

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

Auditors' Reports as Required by U.S. Office of
Management and Budget (OMB) Circular A-133 and
Government Auditing Standards and Related Information

Year ended June 30, 2004

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

Auditors' Reports as Required by U.S. Office of
Management and Budget (OMB) Circular A-133 and
Government Auditing Standards and Related Information

Year ended June 30, 2004

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**Auditors' Report on Compliance with Requirements
Applicable to each Major Program and on Internal Control
Over Compliance in Accordance with OMB Circular A-133**

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

Compliance

We have audited the compliance of the University of Rhode Island (the University), a component unit of the State of Rhode Island and Providence Plantations, with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2004, except for those requirements discussed in the third following paragraph. The University's major federal programs are identified in the summary of auditors' results section of the accompanying Schedule of Findings and Questioned Costs (Exhibit III). Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the University's management. Our responsibility is to express an opinion on the University's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the University's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the University's compliance with those requirements.

In our opinion, the University complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2004, other than those requirements discussed in the following paragraph. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements that are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying Schedule of Findings and Questioned Costs (Exhibit III) as items 04-1 through 04-5.

We did not audit the University's compliance with requirements governing student loan repayments. Those requirements govern functions that are performed by Affiliated Computer Services, Inc. (ACS). Since we did not apply auditing procedures to satisfy ourselves as to compliance with those requirements, the scope of our work was not sufficient to enable us to express, and we do not express, an opinion on compliance with those requirements.

ACS's compliance with the requirements governing the functions that it performs for the University was examined by accountants for the servicer whose report has been furnished to us. The report of the accountants for the servicer indicates that compliance with those requirements was examined in accordance with the Department of Education's Audit Guide, *Compliance Audits (Attestation Engagements) of Federal Student Financial Assistance Programs at Participating Institutions and Institution Servicers*. Based on our review of the service organization accountants' report, we have determined that all of the compliance requirements included in the *Compliance Supplement* that are applicable to the major programs in which the University participates are addressed in either our report or the report of the service organization accountants. Further, based on our review of the service organization accountants' report, we have determined that it does not contain any findings of noncompliance that would have a direct and material effect on the University's major programs.

Internal Control Over Compliance

The management of the University is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the University's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133.

Requirements governing student loan repayments are performed by ACS. Internal control over compliance relating to such functions was reported on by other accountants in accordance with the Department of Education's Audit Guide, *Compliance Audits (Attestation Engagements) of Federal Student Financial Assistance Programs at Participating Institutions and Institution Servicers*. A copy of the service organization accountants' report has been furnished to us. However, the scope of our work did not extend to internal control maintained at ACS.

We noted certain matters involving the internal control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect the University's ability to administer a major federal program in accordance with the applicable requirements of laws, regulations, contracts, and grants. Reportable conditions are described in the accompanying Schedule of Findings and Questioned Costs as items 04-1 through 04-5.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal program 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 the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that none of the reportable conditions described above is a material weakness.

Exhibit I

This report is intended solely for the information and use of the Board of Governors for Higher Education, management of the University, the State of Rhode Island Auditor General's Office, and federal awarding agencies and pass-through entities and is not intended to be used and should not be used by anyone other than these specified users.

KPMG LLP

October 29, 2004



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Providence, RI 02903-2321

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

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

We have audited the financial statements of the University of Rhode Island (the University), a component unit of the State of Rhode Island and Providence Plantations, and its discretely presented component units, where applicable, as of and for the years ended June 30, 2004 and 2003, and based on our audits and the reports of other auditors have issued our report thereon dated September 24, 2004. Our report refers to the University's adoption, effective July 1, 2003, of Statement No. 30 of the Governmental Accounting Standards Board (GASB), *Determining Whether Certain Organizations are Component Units (an amendment of GASB Statement 14)*. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

Compliance and Other Matters

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

We noted certain matters that we have reported to management of the University in a separate letter dated September 24, 2004.

This report is intended solely for the information and use of the Board of Governors for Higher Education, management of the University, the State of Rhode Island Auditor General's Office 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 users.

KPMG LLP

September 24, 2004

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

Schedule of Findings and Questioned Costs

Year ended June 30, 2004

(1) Summary of Auditors' Results

- (a) The independent auditors' report on the financial statements expressed an unqualified opinion.
- (b) No reportable conditions or material weaknesses in internal control over financial reporting were disclosed by the audit.
- (c) No instances of noncompliance considered material to the financial statements were disclosed by the audit.
- (d) Reportable conditions or material weaknesses in internal control over compliance with requirements applicable to major federal awards programs were identified.
- (e) The independent auditors' report on compliance with requirements applicable to major federal award programs expressed an unqualified opinion.
- (f) The audit disclosed findings required to be reported by OMB Circular A-133.
- (g) The University's major programs were:

Name of Federal Program or Cluster	CFDA Number
Student Financial Assistance Cluster	
Federal Supplemental Educational Opportunity Grant Program	84.007
Federal Family Education Loan Program	84.032
Federal Work Study Program	84.033
Federal Perkins Loan Program	84.038
Federal Pell Grant Program	84.063
Health Professional Student Loan Program	93.342
Nursing Student Loan Program	93.364
Research and Development Cluster	Various

- (h) In conjunction with the state-wide A-133 audit, a threshold of \$6.5 million was used to distinguish between Type A and Type B programs as those terms are defined in OMB Circular A-133.
- (i) The University qualified as a low-risk auditee as that term is defined in OMB Circular A-133.

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

Schedule of Findings and Questioned Costs

Year ended June 30, 2004

(2) **Findings Relating to Financial Statements Reported in Accordance with *Government Auditing Standards***

None.

(3) **Findings and Questioned Costs Relating to Federal Awards**

Reference Number: 04-1

Federal Agency: U.S. Department of Education

CFDA Number: 84.268

Program: Federal Direct Loan Program

Description

If a student ceases enrollment without performing an exit interview and has received a Federal Direct Loan, the financial aid administrator must confirm that the student has completed on-line counseling, or mailed exit counseling material to the borrower at his or her last known address. The material must be mailed within 30 days after learning that the borrower has left school or failed to participate in an exit counseling session.

We noted 10 out of 30 students that received Federal Direct Loan and ceased enrollment that did not have evidence that an exit interview was performed or mailed.

We also noted that the exit interview for one student was not performed within the required 30-day timeframe.

Questioned Costs

\$95,254 (Amount of total loans awarded and disbursed to the 10 students without evidence of an exit interviews).

Recommendation

We recommend that the University strengthen its procedures to ensure that a signed exit interview form or confirmation that on-line counseling was performed be received from all borrowers to be in compliance with the federal requirements regarding exit interviews.

UNIVERSITY OF RHODE ISLAND
(A Component Unit of the State of Rhode Island
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Schedule of Findings and Questioned Costs

Year ended June 30, 2004

Reference Number: 04-2

Federal Agency: U.S. Department of Education

CFDA Number: 84.063

Program: Federal Perkins Loan Program

Description

The promissory note is a legally binding document that is evidence of a borrower's indebtedness to a school. A student must sign this note before he or she can receive any Perkins Loan funds.

Out of 13 students selected for disbursement testwork, we noted two students whose promissory notes were signed after the first disbursement.

Questioned Costs

None.

Recommendation

Policies should be reviewed and refined to ensure all documentation is completed prior to the disbursement of federal funds.

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

Schedule of Findings and Questioned Costs

Year ended June 30, 2004

Reference Number: 04-3

Federal Agency: Various

CFDA Number: Various

Program: Research and Development Cluster

Description

OMB Circular A133 requires a pass through entity to monitor the sub-recipient's activity to provide reasonable assurance that the subrecipient administers federal awards in compliance with requirements. One of these monitoring responsibilities is to ensure subrecipient audits were completed.

We noted that during the current fiscal year, the monitoring of this requirement was not performed in a timely manner.

Questioned Costs

None.

Recommendation

The University should review its current policies and procedures to ensure all aspects of monitoring subrecipient activity is performed in a timely manner.

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

Schedule of Findings and Questioned Costs

Year ended June 30, 2004

Reference Number: 04-4

Federal Agency: U.S. Department of Education

CFDA Number: 84.268 and 84.038

Program: Federal Direct Loan Program and Federal Perkins Loan Program

Description

If an institution credits a student's account with Federal Direct Loan (FDL) funds or Federal Perkins Loan Program funds, the institution must notify the student of the date and amount of the disbursement and the student's right to cancel all or a portion of that loan. The institution must send the notice to the student, either in writing or electronically, no earlier than 30 days before and no later than 30 days after the date the institution credits the student's account. If a school notifies a borrower electronically, it must request that the borrower confirm the receipt of the notice. If a student or parent wishes to cancel all or a portion of the loan, the school must honor the request if the request is received no later than:

- 14 days after the date the school sends the notice, or
- the first day of the payment period, if the school sends the notice more than 14 days before the first day of the payment period.

The University currently does not have a procedure in place to notify students of the date and amount of the disbursement of their loan and their right to cancel loan proceeds upon receipt of FDL and Federal Perkins Loan Program funds.

Questioned Costs

None.

Recommendation

We suggest that the University implement procedures to notify the student of the receipt of their FDL or Federal Perkins Loan funds and their right to cancel, whether written or electronically.

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

Schedule of Findings and Questioned Costs

Year ended June 30, 2004

Reference Number: 04-5

Federal Agency: U.S. Department of Education

CFDA Number: 84.036 and 84.268

Program: Federal Pell Grant Program and Federal Direct Loan Program

Description

A school must submit an origination record for every Pell and Direct Loan recipient. The origination record establishes the student's eligibility and the amount of Pell and Direct Loan the student can receive for the award year. A disbursement record should be submitted no later than 30 days after the disbursement is made. A school is required to report disbursements within 30 days of making payment.

Out of the 30 students selected for both Pell and Direct Loan disbursement reporting, we noted four students receiving Pell and two students receiving Direct Loan whose disbursements were not transmitted to the Department of Education within the required 30 days.

Questioned Costs

None.

Recommendation

The University should review its procedures to ensure disbursement records are transmitted to the Department of Education within the required 30 days.

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

Financial Statements and Supplementary
Schedule of Expenditures of Federal Awards

June 30, 2004

(With Independent Auditors' Report Thereon)



KPMG LLP
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Providence, RI 02903-2321

Independent Auditors' Report

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

We have audited the accompanying financial statement of the University of Rhode Island, a component unit of the State of Rhode Island and Providence Plantations (the University), and its discretely presented component units, where applicable, as of and for the years ended June 30, 2004 and 2003 as shown on pages IV-19 through IV-21. These financial statements are the responsibility of the University's management. Our responsibility is to express an opinion on these financial statements based on our audits. We did not audit the financial statements of the discretely presented component units. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar, as it relates to the amounts included for the discretely presented component units, are based on the reports of the other auditors.

