issue, 4% to 5.31%, due semiannually through 2015	1,890,000	1,940,000
Series 1999 A University of Rhode Island Auxiliary Enterprise Revenue Issue, 4.75% to 5.50%, due semiannually through 2030	19,085,000	19,410,000
Series 1999 B University of Rhode Island Educational and General Issue, 4.75% to 5.625%, due semiannually through 2030	3,630,000	3,690,000
Series 2000 B University of Rhode Island Educational and General Issue, 4.50% to 5.70%, due semiannually through 2031	40,125,000	40,160,000
Series 2002 University of Rhode Island Educational and General Revenue Issue, 3% to 4.40%, due semiannually through 2016	7,975,000	—
Series 2003 A University of Rhode Island Educational and General Revenue issue, 2% to 3.125%, due semiannually through 2014	3,100,000	—
	<u>\$ 96,348,233</u>	<u>86,321,880</u>

The 1972 Graduate Housing Revenue Bond was issued under trust indentures and is collateralized by a pledge of revenues from the facilities financed. The facilities include University housing, dining and student union operations. Under the terms of the trust indentures, certain net revenues from the pledged facilities must be transferred to the trustees for payment of interest, retirement of bonds and maintenance of facilities.

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

Notes to Financial Statements

June 30, 2003

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

Certain of the proceeds were deposited with an Escrow Trustee pursuant to two separate escrow agreements with the Corporation and the Board of Governors for Higher Education (the Board) solely for the payment of prior bonds. As such, neither the assets on deposit with the Escrow Trustee nor the bonds defeased are included in the accompanying balance sheet. During fiscal 2003, the funds on deposit with the Escrow Trustee were used to liquidate in full the unpaid balance of prior bonds. The 1993 proceeds were also used to fund the acquisition of library capital; to fund various capital renovations to existing buildings at the three institutions; to fund the cost of a surety bond; to fund a debt service reserve fund; and to pay certain expenses incurred in connection with the issuance of the bonds.

On August 14, 1997, the Corporation authorized the \$2,125,000 University of Rhode Island Issue, Series 1997 (the Series 1997 Bonds). The proceeds of the Series 1997 Bonds, including accrued interest to the date of delivery, were used to fund: 1) the construction of an addition to the University's Social Science Center and the completion of renovations to the University's Multicultural Center; 2) the cost of a surety bond and the debt service reserve fund for the Series 1997 Bonds; and 3) to pay certain expenses incurred in connection with the issuance of the bonds.

The Series 1997 Bonds are payable from and secured by a lien on: i) loan payments paid to the trustee for the account of the Corporation by the Board in accordance with the provisions of the Series 1997 Agreement; ii) all legally available revenues of the Board of Governors derived from the University, and State appropriations for the University except auxiliary enterprise revenues; and iii) moneys in the debt service reserve fund for the Series 1997 Bonds.

In October 1999, the Corporation issued two series of bonds to finance projects at the University of Rhode Island only.

The Series 1999 A Bonds (\$20,000,000) were authorized by the Loan and Trust Agreement dated as of September 15, 1999 between the Corporations, the Board, acting on behalf of the University, and State Street Bank and Trust Company, as trustee (the Trustee). The Series 1999 A Bonds are payable solely from (i) the loans payments paid to the Trustee for the account of the Corporation in the amounts equal to the principal and interest on the Series 1999 A Bonds, (ii) all auxiliary enterprise revenues derived from the University; and (iii) moneys in the debt service reserve fund for the Series 1999 A Bonds.

The Series 1999 A Bonds were issued as alternate parity debt, secured on a parity with a portion of the revenues, securing the Corporation's \$21,410,000 Higher Education Facility Revenue and Refunding Bonds, Board of Governors for Higher Education – Auxiliary Enterprise Revenue Issue – 1993 Series A as authorized by the Loan and Trust Agreement dated as of July 1, 1993 between the Corporation and the Board acting on behalf of the State Colleges.

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

Notes to Financial Statements

June 30, 2003

The Series 1999 B Bonds (\$3,800,000) were authorized pursuant to the First Amendment to the Loan and Trust Agreement dated as of September 15, 1999 amending and supplementing the Loan and Trust Agreement dated as of September 1, 1997 between the Corporation, the Board of Governors, acting on behalf of the University, and the Trustee. The Series 1999 B Bonds are payable solely from (i) the loan payments paid to the Trustee for the account of the Corporation in amounts equal to the principal of and interest on the Series 1999 B Bonds; (ii) all legally available revenues of the Board of Governors derived from the University and appropriations of the State of Rhode Island for the University, except auxiliary enterprise revenues; and (iii) money in the debt service reserve fund for the Series 1999 B Bonds.

The Series 1999 B Bonds were issued as Additional Bonds as permitted by the 1997 Agreement and are secured on a parity with the Corporation's \$2,125,000 Higher Education Facility Revenue Bonds University of Rhode Island Issue – Series 1997 issued under the 1997 Agreement.

