

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, 2005

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, 2005

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

**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, 2005, 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, 2005, 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 05-1 through 05-5.

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 05-1 through 05-5.

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

Exhibit I

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.

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

September 23, 2005



KPMG LLP
600 Fleet Center
50 Kennedy Plaza
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 business-type activities and the discretely presented component units of the University of Rhode Island (the University) (a component unit of the State of Rhode Island and Providence Plantations) as of and for the year ended June 30, 2005, which collectively comprise the University's basic financial statements, and have issued our report thereon dated September 23, 2005, which included a reference to the reports of other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Our consideration of internal control over financial reporting and our tests of compliance with certain provisions of laws, regulations, contracts and grants, and other matters did not include the entities audited by the other auditors referred to in the previous paragraph. The findings, if any, of those other auditors are not included herein.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the University's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions 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 23, 2005.

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 23, 2005

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, 2005

(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 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 Work Study Program	84.033
Federal Perkins Loan Program	84.038
Federal Pell Grant Program	84.063
Federal Direct Loan Program	84.268
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 \$7 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.

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

None.

UNIVERSITY OF RHODE ISLAND
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Schedule of Findings and Questioned Costs

Year ended June 30, 2005

(3) Findings and Questioned Costs Relating to Federal Awards

Reference Number 05-1

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.

Four of the 30 students tested that received a Federal Direct Loan and ceased enrollment 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

\$54,426 (amount of total loans awarded and disbursed to the six students without evidence of any 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 federal requirements regarding exit interviews.

Grantees' Response

The University concurs with the recommendation. The University will diligently follow the policies and procedures currently in place to conduct exit interviews. As recommended by the Department of Education, the University encourages borrowers to complete interactive electronic exit counseling on the Direct Loan Servicing Online web site.

Of the 30 students tested that received Federal Direct Loans and ceased at least half-time enrollment, exit counseling material for 3 students was mailed after the 30-day time frame and 1 student did not have evidence that an exit interview was mailed.

The University will strengthen its procedures of mailing exit counseling materials to those students who withdraw or are retroactively administratively withdrawn, take a Leave of Absence, or drop all classes without formally withdrawing from the University.

UNIVERSITY OF RHODE ISLAND
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Schedule of Findings and Questioned Costs

Year ended June 30, 2005

Reference Number 05-2

Federal Agency: U.S. Department of Education

CFDA Number: 84.268

Program: Federal Direct Loan Program

Description

Institutions must complete and return within 30 days of receipt the roster file sent by the NSLDS. Once received, institutions must update the file for changes in student status, report the effective date of the status, and submit the changes to the NSLDS. Unless an institution expects to complete its next roster file within 60 days, the institution must notify NSLDS within 30 days of notification of a student's change in status.

Student status was not transmitted to the NSLDS within the required timeframe for five of the 30 students selected for status change testwork.

Questioned Costs

None.

Recommendation

We recommend the University strengthen its procedures over notification of status changes to NSLDS to ensure notification occurs in a timely and accurate manner.

Grantees' Response

The University concurs with the recommendation. The University has taken steps to strengthen its procedures of notification of student's change of status to the National Student Loan Clearinghouse.

Reference Number: 05-3

Federal Agency: U.S. Department of Education

CFDA Number: 84.038

Program: Federal Perkins Loan Program

Description

Perkins loan regulations require an institution to maintain Perkins loan records for each student, which include information collected at initial and exit loan counseling sessions.

We noted nine student files that lacked evidence to indicate that an initial interview had been performed.

Questioned Costs

None.

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Schedule of Findings and Questioned Costs

Year ended June 30, 2005

Recommendation

The University should enhance its policies and procedures to ensure all documentation is properly maintained in accordance with federal regulations.

Grantees' Response

The University concurs with the recommendation. The University has changed the procedures for the new academic year and has implemented the Truth in Lending Entrance information (TIL). This information is available for all Perkins borrowers and the University will not accept promissory notes without the TIL attached.

Reference Number 05-4

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 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 Federal Direct Loan or Federal Perkins Loan funds and their right to cancel, whether written or electronically.

UNIVERSITY OF RHODE ISLAND
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Schedule of Findings and Questioned Costs

Year ended June 30, 2005

Grantees' Response:

The University concurs with the recommendation. The University has implemented a procedure to notify students of the date and amount of their loan disbursements and their right to cancel loan funds.

Reference Number 05-5

Federal Agency: U.S. Department of Education

CFDA Number: 84.268

Program: Federal Direct Loan Program

Description

Per federal regulations, Title IV refund calculations are required to be completed no later than 30 days after the date the institution determines the student withdrew.

Through our testwork performed over Title IV refunds, we noted that 7 refund calculations that were not performed within the 30-day time requirement.

Questioned Costs

None.

Recommendation

The University should take the necessary procedures to ensure that Title IV refund calculations are being performed in accordance with federal regulations.

Grantees' Response:

The University concurs with the recommendation. The University will diligently follow the policies and procedures currently in place to conduct Title IV calculations within the 30 day time frame requirement.