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

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

As described in Note 1, the University adopted, effective July 1, 2003, Statement No. 30 of the Governmental Accounting Standards Board (GASB), *Determining Whether Certain Organizations are Component Units (an amendment of GASB 14)*.

Exhibit IV

In accordance with *Government Auditing Standards*, we have also issued our report dated September 24, 2004 on our consideration of the University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying 2004 Schedule of Expenditures of Federal Awards (Schedule I) is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*, and is not a required part of the 2004 basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the 2004 basic financial statements and, in our opinion, is fairly presented in all material respects in relation to the 2004 basic financial statements taken as a whole.

The Management's Discussion and Analysis on pages IV-4 to IV-18 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the supplementary information and express no opinion on it.

KPMG LLP

September 24, 2004

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

Required Supplementary Information
Management's Discussion and Analysis

(Unaudited)

June 30, 2004

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, 2004 and the results of operations for the year then ended, with selected comparative information for the years ended June 30, 2003 and 2002. The purpose of the MD&A is to assist readers in understanding the accompanying financial statements by providing an objective and understandable analysis of the 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 the information contained therein. The MD&A 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 state residents an opportunity 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 an 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; and (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 14,900 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. The 2,300 acres of woods, fields, streams and ponds of W. Alton Jones Campus 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)

Required Supplementary Information
Management's Discussion and Analysis

(Unaudited)

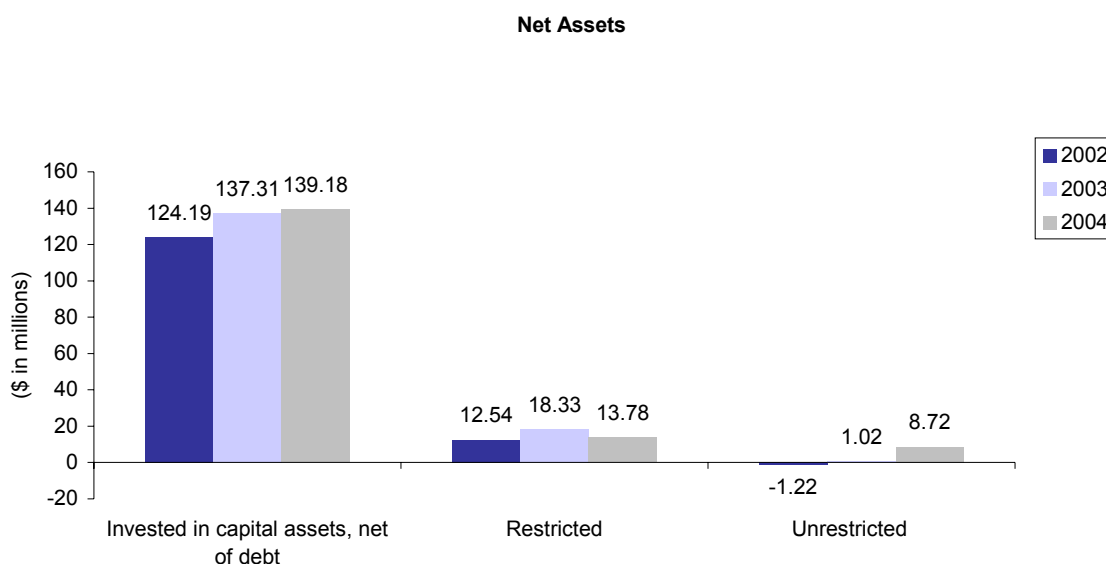
June 30, 2004

The University has adopted a three-year strategic plan, which seeks to: (1) enhance student enrollment and improve retention; (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 management, the Joint Strategic Planning Committee and each of the on-campus divisions. 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 results for the year ended June 30, 2004 showed a net loss of \$2.10 million for the year, after nonoperating revenues and expenses, compared with \$8.68 million loss for fiscal 2003 and \$1.87 million income for fiscal 2002. The \$2.10 million loss in fiscal 2004 is largely due to depreciation expense, which increased by \$2.47 million over that of fiscal 2003. The increase from fiscal 2002 to fiscal 2003 was \$2.18 million. However, with the infusion of State capital appropriations and private funds totaling \$7.11 million, net assets increased by \$5.02 million during fiscal 2004 (\$21.15 million during fiscal 2003). These funds were used to finance about 52% of the costs of construction projects completed in 2004.

The following chart displays the components of the University's net assets for the fiscal years ended June 30, 2004, 2003, and 2002.



UNIVERSITY OF RHODE ISLAND
 (A Component Unit of the State of Rhode Island and Providence Plantations)
 Required Supplementary Information
 Management’s Discussion and Analysis
 (Unaudited)
 June 30, 2004

On June 30, 2004, 2003, and 2002, the University’s total assets of \$337.76 million, \$331.56 million, and \$303.08 million exceeded its total liabilities of \$176.08 million, \$174.90 million, and \$167.51 million by \$161.68 million, \$156.66 million, and \$135.51 million, respectively. The resulting net assets are summarized into the following categories (\$ in millions):

	2004	2003	2002
Invested in capital assets, net of related debt	\$ 139.18	137.31	124.19
Restricted expendable	13.78	18.33	12.54
Unrestricted	8.72	1.02	(1.22)
Total net assets	\$ 161.68	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.

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

University of Rhode Island Foundation (the Foundation) and University of Rhode Island Alumni Association (the Alumni Association) are legally separate tax-exempt component units of the University of Rhode Island. The Foundation and Alumni Association act primarily as fund-raising organizations to supplement the resources that are available to the University in support of its programs. The Boards of the Foundation and Alumni Association are self-perpetuating and primarily consist of graduates and friends of the University. Although the University does not control the timing or the amount of receipts from the Foundation and Alumni Association, the majority of resources received or held by the Foundation and Alumni Association are restricted to the activities of the University by the donors. Because these resources held by the Foundation and Alumni Association can only be used by or are for the benefit of the University, the Foundation and Alumni Association are considered component units of the University and are discretely presented in the University’s financial statements.

Management’s Discussion and Analysis is required to focus on the University, and not on its component units.

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.

UNIVERSITY OF RHODE ISLAND
(A Component Unit of the State of Rhode Island and Providence Plantations)
Required Supplementary Information
Management's Discussion and Analysis
(Unaudited)
June 30, 2004

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 financial statements can be found on pages 18 to 20 of this report.

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

Notes to the Financial Statements. The notes provide additional information that is essential to a full understanding of the data provided in the financial statements. They also provide information regarding both the accounting policies and procedures the 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 21 to 43 of this report.

Financial Analysis

As mentioned earlier, net assets may serve over time as a useful indicator of the University's financial position. In the case of the University, total assets exceeded total liabilities by \$161.68 million, \$156.66 million, and \$135.5 million at the close of fiscal years 2004, 2003, and 2002, respectively.

By far the largest portion of the University's net assets, \$139.18 million, \$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
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Required Supplementary Information
Management's Discussion and Analysis
(Unaudited)
June 30, 2004

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

	<u>2004</u>	<u>2003</u>	<u>2002</u>
Current assets	\$ 66.04	53.07	52.75
Noncurrent assets	271.72	278.49	250.33
Total assets	<u>\$ 337.76</u>	<u>331.56</u>	<u>303.08</u>
Current liabilities	38.81	37.93	41.32
Noncurrent liabilities	137.27	136.97	126.25
Total liabilities	<u>\$ 176.08</u>	<u>174.90</u>	<u>167.57</u>
Net assets:			
Invested in capital assets, net of related debt	\$ 139.18	137.31	124.19
Restricted, expendable	13.78	18.33	12.54
Unrestricted	<u>8.72</u>	<u>1.02</u>	<u>(1.22)</u>
Total net assets	<u>\$ 161.68</u>	<u>156.66</u>	<u>135.51</u>

During fiscal years 2004, 2003, and 2002, the University's net assets increased by \$5.02 million, \$21.15 million, and \$32.52 million, respectively, which is largely due to capital and private funds received. The University closed fiscal 2004 and 2003 with positive unrestricted net assets of \$8.72 million and \$1.02 million, respectively, and with negative unrestricted net assets of \$1.22 million in fiscal 2002. In addition, the current ratio, which measures the University's liquidity, improved from 1.40 at the close of fiscal 2003 to 1.70 at the close of fiscal 2004.

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

During fiscal 2004, the University's net cash and cash equivalents increased by \$3.66 million which is largely attributed to the increase in net assets. 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, and capital assets net of depreciation, as well as in accounts payable and accrued expenses, offset by the increase in long-term debts.

The major component of the University's current assets is accounts receivable. During fiscal 2004, accounts receivable increased by \$8.78 million (\$5.98 million during fiscal 2003). Of this amount, \$2.16 million (\$3.59 million in fiscal 2003) was due to timing differences between billing and collections of grant and contract receivables. With lagging collection efforts due to limited resources and staff preoccupied with the implementation of the student financial system, student accounts receivable increased by \$4.63 million over the preceding period.

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The restricted expendable net assets consist of resources that are subject to external restrictions on how they must be used, and represent 9%, 12%, and 9% of the University's net assets at June 30, 2004, 2003, and 2002, respectively.

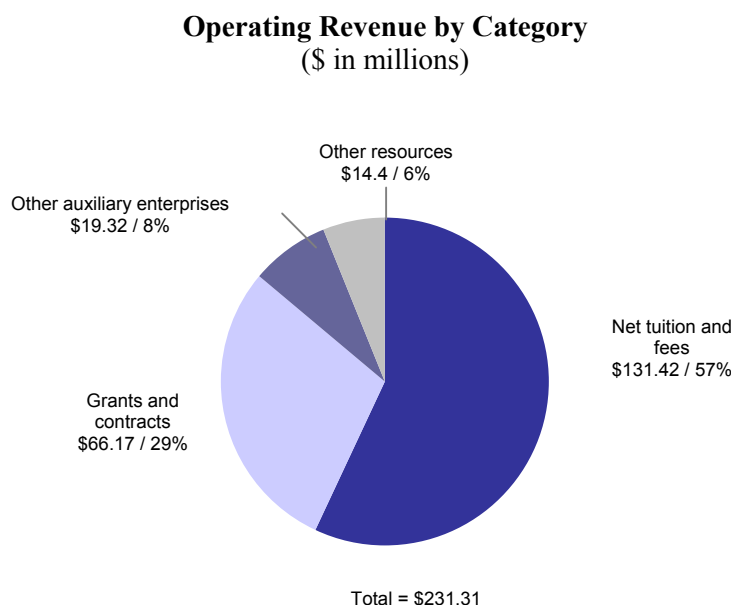
**University of Rhode Island's Condensed Revenues,
Expenses and Changes in Net Assets**
(\$ in millions)

	<u>2004</u>	<u>2003</u>	<u>2002</u>
Operating revenues:			
Tuition and fees, net of tuition waivers and remissions	\$ 131.42	112.06	99.02
Operating grants and contributions	66.17	68.78	60.15
Other sources	33.72	33.55	28.39
Total operating revenues	<u>231.31</u>	<u>214.39</u>	<u>187.56</u>
Operating expenses:			
Salaries and benefits	212.78	210.48	197.84
Operating expenses	36.35	34.68	24.02
Scholarships, grants and contracts	9.11	7.71	6.11
Auxiliaries	48.45	45.57	39.34
Depreciation and amortization	14.59	12.12	9.94
Total operating expenses	<u>321.28</u>	<u>310.56</u>	<u>277.25</u>
Net operating loss	<u>(89.97)</u>	<u>(96.17)</u>	<u>(89.69)</u>
Nonoperating revenues (expenses):			
State appropriation	83.07	81.99	84.24
Net investment income	0.39	0.80	2.57
Private gifts	10.58	10.40	9.06
Interest expense	(6.17)	(5.70)	(4.31)
Total nonoperating revenues	<u>87.87</u>	<u>87.49</u>	<u>91.56</u>
(Loss) income before other revenues, expenses, gains or losses	(2.10)	(8.68)	1.87
Capital appropriations	4.57	9.38	13.76
State contributed capital	2.11	13.25	10.25
Capital gifts	0.44	7.20	6.64
Increase in net assets	<u>5.02</u>	<u>21.15</u>	<u>32.52</u>
Net assets – beginning of year	<u>156.66</u>	<u>135.51</u>	<u>102.99</u>
Net assets – ending of year	<u>\$ 161.68</u>	<u>156.66</u>	<u>135.51</u>

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Operating Revenues

The following provides a graphical breakdown of operating revenues by category for the year ended June 30, 2004.