The proceeds of the Series 1999 A Bonds were used to: (i) fund renovations and improvements to the University's residence halls and surrounding landscaping on the Kingston Campus; (ii) purchase a debt service reserve fund surety bond for the Series 1999 A Bonds; and (iii) to pay certain expenses incurred in connection with issuance of the Series 1999 A Bonds. The proceeds of the Series 1999 B Bonds were used to: (i) purchase buildings on the University's Kingston Campus for general administrative use, and the reconstruction of paved surfaces on the Kingston Campus including roads, walkways, and parking lots (ii) purchase a debt service reserve fund surety bond for the Series 1999 B Bonds; and (iii) pay certain expenses incurred in connection with issuance of the Series 1999 B Bonds.

The 1999 Bonds and any additional bonds issued under the 1999 Agreement are special limited obligations of the Board acting on behalf of the University.

In November 2000, the Board completed a second amendment to the Loan and Trust Agreement dated as of September 1, 1997 authorizing the issuance of the Series 2000 A and Series 2000 B Bonds. The Series 2000A issue was for the benefit of RIC and is not reflected in these financial statements. The proceeds of Series 2000 B Bonds (\$40,160,000) were utilized to finance certain capital improvements at the University consisting of: (1) the design, construction, furnishings and equipping of (a) an Athletic Complex Convocation Center, (b) an Athletic Complex Ice Rink Facility and (c) a modular building and (2) to pay certain expenses incurred in connection with the issuance of the bonds.

In November 2002, the Corporation issued the Series 2002 Bonds. The proceeds of these bonds are being used to finance (a) the construction and equipping of (i) 1,000 parking spaces and (ii) a controlled parking lot system providing additional transit shelters; parking meters and improved shuttle service; and (b) to pay certain costs of issuance of the bonds. Also, certain of the proceeds were deposited in a capitalized interest fund to finance the interest due until 2005.

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

Notes to Financial Statements

June 30, 2003

Both the Series 2000 B Bonds and the Series 2002 Bonds are special limited obligations of the Corporation, and they are secured by the pledge of revenues of the Board derived from the University, and State appropriation for the University, except auxiliary enterprise revenues.

On May 1, 2003, the Corporation issued the Series 2003 A Bonds as additional bonds as permitted by the 1997 Agreement. These bonds are also secured on parity with the Corporation's Series 1997, Series 1999 B, Series 2000 B, and Series 2002 Bonds. The proceeds of the Series 2003 A Bonds are being used to finance the construction, equipping and furnishing of the Alumni Center and to pay certain costs of issuance of the bonds. The Alumni Center will provide meeting and reception space as well as office suites for staff members serving the University of Rhode Island Alumni Association and the Division of University Advancement.

The aforementioned bond agreements provide various restrictive covenants. The University was in compliance with such covenants at June 30, 2003.

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:			
2004	\$ 1,093,907	5,215,118	6,309,025
2005	1,122,531	5,079,373	6,201,904
2006	2,498,396	5,015,316	7,513,712
2007	2,587,664	4,923,574	7,511,238
2008	2,685,350	4,827,732	7,513,082
2209-2013	15,511,235	21,397,375	36,908,610
2014-2018	18,073,345	17,152,229	35,225,574
2019-2023	23,026,115	11,766,964	34,793,079
2024-2028	18,669,690	5,777,259	24,446,949
2029-2033	11,080,000	885,127	11,965,127
	<u>\$ 96,348,233</u>	<u>82,040,067</u>	<u>178,388,300</u>

***Loans Payable***

On May 26, 2001, the University obtained a loan from the Rhode Island State Energy Office (RISEO) Revolving Loan Fund for \$251,341 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, 2003 through August 15, 2007. The University also 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, 2003 through August 15, 2007.

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.

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

Notes to Financial Statements

June 30, 2003

As of June 30, 2003, the future payments on loan payable to RISEO were as follows:

Year ending June 30:		
2004	\$	50,268
2005		50,268
2006		50,268
2007		50,268
2008		50,269
		<hr/>
	\$	<u>251,341</u>

***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.

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.

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

Notes to Financial Statements

June 30, 2003

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.

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 University entered into a lease-purchase agreement with Pioneer Standard Electronics (the vendor) for an IBM P690 processor. Under the terms of agreement, the vendor is authorized to assign its rights to payments, which commence on August 1, 2003 until August 1, 2007 or for five years, the estimated life of the processor. The agreement also provides the University with an option to purchase the processor at the end of the lease term for \$1. The vendor delivered the processor on December 22, 2002, and the University accounted for this lease as a capital lease and recorded the processor at \$781,246, the present value of minimum lease payments.

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

Notes to Financial Statements

June 30, 2003

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

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Year ending June 30:			
2004	\$ 1,081,903	744,910	1,826,813
2005	1,041,576	695,262	1,736,838
2006	918,939	650,533	1,569,472
2007	842,916	614,631	1,457,547
2008	866,833	579,136	1,445,969
2009-2013	4,010,000	2,346,066	6,356,066
2014-2018	5,080,000	1,239,200	6,319,200
2019-2020	2,405,000	111,604	2,516,604
	<u>\$ 16,247,167</u>	<u>6,981,342</u>	<u>23,228,509</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:

	<u>2003</u>	<u>2002</u>
Restricted – expendable:		
Loans	\$ 2,770,459	2,551,024
Capital programs	12,244,953	5,873,760
Debt service	3,257,283	4,093,565
Sponsored research	53,588	24,210
	<u>\$ 18,326,283</u>	<u>12,542,559</u>

**(10) Unrestricted Net Assets**

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

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

Notes to Financial Statements

June 30, 2003

**(11) Contingencies**

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

At June 30, 2003 and 2002, the University is a guarantor of loans to fraternities and sororities in the amount of \$582,282 and \$588,532, respectively.