The total operating revenues increased \$16.92 million or 8% in fiscal 2004 (\$26.83 or 14% in fiscal 2003) as compared with those of the preceding year. This is largely attributable to the tuition and fee rate increase as well as the increase in enrollment as envisioned in the University's three-year strategic plan.

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

	<u>2004</u>	<u>2003</u>	<u>2002</u>
Tuition	\$ 99.25	88.08	78.72
Student service fees	18.91	14.33	14.37
Health service fees	3.89	3.57	3.37
Housing fees	17.20	16.12	14.32
Dining service fees	12.73	10.56	9.42
Miscellaneous student fees	4.57	4.00	2.00
Total	<u>156.55</u>	<u>136.66</u>	<u>122.20</u>
Tuition waived or remitted	<u>(25.13)</u>	<u>(24.60)</u>	<u>(23.18)</u>
Net	<u>\$ 131.42</u>	<u>112.06</u>	<u>99.02</u>

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The following summary shows a steady growth of grants and contracts awarded to the University during the last five years (\$ in millions). This positive development is a reflection of the University’s vision to pursue research and to enhance creative and entrepreneurial activities on campus.

Year:	<u>Amount</u>
1999-2000	\$ 48.98
2000-2001	57.14
2001-2002	58.11
2002-2003	60.03
2003-2004	60.15

The recognition of revenue from grants and contracts awarded are deferred until services have been performed to fulfill the requirements of the grants and contracts. Hence, awards received are not reflected in the accompanying financial statements.

The University has been awarded close to \$25 million in federal grant for biomedical research in Rhode Island. The new award for \$16.5 million is a five-year grant to continue the University’s work as a catalyst for biomedical research in the State. With funding from the previous \$8 million grant, the University has completed the third year of Biomedical Research Infrastructure Network (BRIN) award, which resulted in increased collaboration among researchers from the University and other colleges and universities in the State. The new grant cements such relationships and focuses researchers’ attention to the University’s strength in molecular toxicology. Also, a core research instrumentation laboratory was established at the University’s Kingston campus with the funding from a previous grant. This facility is open to all biomedical researchers in the State, and provides the latest analytical equipment to investigate cancer generation, the effect of toxic chemicals on reproductive, nervous and cardiovascular systems, organs, and drug metabolism.

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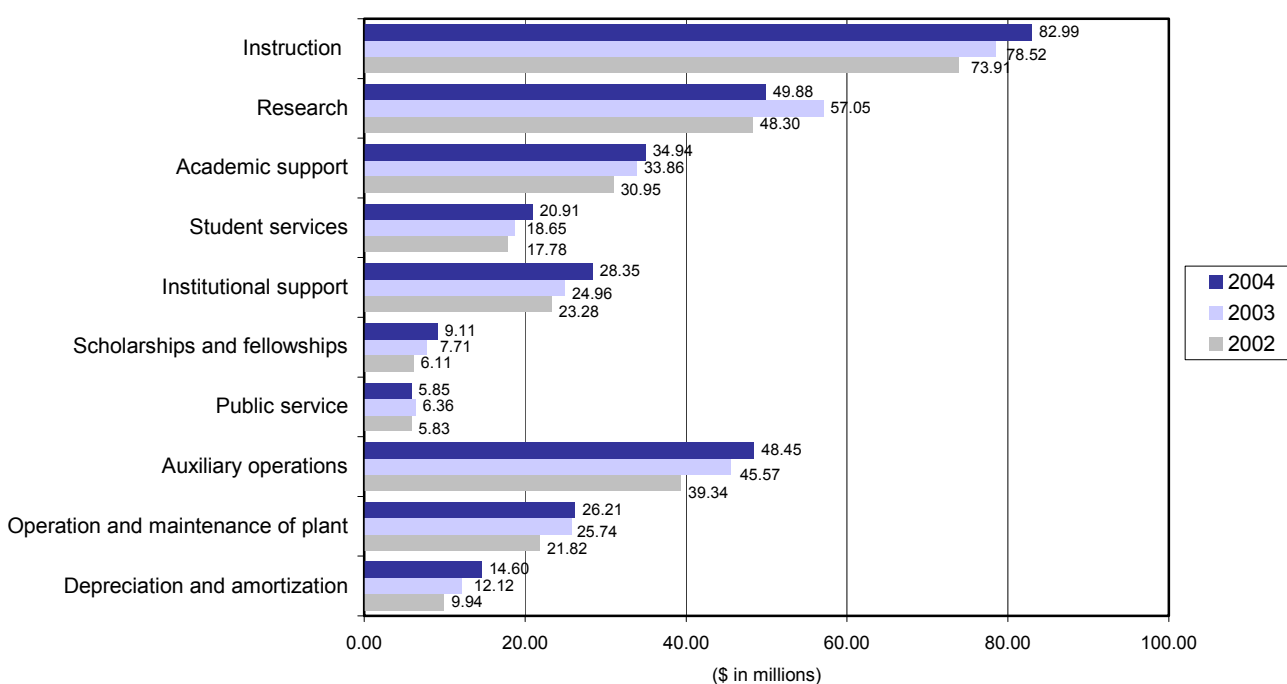
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Operating Expenses

The chart below illustrates the University's operating expenses by function for the fiscal years ended June 30, 2004, 2003, and 2002, excluding scholarship allowances applied against tuition and fees.

Operating Expenses by Function



The operating expenses for fiscal 2004 and 2003 totaled \$321.28 million and \$310.56 million, respectively, an increase of \$10.73 million and \$33.31 million or 3.46% and 12.01% over those of fiscal 2003 and 2002, which is due in large part to medical and dental benefit costs increases and depreciation expense. In addition, personnel service costs increased due to the Blue Cross/Blue Shield settlement, additional temporary help, consulting related to the PeopleSoft implementation, funding of faculty positions, prescription drug reimbursements, and funding of actuarial consultants associated with the retiree health program.

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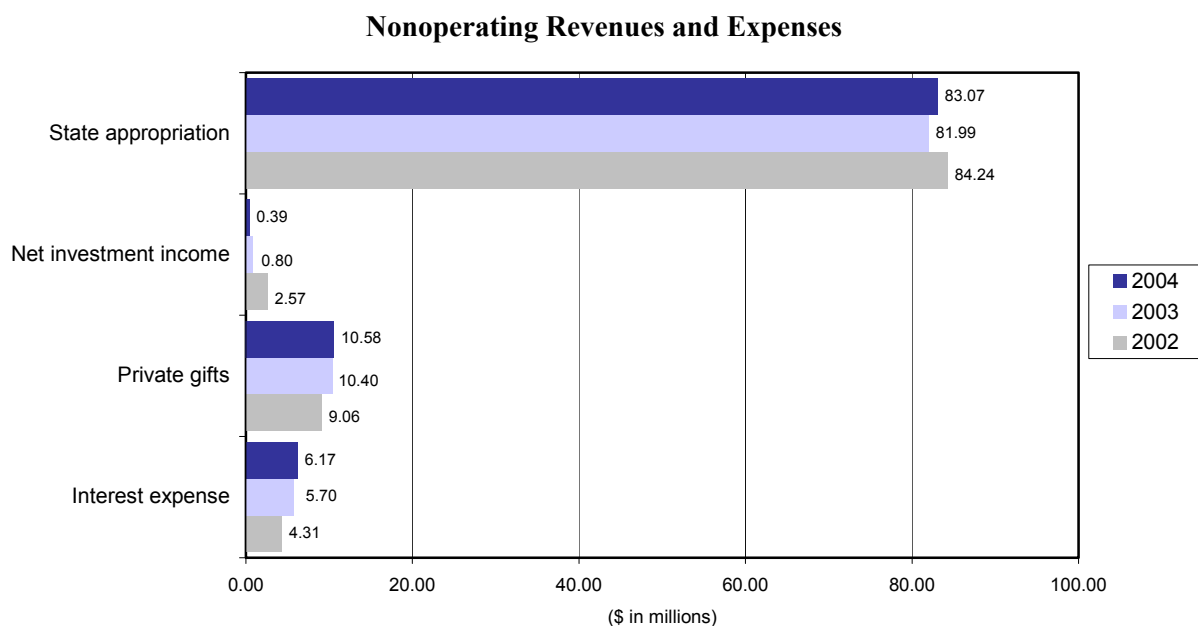
June 30, 2004

The following summary shows where major grant and contract expenditures, including indirect cost charges, occurred during 2004, 2003, and 2002 (\$ in millions).

Agency	Amount		
	2004	2003	2002
National Science Foundation	\$ 10.53	8.94	7.68
Department of Health and Human Services	10.39	9.28	6.90
Department of Defense	7.38	7.03	5.64
Agency for International Development	2.37	5.94	4.74
Department of Agriculture	6.02	4.73	4.12
Department of Commerce	4.36	4.08	3.75
NASA	1.64	1.59	1.64
Department of Education	1.25	1.50	1.64

Nonoperating Revenues and Expenses

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



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The State's unrestricted appropriation is the largest component of the University's nonoperating revenues. The amount requested for fiscal 2004 was \$85.16 million. However, the amount appropriated by the State was \$83.07 million resulting in an appropriation for fiscal 2004 that was \$2.09 million less than the amount requested. Although the budget request for fiscal 2004 did not fully meet the real needs of the University, it did provide for a balanced budget and an acceptable level of quality in carrying out the University's mission as it currently exists.

Investment income was down \$0.41 million or 51% (\$1.77 million or 69% in fiscal 2003) due to reduced short-term rates of return and the major decline in funds available for investment by the bond trustee during the year. Interest expense was up \$0.47 million or 8% (\$1.39 million or 32% in fiscal 2003) because of the interest that became due during the year on new bond issues.

Direct State Appropriation

The University has a long tradition of using the state appropriation to support its operating expenses. During fiscal years 2004, 2003, and 2002, the University received state appropriation of \$83.07 million, \$81.99 million, and \$84.24 million, respectively, which was not sufficient to cover operating expenses to the extent of \$6.9 million, \$14.18 million, and \$5.46 million, respectively, as the schedule below indicates. Operating costs have increased over the years and the state appropriation has not risen enough to cover operating expenses, therefore student tuition and fees have played an increasingly important role in funding (41% in fiscal 2004 and 36% in fiscal 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 for Higher Education and the University.

	<u>2004</u>	<u>2003</u>	<u>2002</u>
		(\$ in millions)	
Tuition and fee revenue	\$ 131.42	112.06	99.02
Other revenue	99.89	102.33	88.53
Operating expenses	<u>(321.28)</u>	<u>(310.56)</u>	<u>(277.25)</u>
Operating loss	(89.97)	(96.17)	(89.70)
State direct appropriations	<u>83.07</u>	<u>81.99</u>	<u>84.24</u>
Net loss	<u>\$ (6.90)</u>	<u>(14.18)</u>	<u>(5.46)</u>

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Capital Assets and Debt Administration

Capital Assets

The University's investment in capital assets as of June 30, 2004, 2003, and 2002 amounted to \$252.61 million, \$250.16 million and \$227.32 million, respectively, net of accumulated depreciation. This investment in capital assets includes land, buildings (including improvements), and furnishings and equipment (including the cost of capital leases). Capital assets increased \$2.45 million during fiscal 2004 and \$22.84 during fiscal 2003. 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, 2004, 2003, and 2002 is presented below.

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

	2004	2003	2002
Land and improvements	\$ 27.79	27.70	22.17
Major capital additions to building and improvements	196.90	189.25	112.18
Furnishings and equipment	21.34	21.72	19.24
Construction in progress	6.58	11.49	73.73
Total	\$ 252.61	250.16	227.32

Major capital additions in fiscal 2004 included academic buildings and student residence halls with total costs of \$2.00 million and \$8.50 million, respectively. Such renovations were largely funded with state capital appropriations.

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

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 for Higher Education submits a running five fiscal year capital improvement plan to the General Assembly and State Executive each year. The plan for the proposed capital projects for the entire system of public higher education in Rhode Island includes the University. The FY 2006-2010 plan for the University totals \$387 million, and it 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.

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Debt

As of June 30, 2004 and 2003, the University had \$113.43 million and \$112.85 million, respectively, in outstanding debt, with increases of \$0.58 million and \$9.72 million, respectively, over that of the prior years. The table below summarizes the types of debt instruments.

Summary Schedule of Debt
(\$ in millions)

	<u>2004</u>	<u>2003</u>	<u>2002</u>
Loans payable	\$ 0.32	0.25	0.80
Capital lease obligations	16.16	16.25	16.01
Revenue bonds	96.95	96.35	86.32
Total	<u>\$ 113.43</u>	<u>112.85</u>	<u>103.13</u>

Additions to debt and repayments made during fiscal 2004 were \$21.99 million and \$21.41 million, respectively. Such additions and repayments included the \$20.30 million revenue bonds issued to refinance prior bonds' outstanding balance of \$19.40 million as of June 30, 2003. Debt repayments of \$2.45 million were made during fiscal 2003. 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 for Higher Education. 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' for Higher Education 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.

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 draws students, increased from 4.8% in June of 2002 to 5.7% in June of 2003 and 5.8% in June of 2004, according to the Federal Reserve Bank of Boston. This compares to an increase from 5.8% to 6.4% and a decrease to 5.6%, respectively, on a national level. Rhode Island's job growth rate for the first six months of 2004 of 0.2% also trailed the national average of 0.9% for the period.

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Historically, in times of economic slowdowns, public colleges/universities have experienced increases in their enrollment 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. As with many state governments, Rhode Island faced a state budget deficit in fiscal year 2004, of approximately \$14 million, and a budget shortfall of \$24 million is projected for fiscal year 2005. To support their strategic priorities in this financially challenging environment, the University and the Board of Governors took the following actions during fiscal 2004.

- Fiscal 2004 tuition and mandatory fees increased by 9% and 7% for in-state and out-of-state students, respectively.
- A hiring freeze was imposed on all but critical positions, which were reviewed on a case-by-case basis; the number of visiting lectures authorized to academic departments was reduced as was the out-of-state travel budget and the part-time support staff budget.

In July 2004, the General Assembly amended Rhode Island General Law 16-59-9 – Educational Budget and Appropriations, transferring the power to allocate budgets to institutions of public higher education from the Board of Higher Education to the General Assembly. This transfer of budget allocation authority is not anticipated to have a significant financial impact on the University during fiscal year 2005.

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

The University's enrollment over the last five years showed slight increases through 2004, 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 6.10% since 1999. Out-of-state undergraduate student charges have been held to an average of 5.09% 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.

Fiscal Planning

The University will continue to control expenses in accordance with available resources and established priorities by 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.

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Information System

One of the major initiatives with technology continues to be the implementation of PeopleSoft's Student Administration, Financials, and Human Resources software modules. The University implemented major portions of these modules on July 1, 2003. These modules and those 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: Mr. Robert Weygand, Vice President for Administration, University of Rhode Island, 108 Carlotti Administration Building, 75 Lower College Road, Room 108, Kingston, RI 02881.

UNIVERSITY OF RHODE ISLAND
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Statements of Net Assets
June 30, 2004 and 2003

Assets	2004 University of Rhode Island	2003 University of Rhode Island	2004 Component Units
Current assets:			
Cash and cash equivalents (note 2)	\$ 29,400,183	24,154,095	5,268,444
Cash held by State Treasurer – capital projects (notes 2 and 3)	1,298,704	1,257,245	—
Cash held by State Treasurer – other (notes 2 and 3)	373,063	—	—
Accounts receivable, net (note 4)	31,754,497	22,976,875	—
Current portion of pledges receivable (note 4)	—	—	4,708,949
Current portion of notes receivable (note 1)	—	—	63,094
Current portion of net investment in sales types leases	—	—	208,773
Inventory and other current assets	3,214,996	4,684,296	1,062,026
Total current assets	<u>66,041,443</u>	<u>53,072,511</u>	<u>11,311,286</u>
Noncurrent assets:			
Cash and cash equivalents – restricted (note 2)	—	1,830,856	—
Cash held by State Treasurer – restricted (notes 2 and 3)	—	67,808	—
Funds on deposit with bond trustee – restricted	8,436,466	15,128,022	—
Investments (note 2)	—	—	72,228,261
Net investment in sales – type leases	—	—	21,000
Pledges receivable (note 4)	—	—	1,639,890
Loans receivable, net (note 5)	10,669,416	11,305,102	—
Notes receivable	—	—	165,318
Charitable remainder trusts	—	—	643,417
Capital assets, net of accumulated depreciation (notes 6 and 7)	252,607,979	250,156,736	2,334,694
Total noncurrent assets	<u>271,713,861</u>	<u>278,488,524</u>	<u>77,032,580</u>
Total assets	<u>\$ 337,755,304</u>	<u>331,561,035</u>	<u>88,343,866</u>
Liabilities			
Current liabilities:			
Cash overdraft implicitly financed (note 2)	\$ 100,492	—	—
Accounts payable and accrued liabilities	23,626,467	24,719,746	495,067
Current portion of contributions payable to University of Rhode Island	—	—	1,817,719
Compensated absences (note 8)	734,217	700,457	13,913
Funds held for others	924,931	416,295	—
Deferred revenues	11,009,862	9,865,693	—
Current portion of capital lease obligations (notes 6 and 7)	1,150,355	1,081,903	—
Current portion of bonds and loans payable (notes 6 and 7)	1,258,951	1,144,175	—
Current portion of gift annuity payable	—	—	78,920
Total current liabilities	<u>38,805,275</u>	<u>37,928,269</u>	<u>2,405,619</u>
Noncurrent liabilities:			
Compensated absences (note 7)	15,644,275	15,937,408	—
Pledges payable	—	—	250,000
Contributions payable to University of Rhode Island	—	—	240,000
Capital lease obligations (notes 6 and 7)	15,011,684	15,165,264	—
Bonds and loans payable (notes 6 and 7)	96,010,532	95,455,399	—
Gift annuity payable	—	—	435,369
Grant refundable (note 8)	10,606,882	10,415,033	—
Total noncurrent liabilities	<u>137,273,373</u>	<u>136,973,104</u>	<u>925,369</u>
Total liabilities	<u>\$ 176,078,648</u>	<u>174,901,373</u>	<u>3,330,988</u>
Net Assets			
Invested in capital assets, net of related debt	\$ 139,176,457	137,309,995	2,334,694
Restricted:			
Expendable (note 9)	13,784,667	18,326,283	23,492,551
Non-expendable	—	—	54,166,361
Unrestricted (note 10)	8,715,532	1,023,384	5,019,272
Contingencies (note 11)	—	—	—
Total net assets	<u>\$ 161,676,656</u>	<u>156,659,662</u>	<u>85,012,878</u>

See accompanying notes to financial statements.

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Statements of Revenues, Expenses, and Changes in Net Assets

Years ended June 30, 2004 and 2003

	2004	2003	2004
	University of	University of	Component
	Rhode Island	Rhode Island	Units
Operating revenues:			
Tuition and fees	\$ 117,658,595	102,438,954	—
Residence, dining, student union, and health fees	38,886,213	34,215,423	—
Less scholarship allowances	(25,127,913)	(24,596,383)	—
Net student fees	131,416,895	112,057,994	—
Federal, State, local, and private grants and contracts	66,172,241	68,775,528	—
Other auxiliary enterprises	19,324,223	19,334,328	—
Endowment income	—	—	15,692,637
Other sources	14,396,163	14,219,315	2,835,485
Total operating revenues	<u>231,309,522</u>	<u>214,387,165</u>	<u>18,528,122</u>
Operating expenses (note 12):			
Instruction	82,987,781	78,521,491	—
Research	49,881,316	57,045,903	—
Academic support	34,935,547	33,857,699	—
Student services	20,913,363	18,654,226	20,000
Scholarships and fellowships	9,112,691	7,713,975	—
Public service	5,847,415	6,359,552	—
Operation and maintenance of plant	26,211,711	25,744,276	117,069
Depreciation and amortization	14,598,737	12,123,084	75,602
Institutional support	28,347,636	24,959,686	3,544,774
Auxiliary operations	48,448,281	45,574,876	280,000
Total operating expenses	<u>321,284,478</u>	<u>310,554,768</u>	<u>4,037,445</u>
Operating (loss) income	<u>(89,974,956)</u>	<u>(96,167,603)</u>	<u>14,490,677</u>
Nonoperating revenues (expenses):			
State appropriation (note 13)	83,073,837	81,989,847	—
Net investment income	391,978	796,831	757,447
Private gifts	—	—	5,944,073
Gifts from components units	10,582,253	10,400,278	(14,965,582)
Additions to permanent endowments	—	—	4,936,077
Patent receipts	—	—	1,186,221
Miscellaneous receipts	—	—	1,459,062
Interest expense	(6,169,772)	(5,702,957)	—
Net nonoperating revenues	<u>87,878,296</u>	<u>87,483,999</u>	<u>(682,702)</u>
(Loss) income before other revenues, expenses, gains or losses	(2,096,660)	(8,683,604)	13,807,975
Capital appropriations (note 13)	6,678,229	22,631,057	—
Capital gifts	435,425	7,202,767	(435,425)
Increase in net assets	5,016,994	21,150,220	13,372,550
Net assets, at beginning of year (note 17)	<u>156,659,662</u>	<u>135,509,442</u>	<u>71,640,328</u>
Net assets, at end of year	<u>\$ 161,676,656</u>	<u>156,659,662</u>	<u>85,012,878</u>

See accompanying notes to financial statements.