The University also guarantees the payments due under the Equipment Lease Agreement dated December 23, 2002, between the University of Rhode Island Foundation and the Utah State University in connection with the lease of certain high technology equipment. At June 30, 2003, the payments due under such an agreement totaled \$350,000.

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 People Soft 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, are comprised of the following:

	<b>2003</b>	<b>2002</b>
Compensation and benefits	\$ 211,121,047	197,932,762
Supplies and services	76,916,961	60,188,663
Depreciation and amortization	12,123,084	9,942,522
Scholarships and fellowships	10,393,676	9,190,441
	\$ 310,554,768	277,254,388

**(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 2003 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

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

Notes to Financial Statements

June 30, 2003

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, 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 2003 and 2002, the State allocated \$5.36 million and \$6.2 million, respectively, to the University for asset protection and \$3.2 million and \$6.8 million, respectively, for the construction of the Thomas Ryan Center and Boss Athletic Complex.

**(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 RIC for the construction of a performing arts classroom facility, and \$14.5 million to CCRI for the construction of a five-level addition to its Knight Campus megastructure. From the proceeds of these general obligation bond issues, the University spent \$3,118,135 and \$3,840,769 on the renovations of the three buildings at its Kingston Campus during fiscal year 2003 and 2002, respectively.

In November 2000, the Rhode Island voters approved the issuance of \$36.950 million General Obligation Bonds to fund improvements to the University, RIC, and 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, \$4.01 million to fund the renovations and upgrades of student residence halls and surrounding landscape at RIC, and \$10.94 million to fund the

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

Notes to Financial Statements

June 30, 2003

construction of a building for the Newport campus of CCRI. During fiscal years 2003 and 2002, the University spent \$9.06 million and \$5 million, respectively.

The expenditures funded from the proceeds of the above-mentioned general obligation bonds and capitalized during fiscal years 2003 and 2002 totaled \$13,249,020 and \$10,258,932, respectively.

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

	<b>2003</b>	<b>2002</b>
Direct appropriations	\$ 81,989,847	84,243,483
State Capital Plan Funds	9,382,037	13,755,922
State contributed capital	13,249,020	10,258,932
	\$ 104,620,904	108,258,337

**(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 \$7,453,537 and \$7,049,826 during 2003 and 2002, respectively. 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 \$674,044 and \$677,028 during 2003 and 2002, respectively. 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.

<b>Pre-65 Medical coverage</b>			
<b>Years of service</b>	<b>Age at retirement</b>	<b>Employer's share</b>	<b>Employee's share</b>
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%

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

Notes to Financial Statements

June 30, 2003

<b>Post-65 Medicare supplemental coverage</b>		
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 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 \$32,457,762 and \$32,572,794 for the years ended June 30, 2003 and 2002, respectively. The University's total payroll expense for the years ended June 30, 2003 and 2002 was \$165,769,386 and \$164,340,572, respectively.

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 8.75% of salaries paid while the University was required to pay 8.80% and 8.0% of salaries paid for the years ending June 30, 2003 and 2002, respectively. In addition, the University is required to contribute 1.17% and 0.86% in 2003 and 2002, respectively, for post-retirement health benefits. Employees contributed \$2,840,000 and \$2,850,000, respectively, and the University's contribution to the System for the years ended June 30, 2003, 2002, and 2001 were \$2,927,000, \$2,212,000, and \$2,826,000, respectively, representing 100% of the required contribution for each of the three years.

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

Notes to Financial Statements

June 30, 2003

**(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 that 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, 2003 and 2002 as confirmed by the Foundation amounted to \$71,075,898 and \$68,728,573, respectively. Distributions to the University including the Thomas Ryan Center were \$10,837,820 and \$13,601,375 during the years ended June 30, 2003 and 2002, respectively, and are included in the statement of revenues, expenses, and changes in net assets under nonoperating revenue as private and capital gifts.

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 2003 and 2002 share of capital expenditures amounted to \$16,292 and \$23,737, respectively.

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 \$408,315 and \$355,918 in 2003 and 2002, respectively. Financial information may be obtained at the Town of South Kingstown, 180 High Street, Wakefield, Rhode Island 02879.

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

Notes to Financial Statements

June 30, 2003

**(16) Pass Through Grants**

The University distributed \$40,169,094 during fiscal 2003 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) Subsequent Events**

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



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

## **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, 2003, and have issued our report thereon dated November 14, 2003. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

### **Compliance**

As part of obtaining reasonable assurance about whether the 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 audits 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 November 14, 2003.

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

November 14, 2003