UNIVERSITY OF RHODE ISLAND
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Statements of Cash Flows

Years ended June 30, 2004 and 2003

	2004	2003
	University of	University of
	Rhode Island	Rhode Island
Cash flows from operating activities:		
Tuition and fees	\$ 129,072,518	111,325,897
Grants and contracts	62,330,927	65,433,960
Payments to suppliers	(82,055,947)	(81,903,774)
Payments to employees	(211,633,690)	(208,938,528)
Payments for scholarships, fellowships, and sponsored programs	(13,006,488)	(10,393,676)
Auxiliary enterprises	19,510,757	18,700,309
Other receipts	13,595,025	12,901,816
Net cash used by operating activities	<u>(82,186,898)</u>	<u>(92,873,996)</u>
Cash flows from noncapital financing activities:		
State appropriations	83,073,837	81,989,847
Cash overdraft implicitly financed	100,492	—
Gifts from component units	10,582,253	10,400,278
Funds held for others	630,045	(466,539)
Net cash provided by noncapital financing activities	<u>94,386,627</u>	<u>91,923,586</u>
Cash flows from capital and related financing activities:		
Proceeds from capital debt	20,805,364	11,075,000
Capital appropriations	6,678,229	22,631,057
Capital gifts	435,425	7,202,767
Net loss on disposal of capital assets	126,629	944,768
Purchase of capital assets	(15,988,765)	(34,816,187)
Principal paid on capital debt and leases	(21,408,427)	(2,448,970)
Interest paid on capital debt and leases	(6,169,772)	(5,702,957)
Deposit with trustee	6,691,556	(5,178,686)
Net cash used by capital and related financing activities	<u>(8,829,761)</u>	<u>(6,293,208)</u>
Cash flows from investing activities:		
Interest on investments	391,978	796,831
Net cash provided by investing activities	<u>391,978</u>	<u>796,831</u>
Net increase (decrease) in cash	3,761,946	(6,446,787)
Cash – beginning of year	27,310,004	33,756,791
Cash – end of year	<u>\$ 31,071,950</u>	<u>27,310,004</u>
Reconciliation of net operating revenues (expenses) to net cash used by operating activities:		
Operating loss	\$ (89,974,956)	(96,167,603)
Adjustments to reconcile net loss to net cash used by operating activities:		
Depreciation and amortization	14,598,737	12,123,084
Changes in assets and liabilities:		
Accounts receivable	(8,899,031)	(5,976,749)
Inventory and other current assets	1,469,300	(985,976)
Loans receivable	635,686	170,234
Accounts payable and accrued liabilities	(1,093,279)	(2,874,178)
Deferred revenues	1,144,169	(460,090)
Compensated absences	(259,373)	962,290
Refundable grant	191,849	334,992
Net cash used by operating activities	<u>\$ (82,186,898)</u>	<u>(92,873,996)</u>
Supplemental disclosure of cash flows information:		
New capital leases	\$ 1,187,844	1,089,989

See accompanying notes to financial statements.

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(1) Summary of Significant Accounting Policies

(a) Organization

The University is a State Land-Sea-and-Urban-Grant University. Chartered in 1951, the University offers undergraduate and graduate degree programs of study and also confers doctoral degrees. 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. The effect of interfund activity has been eliminated from these financial statements.

The University's policies 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.

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

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University of Rhode Island Foundation (the Foundation) and University of Rhode Island Alumni Association (the Alumni Association) are legally separate tax-exempt component units of the University of Rhode Island. The Foundation and Alumni Association act primarily as fund-raising organizations to supplement the resources that are available to the University in support of its programs. The Boards of the Foundation and Alumni Association are self-perpetuating and primarily consist of graduates and friends of the University. Although the University does not control the timing or the amount of receipts from the Foundation and Alumni Association, the majority of resources received or held by the Foundation and Alumni Association are restricted to the activities of the University by the donors. Because these resources held by the Foundation and Alumni Association can only be used by or are for the benefit of the University, the Foundation and Alumni Association are considered component units of the University and are discretely presented in the University's financial statements.

During the year ended June 30, 2004, the Foundation distributed \$10,582,253, to the University for both restricted and unrestricted purposes. The Foundation's year-end was March 30, 2004. Per the Foundation's financial statements, the Foundation distributed \$13,120,731 to the University. The variance of \$2,538,478 represents timing differences in reimbursement and funding of various expenses in auxiliary operations, academic support and operations and maintenance of plant.

During the year ended June 30, 2004, the Alumni Association distributed \$2,280,276 to the University for scholarships. These funds are recorded as agency transactions in the University's financial statements.

The Foundation and Alumni Association are private nonprofit organizations that report under FASB standards, including FASB Statement No. 116, *Accounting for Contributions Received and Contributions Made*, and FASB Statement No. 117, *Financial Reporting for Not-for-Profit Organizations*. As such, certain revenue recognition criteria and presentation features are different from GASB revenue recognition criteria and presentation features. No modifications have been made to the Foundation and Alumni Association's financial information in the University's financial reporting entity for these differences.

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Notes to Financial Statements

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The condensed statement of net assets of the Foundation and Alumni Association is as follows:

	<u>Foundation</u>	<u>Alumni Association</u>	<u>Total</u>
Current assets	\$ 10,658,789	652,497	11,311,286
Noncurrent assets	74,457,381	2,575,199	77,032,580
Total assets	<u>\$ 85,116,170</u>	<u>3,227,696</u>	<u>88,343,866</u>
Current liabilities	2,143,046	262,573	2,405,619
Noncurrent liabilities	685,369	240,000	925,369
Total liabilities	<u>\$ 2,828,415</u>	<u>502,573</u>	<u>3,330,988</u>
Net assets:			
Invested in capital assets, net of related debt	2,334,694	—	2,334,694
Restricted:			—
Expendable	22,415,913	1,076,638	23,492,551
Nonexpendable	54,166,361	—	54,166,361
Unrestricted	<u>3,370,787</u>	<u>1,648,485</u>	<u>5,019,272</u>
Total net assets	<u>\$ 82,287,755</u>	<u>2,725,123</u>	<u>85,012,878</u>

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The condensed statement of revenues, expenses and changes in net assets of the Foundation and Alumni Association is as follows:

	<u>Foundation</u>	<u>Alumni Association</u>	<u>Total</u>
Endowment income	\$ 15,692,637	—	15,692,637
Other sources	—	2,835,485	2,835,485
Total operating revenue	<u>15,692,637</u>	<u>2,835,485</u>	<u>18,528,122</u>
Student services	—	20,000	20,000
Operation and maintenance in plant	—	117,069	117,069
Depreciation and amortization	75,602	—	75,602
Institutional support	2,253,947	1,290,827	3,544,774
Auxiliary operations	—	280,000	280,000
Total operating expenses	<u>2,329,549</u>	<u>1,707,896</u>	<u>4,037,445</u>
Operating income	<u>13,363,088</u>	<u>1,127,589</u>	<u>14,490,677</u>
Nonoperating revenues (expenses):			
Net investment income	757,447	—	757,447
Private gifts	4,669,179	1,274,894	5,944,073
Gifts to University	(13,120,731)	(1,844,851)	(14,965,582)
Additions to permanent endowments	4,936,077	—	4,936,077
Patent receipts	1,186,221	—	1,186,221
Miscellaneous receipts	1,459,062	—	1,459,062
Net operating expenses	<u>(112,745)</u>	<u>(569,957)</u>	<u>(682,702)</u>
Income before other revenues, expenses, gains or losses	13,250,343	557,632	13,807,975
Capital gifts to University	—	(435,425)	(435,425)
Increase in net assets	13,250,343	122,207	13,372,550
Net assets, beginning of year	<u>69,037,412</u>	<u>2,602,916</u>	<u>71,640,328</u>
Net assets, end of year	<u>\$ 82,287,755</u>	<u>2,725,123</u>	<u>85,012,878</u>

Complete financial statements for the Foundation can be obtained from: 79 Upper College Road, Kingston, RI 02281.

Complete financial statements for the Alumni Association can be obtained from: 12 Davis Hall, 10 Lippett Road, Kingston, RI 02881.

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(c) Net Assets

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

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

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

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(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 2004 and 2003 health premiums were \$24,667,151 and \$19,245,471, 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 of all State agencies, including the University. The fringe benefit assessment rate for fiscal 2004 and 2003 was 3.8%. The assessed fringe benefit cost for the University was \$4,671,936 for fiscal year 2004 and \$4,577,302 for fiscal year 2003.

(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 reported as deferred revenues.

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(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. Such estimates and assumptions affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(n) Reclassifications

Certain amounts as of June 30, 2003 have been reclassified to conform to the presentation as of June 30, 2004.

(o) Risk Management

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

The University is insured for general liability with policy limits of \$1 million per claim and \$3 million in the aggregate with a \$25,000 deductible. Coverage under the General Liability Policy extends to employed health care providers, excluding physicians who have separate coverage. This policy does not apply to actions relating to federal/civil rights, eminent domain, and breach of contract. Such claims are insured under a separate policy for wrongful acts with limits of \$2 million per claim and \$2 million for the annual aggregate with a \$100,000 deductible. Crime coverage for University employees is carried with a limit of \$1 million and a deductible of \$100,000. The University also maintains an excess liability insurance policy with a limit of \$25 million.

Buildings and contents are insured against fire, theft, and natural disaster to the extent that losses exceed \$100,000 per incident and do not exceed \$500 million. A separate inland marine policy insures specifically listed high value property items covering but not limited to computer equipment, valuable papers, fine arts, contractors equipment and miscellaneous property at various limits of insurance and deductibles. The University also maintains separate property policies on both small and large boats. Both policies have a \$300,000 policy limit with a \$250 deductible.

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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. Worker's compensation, unemployment, and employee health and life insurance claims are self-insured and managed by the State.

(2) Cash, Cash Equivalents, and Investments

Cash and Cash Equivalents

The following summary presents the amount of 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:

2004					
	Category			Total bank	Carrying
	1	2	3	balance	amount
\$	34,036,837	—	1,052,408	35,089,245	31,071,950

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

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.

Investments

Foundation investments at March 31, 2004 and the Alumni Association investments at June 30, 2004 are reported at fair market value and are comprised of the following:

	Foundation	Alumni Association	Total
Government securities	\$ 14,820,249	—	14,820,249
Corporate bonds	4,227,849	953,207	5,181,056
Common stock	50,604,964	1,621,992	52,226,956
	<u>\$ 69,653,062</u>	<u>2,575,199</u>	<u>72,228,261</u>

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(3) Cash Held by State Treasurer

Cash held by State Treasurer of \$1,671,767 and \$1,325,053 at June 30, 2004 and 2003, respectively, was subsequently used to pay accounts payable and accrued salaries.

(4) Accounts Receivable

Accounts receivable include the following at June 30:

	2004	2003
Student accounts receivable	\$ 8,087,194	3,452,288
Grants receivable	5,540,097	3,054,909
Unbilled grants receivables	12,183,102	10,026,122
Other receivables	9,164,454	8,915,716
	34,974,847	25,449,035
Less allowance for doubtful accounts	(3,220,350)	(2,472,160)
	\$ 31,754,497	22,976,875

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

The Foundation's present value of pledges receivable as of March 31, 2004 has been calculated using an interest rate of 2% which approximates the federal reserve three-year treasury bill. The promised contributions are due as follows:

Within one year	\$ 4,660,284
One to five years	1,600,757
Five to ten years	100,000
	6,361,041
Less present value component	60,867
	\$ 6,300,174

The Foundation uses the allowance method to determine uncollectible, unconditional pledges receivable. The allowance is based upon prior years' experience and management's analysis of specific promises made. As of March 31, 2004, the Foundation had no allowance for uncollectible pledges receivable.

The Alumni Association pledge receivables, net of allowance of \$88,044, at June 30, 2004 were \$48,665.

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(5) Loans Receivable

Loans receivable include the following at June 30:

	<u>2004</u>	<u>2003</u>
Perkins loans receivable	\$ 8,250,664	8,876,236
Nursing loans receivable	1,013,706	978,652
Health profession loans receivable	1,321,218	1,428,462
Other	509,343	492,270
	<u>11,094,931</u>	<u>11,775,620</u>
Less allowance for doubtful accounts	<u>(425,515)</u>	<u>(470,518)</u>
	<u>\$ 10,669,416</u>	<u>11,305,102</u>

(6) Capital Assets

Capital assets consist of the following at June 30:

	<u>2004</u>					
	<u>Estimated lives (in years)</u>	<u>Beginning balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Reclassifi- cations</u>	<u>Ending balance</u>
Capital assets not being depreciated:						
Land	—	\$ 888,172	—	—	—	888,172
Construction in progress	—	11,492,329	5,393,663	—	(10,309,585)	6,576,407
Total not being depreciated		<u>12,380,501</u>	<u>5,393,663</u>	<u>—</u>	<u>(10,309,585)</u>	<u>7,464,579</u>
Capital assets being depreciated:						
Land improvements	15-25	31,216,410	1,448,008	—	—	32,664,418
Buildings, including improvements	10-50	291,778,036	6,073,292	—	10,309,585	308,160,913
Furnishings and equipment (including cost of capital leases)	5-15	54,820,502	4,261,646	(3,321,051)	—	55,761,097
Total being depreciated		<u>377,814,948</u>	<u>11,782,946</u>	<u>(3,321,051)</u>	<u>10,309,585</u>	<u>396,586,428</u>
Less accumulated depreciation:						
Land improvements		4,403,587	1,364,272	—	—	5,767,859
Building, including improvements		102,528,688	8,729,141	—	—	111,257,829
Furnishings and equipment		33,106,438	4,505,324	(3,194,422)	—	34,417,340
Total accumulated depreciation		<u>140,038,713</u>	<u>14,598,737</u>	<u>(3,194,422)</u>	<u>—</u>	<u>151,443,028</u>
Capital assets, net		<u>\$ 250,156,736</u>	<u>2,577,872</u>	<u>(126,629)</u>	<u>—</u>	<u>252,607,979</u>

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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>

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(7) Long-Term Liabilities

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

	2004				
	<u>Beginning balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending balance</u>	<u>Current portion</u>
Leases and bonds payable:					
Lease obligations	\$ 16,247,167	1,187,844	1,272,972	16,162,039	1,150,355
Revenue bonds payable	96,348,233	20,605,364	20,001,442	96,952,155	1,185,107
Loans payable	251,341	200,000	134,013	317,328	73,844
Total leases and bonds payable	112,846,741	21,993,208	21,408,427	113,431,522	2,409,306
Other long-term liabilities:					
Compensated absences	16,637,865	741,095	1,000,468	16,378,492	734,217
Total long-term liabilities	<u>\$ 129,484,606</u>	<u>22,734,303</u>	<u>22,408,895</u>	<u>129,810,014</u>	<u>3,143,523</u>
	2003				
	<u>Beginning balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending balance</u>	<u>Current portion</u>
Leases and bonds payable:					
Lease obligations	\$ 16,012,898	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	<u>\$ 118,806,297</u>	<u>13,963,552</u>	<u>3,285,243</u>	<u>129,484,606</u>	<u>2,926,535</u>

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Bonds Payable

The revenue bonds payable totaling \$96,952,155 and \$96,348,233 as of June 30, 2004 and 2003, respectively, consist of the following:

	2004	2003
Revenue Bonds payable to U.S. Government:		
1972 Graduate Housing Revenue Bonds, 5.75%, due semiannually through 2007	\$ 485,000	590,000
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. The bonds were paid off in fiscal 2004 from the proceeds of the Series 2003 B issue.	—	12,220,050
1993 Series B Facility Revenue and Refunding Bonds - Various Purpose Educational Facilities, 4.60% to 5.50%, due semiannually through 2008	556,791	7,733,183
1997 Series Higher Education Revenue Bonds - University of Rhode Island Issue, 4% to 5.31%, due semiannually through 2015	1,835,000	1,890,000
Series 1999 A University of Rhode Island Auxiliary Enterprise Revenue Issue, 4.75% to 5.50%, due semiannually through 2030	18,745,000	19,085,000
Series 1999 B University of Rhode Island Educational and General Issue, 4.75% to 5.625%, due semiannually through 2030	3,565,000	3,630,000
Series 2000 B University of Rhode Island Educational and General Issue, 4.50% to 5.70%, due semiannually through 2031	40,085,000	40,125,000
Series 2002 University of Rhode Island Educational and General Revenue Issue, 3% to 4.40%, due semiannually through 2016	7,975,000	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	3,100,000
Series 2003 B Facility Revenue Refunding Bonds, Auxiliary Enterprise Revenue Issue, 2% to 5%, due semiannually through 2023	13,013,108	—
Series 2003 C Facility Revenue Refunding Bonds, Educational and General Revenue Issue, 2% to 5%, due semiannually through 2023	7,592,256	—
	\$ 96,952,155	96,348,233

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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.

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 statement of net assets. 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: 1) 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; 2) all legally available revenues of the Board of Governors derived from the University, and State appropriations for the University except auxiliary enterprise revenues; and 3) 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: 1) 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; 2) all auxiliary enterprise revenues derived from the University; and 3) moneys in the debt service reserve fund for the Series 1999 A Bonds.

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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.

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: 1) 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; 2) 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 3) 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: 1) fund renovations and improvements to the University's residence halls and surrounding landscaping on the Kingston Campus; 2) purchase a debt service reserve fund surety bond for the Series 1999 A Bonds; and 3) 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: 1) 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; 2) purchase a debt service reserve fund surety bond for the Series 1999 B Bonds; and 3) 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 bonds were issued for the benefit of RIC and, therefore, are not included in the accompanying statement of net assets. 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: 1) the construction and equipping of: A) 1,000 parking spaces; and B) a controlled parking lot system providing additional transit shelters; 2) parking meters and improved shuttle service; and 3) 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.

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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.

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. The bonds are collateralized by the revenues of the auxiliaries operated under the authority of the Board of Governors.

The aforementioned bond agreements provide various restrictive covenants. The University was in compliance with such covenants at June 30, 2004 and 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:			
2005	\$ 1,185,107	4,883,088	6,068,195
2006	2,675,988	4,827,020	7,503,008
2007	2,758,860	4,743,049	7,501,909
2008	2,847,247	4,656,155	7,503,402
2009	2,968,572	4,404,967	7,373,539
2010-2014	16,782,334	20,074,101	36,856,435
2015-2019	18,773,299	15,994,811	34,768,110
2020-2024	23,633,511	10,451,549	34,085,060
2025-2029	17,950,000	4,729,574	22,679,574
2030-2033	7,377,237	524,971	7,902,208
	<u>\$ 96,952,155</u>	<u>75,289,285</u>	<u>172,241,440</u>

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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.

The University also obtained a \$200,000 loan from the University of Rhode Island Foundation to finance certain renovations to conference and camping facilities located at the W. Alton Jones Campus. The loan bears 6.5% interest, and the principal and interest payable semiannually through fiscal 2010 amount to \$34,400.

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

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Year ending June 30:			
2005	\$ 73,844	10,824	84,668
2006	75,377	9,291	84,668
2007	77,009	7,659	84,668
2008	28,479	5,921	34,400
2009	30,330	4,070	34,400
2010	32,289	2,111	34,400
	<u>\$ 317,328</u>	<u>39,876</u>	<u>357,204</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.

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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.

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. Additionally, 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

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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.

On September 6, 2001, the University, by and through the Board of Governors for Higher Education, entered into a lease-purchase agreement with Phi Sigma Kappa Alumni Housing Corporation of Rhode Island, Inc. (the Alumni Corporation) for a fraternity house. The lease covers a period of ten years commencing on April 1, 2002 and ending on March 31, 2012. Under the terms of the agreement, the University shall pay the Alumni Corporation \$150,600 in two equal installments of \$75,300 on April 1 and October 1 of each year. At any time after the expiration of one year, the University has the sole and exclusive right to acquire the title and ownership of the fraternity house from the Alumni Corporation. The University accounted for this lease as a capital lease and recorded the fraternity house at \$1,187,844, the present value of the minimum lease payments.

The University also 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.

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

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Year ending June 30:			
2005	\$ 1,150,355	741,325	1,891,680
2006	1,028,648	691,425	1,720,073
2007	957,896	650,250	1,608,146
2008	987,340	609,229	1,596,569
2009	861,299	566,086	1,427,385
2010-2014	4,611,501	2,186,613	6,798,114
2015-2019	5,335,000	978,146	6,313,146
2020-2021	1,230,000	25,625	1,255,625
	<u>\$ 16,162,039</u>	<u>6,448,699</u>	<u>22,610,738</u>

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(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>2004</u>	<u>2003</u>
Restricted – expendable:		
Loans	\$ 2,967,091	2,770,459
Capital programs	9,887,564	12,244,953
Debt service	756,942	3,257,283
Sponsored research	173,070	53,588
	<u>\$ 13,784,667</u>	<u>18,326,283</u>

(10) Unrestricted Net Assets

The University's unrestricted net assets at June 30 were internally designated for goods and services that have not yet been received and normal working capital balances maintained for departmental activities.

(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, 2004 and 2003, the University is a guarantor of loans to fraternities and sororities in the amount of \$576,032 and \$582,282, 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, 2004, the payments due under such an agreement totaled \$200,000.

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.

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The University, along with RIC and CCRI, is undergoing a technology modernization of core administrative systems. While the University and RIC are implementing PeopleSoft administrative systems, CCRI is implementing Banner/SCT administrative systems. The University's PeopleSoft procurement effort was effectuated systemwide through the Office of Higher Education and is being financed over a seven-year period beginning in fiscal year 2000 at a total cost of approximately \$8.5 million, of which the 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:

	<u>2004</u>	<u>2003</u>
Compensation and benefits	\$ 212,741,962	211,121,047
Supplies and services	80,937,291	76,916,961
Depreciation and amortization	14,598,737	12,123,084
Scholarships and fellowships	13,006,488	10,393,676
	<u>\$ 321,284,478</u>	<u>310,554,768</u>

(13) State Appropriation

(a) Direct Appropriations

Pursuant to the Rhode Island General Law 16-59-9, the legislature-enacted budget reflects the budget passed by the General Assembly and signed by the Governor as well as any reappropriations made by the Governor for the 2004 fiscal year. Once the State budget is established, the Board approves the allocation of the State appropriation to the University, RIC, CCRI, and the Office of Higher Education. The Board also approves the unrestricted and restricted original allocations for the fiscal year.

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

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(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 years 2004 and 2003, the State allocated \$4.57 million and \$5.36 million, respectively, to the University for asset protection. The State also allocated \$3.2 million and \$6.8 million, respectively, for the construction of the Thomas Ryan Center and Boss Athletic Complex in fiscal 2003.

(c) State Contributed Capital

In November 1996, the Rhode Island voters approved 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 \$0.27 and \$3.12 on the renovations of the three buildings at its Kingston Campus during fiscal years 2004 and 2003, respectively.

In November 2000, the Rhode Island voters approved the issuance of \$36.95 million General Obligation Bonds to fund improvements to the University, RIC, and CCRI. The bonds provide 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 construction of a building for the Newport campus of CCRI. During fiscal years 2004 and 2003, the University spent \$1.84 million and \$9.06 million, respectively.

The expenditures funded from the proceeds of the above-mentioned general obligation bonds and capitalized during fiscal years 2004 and 2003 totaled \$3,556,877 and \$13,249,020, respectively.

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

	<u>2004</u>	<u>2003</u>
Direct appropriations	\$ 83,073,837	81,989,847
State Capital Plan Funds	4,566,000	9,382,037
State contributed capital	<u>2,112,229</u>	<u>13,249,020</u>
	<u>\$ 89,752,066</u>	<u>104,620,904</u>

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(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 \$7,621,124 and \$7,453,537 during 2004 and 2003, 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 \$340,594 and \$674,044 during 2004 and 2003, 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.

Pre-65 Medical coverage			
Years of service	Age at retirement	Employer's share	Employee's share
10-15	60	50%	50%
16-22	60	70%	30%
23-27	60	80%	20%
28+	Any	90%	10%
28+	60	100%	0%
35+	Any	100%	0%

Post-65 Medicare supplemental coverage			
Years of service		Employer's share	Employee's share
10-15		50%	50%
16-19		70%	30%
20-27		90%	10%
28+		100%	0%

Other employees of the University (principally civil service personnel) participate in the Employees' Retirement System of the State of Rhode Island (System), a multiple-employer, cost-sharing, public employee retirement system. The plan provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. The level of benefits provided to state 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 \$33,352,320 and \$32,457,762 for the years ended June 30, 2004 and 2003, respectively. The University's total payroll expense for the years ended June 30, 2004 and 2003 was \$160,868,787 and \$165,769,386, respectively.

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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 9.60% and 7.68% of salaries paid for the years ending June 30, 2004 and 2003, respectively. In addition, the University is required to contribute 1.30% and 1.17% in 2004 and 2003, respectively, for post-retirement health benefits. Employees contributed \$2,918,328 and \$2,840,000, respectively, and the University's contribution to the System for the years ended June 30, 2004, 2003, and 2002 were \$3,653,403, \$2,927,000, and \$2,212,000, respectively, representing 100% of the required contribution for each of the three years.

Employees covered by the Board of Governors retiree medical plan contributed 0.25% of their gross salaries, or approximately \$341,000 and \$337,000 during fiscal years 2004 and 2003.

(15) 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 2004 and 2003 share of capital expenditures amounted to \$27,691 and \$16,292, 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 \$286,554 and \$408,315 in 2004 and 2003, respectively. Financial information may be obtained at the Town of South Kingstown, 180 High Street, Wakefield, Rhode Island 02879.

UNIVERSITY OF RHODE ISLAND
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Notes to Financial Statements

June 30, 2004 and 2003

(16) Pass Through Grants

The University distributed \$43,244,428 and \$40,169,094 during fiscal 2004 and 2003, respectively, 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 Event

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

UNIVERSITY OF RHODE ISLAND
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Schedule of Expenditures of Federal Awards

Year ended June 30, 2004

Federal Grantor/Pass-Through Grantor/Program Title	CFDA Number	Federal Expenditures
Student Financial Assistance Cluster		
<i>U.S. Department of Education</i>		
Direct Programs:		
Federal Supplemental Educational Opportunity Grant Program	84.007	\$ 1,391,123
Federal Work Study Program	84.033	1,118,051
Federal Pell Grant Program	84.063	5,858,077
Federal Perkins Loan Program (note 3)	84.038	1,274,173
Federal Direct Loan Program (note 4)	84.268	44,410,964
<i>U.S. Department of Health and Human Services</i>		
Health Professional Student Loan Program (note 3)	93.342	170,000
Nursing Student Loan Program (note 3)	93.364	259,475
Total Student Financial Assistance Cluster		54,481,863
Research and Development Cluster		
<i>U.S. Department of Agriculture</i>		
Direct Programs:		
Agricultural Research – Basic and Applied Research	10.001	117,992
Grants for Agricultural Research, Special Research Grants	10.200	324,190
Grants for Agricultural Research – Competitive Research Grants	10.206	458,034
Higher Education Challenge Grants	10.217	47,033
Buildings and Facilities Program	10.218	984,387
Higher Education Multicultural Scholars Program	10.220	47,382
Initiative for Future Agriculture and Food Systems	10.302	75,034
Fund For Rural American – Research, Education, and Extension Activities	10.224	(912)
Integrated Programs	10.303	1,166,342
Crop Insurance	10.450	113,757
Cooperative Extension Service	10.500	1,095
Formula Funds:		
Payments to Agricultural Experiment Stations Under the Hatch Act	10.203	2,278,296
Cooperative Extension Service	10.500	283,300
Passed Through Subcontracts:		
Agricultural Research – Basic and Applied Research	10.001	209,079
Grants for Agricultural Research, Special Research Grants	10.200	96,708
Grants for Agricultural Research – Competitive Research Grants	10.206	970
Initiative for Future Agriculture and Food Systems	10.302	7,033
Integrated Programs	10.303	39,356
Homeland Security – Agricultural	10.304	26,897
Passed Through Other State Agencies:		
State Administrative Matching Grants for Food Stamp Program	10.561	258,308
Cooperative Forestry Assistance	10.664	26,132
Total U.S. Department of Agriculture		6,560,413

See accompanying notes to Schedule of Expenditures of Federal Awards.

UNIVERSITY OF RHODE ISLAND
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Schedule of Expenditures of Federal Awards

Year ended June 30, 2004

Federal Grantor/Pass-Through Grantor/Program Title	CFDA Number	Federal Expenditures
<i>U.S. Department of Commerce</i>		
Direct Programs:		
Sea Grant Support	11.417	\$ 2,808,810
Fisheries Development and Utilization Research and Development Grants Cooperative Agreements Program	11.427	361,209
Undersea Research	11.430	(521)
Climate and Atmospheric Research	11.431	211,023
Unallied Management	11.454	13,154
Cooperative Science and Education Program	11.455	297,096
Special Oceanic and Atmospheric Projects	11.460	23,629
CIAMS and CITM	11.468	9,951
Coastal Ocean Program	11.478	323,871
Passed Through Subcontracts:		
Coastal Zone Management Administration Awards	11.419	58,730
Coastal Zone Management Estuarine Research Reserves	11.420	32,206
Fisheries Development and Utilization Research and Development Grants and Cooperative Agreements Program	11.427	35,638
Undersea Research	11.430	21,276
Climate and Atmospheric Research	11.431	23,542
Environmental Sciences, Applications, Data and Education	11.440	22,871
Special Oceanic and Atmospheric Programs	11.460	66,563
Office of Administration Special Program	11.470	10,301
Passed Through Other State Agencies:		
Coastal Zone Management Estuarine Research Reserves	11.420	280,812
Total U.S. Department of Commerce		<u>4,600,161</u>
<i>U.S. Department of Defense</i>		
Direct Programs:		
Department of Defense Awards with no CFDA Numbers	12.000	3,254
Basic and Applied Scientific Research	12.300	6,109,503
Basic Scientific Research	12.431	330,804
Air Force Defense Research Sciences Program	12.800	11,549
Passed Through Subcontracts:		
Basic and Applied Scientific Research	12.300	833,542
Basic Scientific Research	12.431	97,288
Total U.S. Department of Defense		<u>7,385,940</u>
<i>U.S. Department of Housing and Urban Development</i>		
Direct Programs:		
Community Outreach Partnership Center Program	14.511	3,867
Community Development Work-Study Program	14.512	3,078
Passed Through Subcontracts:		
Community Development Block Grants/Economic Development Initiative	14.246	42,758
Resident Opportunity and Supportive Services	14.870	(5,359)
Total U.S. Department of Housing and Urban Development		<u>44,344</u>

See accompanying notes to Schedule of Expenditures of Federal Awards.

UNIVERSITY OF RHODE ISLAND
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Schedule of Expenditures of Federal Awards

Year ended June 30, 2004

Federal Grantor/Pass-Through Grantor/Program Title	CFDA Number	Federal Expenditures
<i>U.S. Department of Interior</i>		
Direct Programs:		
Fish, Wildlife, and Parks Programs on Indian Lands	15.039	\$ 173,354
Water Reclamation and Reuse Program	15.504	42,392
Fish and Wildlife Management Assistance	15.608	32,832
Coastal Wetlands Planning, Protection and Restoration Act	15.614	15,972
Assistance to State Water Resources Research Institutes	15.805	75,160
U.S. Geological Survey – Research and Data Acquisition	15.808	334,580
National Cooperative Geologic Mapping Program	15.810	38,867
Passed Through Other State Agencies:		
Fish, Wildlife, and Parks Programs on Indian Lands	15.039	74,919
Fish and Wildlife Management Assistance	15.608	97
U.S. Geological Survey – Research and Data Acquisition	15.808	369,258
Total U.S. Department of Interior		<u>1,157,431</u>
<i>U.S. Department of Justice</i>		
Direct Programs:		
Law Enforcement Assistance – FBI Advanced Police Training	16.300	88,636
Grants to Combat Violent Crimes Against Women on Campuses	16.525	139,624
Crime Laboratory Improvement – Combined Offender DNA Index System	16.564	22,080
Drug-Free Communities Support Program	16.729	(1,225)
Passed Through Subcontracts:		
National Institute of Justice Domestic Anti-Terrorism Technology	16.565	227,232
Total U.S. Department of Justice		<u>476,347</u>
<i>U.S. State Department</i>		
Direct Programs:		
State Department Awards with no CFDA Numbers	19.000	2,237,939
Cooperative Agreements	19.420	43,305
Passed Through Subcontracts:		
State Department with no CFDA Numbers	19.000	11,195
		<u>2,292,439</u>
<i>U.S. Department of Transportation</i>		
Passed Through Subcontracts:		
Highway Planning and Construction	20.205	16,069
University Transportation Centers Program	20.701	1,463,910
Passed Through Other State Agencies:		
Highway Planning and Construction	20.205	12,977
Total U.S. Department of Transportation		<u>1,492,956</u>
<i>National Aeronautics & Space Administration</i>		
Direct Programs:		
Aerospace Education Services Program	43.001	17,503
Technology Transfer	43.002	1,311,865
Passed Through Subcontracts:		
Aerospace Education Services Program	43.001	23,536
Technology Transfer	43.002	259,947
Total National Aeronautics and Space Administration		<u>1,612,851</u>

See accompanying notes to Schedule of Expenditures of Federal Awards.

UNIVERSITY OF RHODE ISLAND
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Schedule of Expenditures of Federal Awards

Year ended June 30, 2004

Federal Grantor/Pass-Through Grantor/Program Title	CFDA Number	Federal Expenditures
<i>National Foundation on the Arts and the Humanities</i>		
Direct Programs:		
Promotion of Humanities – Fellowships and Stipends	45.160	\$ 28,185
Total National Foundation on the Arts and the Humanities		<u>28,185</u>
<i>National Science Foundation</i>		
Direct Programs:		
Engineering Grants	47.041	677,300
Mathematical and Physical Sciences	47.049	263,147
Geosciences	47.050	2,022,665
Social, Behavioral, and Economic Sciences	47.075	139,526
Computer and Information Science and Engineering	47.070	205,158
Biological Sciences	47.074	5,423,684
Education and Human Resources	47.076	955,044
Polar Programs	47.078	219,490
Passed Through Subcontracts:		
National Science Foundation Awards with no CFDA Numbers	47.000	1,425
Engineering Grants	47.041	51,693
Mathematical and Physical Sciences	47.049	416
Geosciences	47.050	704,369
Biological Sciences	47.074	77
Education and Human Resources	47.076	147,598
Total National Science Foundation		<u>10,811,592</u>
<i>Environmental Protection Agency</i>		
Direct Programs:		
Surveys, Studies, Investigations, Demonstrations, and Training	66.436	267
National Estuary Program	66.456	269,472
Wetlands Protection – Development Grants	66.461	3,716
Water Quality Cooperative Agreements	66.463	37,102
Environmental Protection – Consolidated Research	66.500	464,164
Surveys, Studies, Investigations, and Special Purpose Grants	66.606	102,359
Training and Fellowships for the Environmental Protection Agency	66.607	17,349
Pollution Prevention Grants Program	66.708	81,826
Environmental Education Grants	66.951	15,044
Passed Through Subcontracts:		
Water Pollution Control – State and Interstate Program Support	66.419	73,395
Surveys, Studies, Investigations, and Special Purpose Accounts	66.436	5,951
Environmental Protection – Consolidated Research	66.500	130,990
Surveys, Studies, Investigations, and Special Purpose Grants	66.606	145,605
Total Environmental Protection Agency		<u>1,347,240</u>

See accompanying notes to Schedule of Expenditures of Federal Awards.

UNIVERSITY OF RHODE ISLAND
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Schedule of Expenditures of Federal Awards

Year ended June 30, 2004

Federal Grantor/Pass-Through Grantor/Program Title	CFDA Number	Federal Expenditures
<i>U.S. Department of Energy</i>		
Direct Programs:		
Office of Energy Research Financial Assistance Program	81.049	\$ 129,584
Fossil Energy Research and Development	81.089	260
Total U.S. Department of Energy		129,844
<i>U.S. Department of Health & Human Services</i>		
Direct Programs:		
Biological Response to Environmental Health Hazards	93.113	268,113
Mental Health Research Grants	93.242	1,967
Advanced Education Nursing Grant Program	93.247	280,800
Alcohol Research Programs	93.273	969,419
Centers for Disease Control and Prevention – Investigations and Technical Assistance	93.283	63,168
Professional Nurse Traineeships	93.358	40,018
Nursing Research	93.361	375,095
Research Infrastructure	93.389	3,430,437
Cancer Cause and Prevention Research	93.393	843,345
Cancer Detection and Diagnosis Research	93.394	358,806
Cancer Treatment Research	93.395	58,744
Cancer Biology Research	93.396	317,394
Medicaid Interstructure Grants to Support the Competitive Employment of People with Disabilities	93.768	524,226
Microbiology and Infectious Diseases Research	93.856	373,278
Pharmacology, Physiology, and Biological Chemistry Research	93.859	246,603
Aging Research	93.866	634,591
Medical Library Assistance	93.879	23,784
Health Care and Other Facilities	93.887	118,424
Cooperative Agreements for State-Based Comprehensive Breast and Cervical Cancer Early Detection Program	93.919	102,337
Grants for Geriatric Education Centers	93.969	432,948
Federal Assistance to Individuals and Households – Disaster Housing	97.049	47,895
Passed Through Other State Agencies:		
Family Support Payments to States – Assistance Payments	93.569	132,164
Passed Through Subcontracts:		
Department of Health and Human Services Awards with no CFDA Numbers	93.000	28,709
Grants to Increase Organ Donations	93.134	225,206
Mental Health Research Grants	93.242	1,726
Alcohol Research Programs	93.273	46,947
Drug Abuse Research Programs	93.279	7,632
Cancer Treatment Research	93.395	142,236
Cancer Control	93.399	61,838
Heart and Vascular Diseases Research	93.837	1,589
Allergy, Immunology, and Transplantation Research	93.855	23,483
Microbiology and Infectious Diseases Research	93.856	148,910
Population Research	93.859	196,345
Advanced Hypothermia System	93.989	14,627
Total U.S. Department of Health & Human Services		10,542,804

See accompanying notes to Schedule of Expenditures of Federal Awards.

UNIVERSITY OF RHODE ISLAND
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Schedule of Expenditures of Federal Awards

Year ended June 30, 2004

Federal Grantor/Pass-Through Grantor/Program Title	CFDA Number	Federal Expenditures
Corporation for National and Community Service		
Passed Through Other State Agencies:		
Learn and Serve America – School and Community Based Programs	94.004	\$ 6,488
AmeriCorps	94.006	34,229
Total Corporation for National and Community Service		<u>40,717</u>
U.S. Department of Social Security Administration		
Social Security – Disability Insurance	96.001	38,717
Total U.S. Department of Social Security Administration		<u>38,717</u>
Total Research and Development Cluster		<u>48,561,981</u>
Other Programs		
U.S. Department of Education		
Direct Programs:		
Fund for the Improvement of Postsecondary Education	84.116	137,460
Fund for the Improvement of Education	84.215	98,850
Tech-Prep Education	84.243	75,333
Innovative Education Program Strategies	84.298	282,244
Education Technology State Grants	84.318	286,211
Special Education – Research and Innovation to Improve Services and Results for Children with Disabilities	84.324	9
Demonstration Projects to Ensure Students with Disabilities Receive a Higher Education	84.333	240,663
Passed Through Subcontracts:		
Fund for the Improvement of Post-Secondary Education	84.116	7,062
Magnet Schools Assistance	84.165	944
Fund for the Improvement of Education	84.215	20,530
Twenty-First Century Community Learning Centers	84.287	18,572
Gaining Early Awareness and Readiness for Undergraduate Programs	84.334	11,530
Passed Through Other State Agencies:		
Innovative Education Program Strategies	84.298	12,347
Special Education – State Program Improvement Grants	84.323	24,195
Total Department of Education		<u>1,215,950</u>
Total Expenditures of Federal Awards		<u>\$ 104,259,794</u>

See accompanying notes to Schedule of Expenditures of Federal Awards.

UNIVERSITY OF RHODE ISLAND
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Notes to Schedule of Expenditures of Federal Awards

June 30, 2004

(1) Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards (the Schedule) summarizes the expenditures of the University of Rhode Island (the University) under programs of the federal government for the year ended June 30, 2004. Because the Schedule presents only a selected portion of the operations of the University, it is not intended to and does not present the financial position and revenues and expenditures of the University.

For purposes of the Schedule, federal awards include all grants, contracts and similar agreements entered into directly between the University and agencies and departments of the federal government and all sub awards to the University by nonfederal organizations pursuant to federal grants, contracts and similar agreements.

(2) Summary of Significant Accounting Policies

(a) Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards is presented using the accrual basis of accounting.

(b) Contingencies

All funds expended in conjunction with government grants and contracts are subject to audit by governmental agencies. In the opinion of management, any liability resulting from these audits will not have a material effect on the University's financial position.

(3) Federal Perkins, Health Professional Student, and Nursing Student Loan Programs

During the year ended June 30, 2004, \$1,274,173 in loans were advanced under the Federal Perkins Loan Program. \$170,000 in loans were advanced under the Health Professional Student Loan Program and \$259,475 were advanced under the Nursing Loan Program. As of June 30, 2004, loan balances receivable under the Perkins, Health Professional Student, and Nursing Loan Programs were \$8,251,642, \$1,013,706 and \$1,321,218, respectively.

(4) Federal Direct Loans

The amount of loans advanced during the year to students and parents under the Federal Direct Loan Program was \$44,410,964.

Loan balances receivable under the Direct Loan Program were not available, as the University does not maintain these records.