UNIVERSITY OF RHODE ISLAND
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Financial Statements and Supplementary
Schedule of Expenditures of Federal Awards

June 30, 2005

(With Independent Auditors' Report Thereon)



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

Independent Auditors' Report

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

We have audited the accompanying statements of net assets of the business-type activities and the discretely presented component units of the University of Rhode Island (the University) (a component unit of the State of Rhode Island and Providence Plantations) as of June 30, 2005 and 2004, and the related statements of revenues, expenses, and changes in net assets, and, where applicable, cash flows for the years then ended. These financial statements are the responsibility of the University's management. Our responsibility is to express opinions 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the University's internal control over financial reporting. Accordingly, we express no such opinion. 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 a reasonable basis for our opinions.

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 business-type activities and the discretely presented component units of the University as of June 30, 2005 and 2004, and the respective changes in financial position, and where applicable, cash flows thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Exhibit IV

In accordance with *Government Auditing Standards*, we have also issued our report dated September 23, 2005, 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 2005 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 2005 basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the 2005 basic financial statements and, in our opinion, is fairly presented in all material respects in relation to the 2005 basic financial statements taken as a whole.

The Management's Discussion and Analysis 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 23, 2005

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, 2005

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, 2005 and the results of operations for the year then ended, with selected comparative information for the years ended June 30, 2004 and 2003. 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 14,100 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
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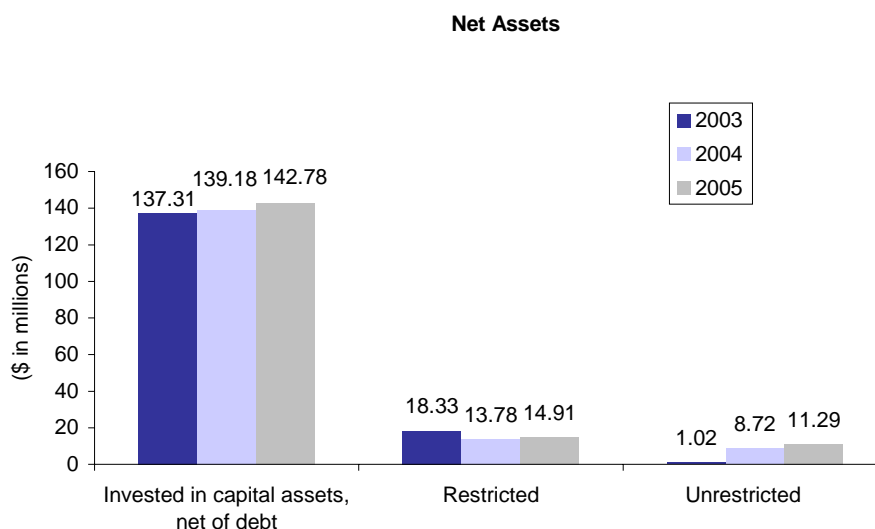
Required Supplementary Information
Management’s Discussion and Analysis
(Unaudited)
June 30, 2005

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 the 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 position for the year ended June 30, 2005 showed a net loss of \$4.09 million for the year, after nonoperating revenues and expenses, compared with a net loss of \$2.10 million and \$8.68 million for fiscal 2004 and 2003, respectively. The \$4.09 million net loss in fiscal 2005 resulted from the increase in operating expenses such as faculty and staff salaries, fringe benefits, utilities, consulting fees related to systems implementation, and depreciation, which increased by \$0.84 million over fiscal 2004. The increase in net loss from fiscal 2004 to fiscal 2005 was \$1.99 million. However, with the infusion of State capital appropriations and private funds totaling \$11.39 million, net assets increased by \$7.30 million during fiscal 2005 compared with \$5.02 million during the previous year. These funds were used to finance about \$3.43 million or 40% of the costs of construction projects completed or in process in 2005.

The following chart displays the components of the University’s net assets for the fiscal years ended June 30, 2005, 2004, and 2003.



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Required Supplementary Information
Management's Discussion and Analysis
(Unaudited)
June 30, 2005

On June 30, 2005, 2004, and 2003, the University's total assets of \$423.60 million, \$337.76 million, and \$331.56 million exceeded its total liabilities of \$254.62 million, \$176.08 million, and \$174.90 million by \$168.98 million, \$161.68 million, and \$156.66 million, respectively. The resulting net assets are summarized in the following categories (\$ in millions):

	2005	2004	2003
Invested in capital assets, net of related debt	\$ 142.78	139.18	137.31
Restricted expendable	14.91	13.78	18.33
Unrestricted	11.29	8.72	1.02
Total net assets	\$ 168.98	161.68	156.66

Overview of the Financial Statements

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

The University of Rhode Island Foundation (the Foundation) and the 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 the 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 the 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 the Alumni Association, the majority of resources received or held by the Foundation and the Alumni Association are restricted to the activities of the University by the donors. Because these resources held by the Foundation and the Alumni Association can only be used by or are for the benefit of the University, the Foundation and the 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.

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

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Management's Discussion and Analysis
(Unaudited)
June 30, 2005

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 20 to 22 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 23 to 49 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 \$168.98 million, \$161.68 million, and \$156.66 million at the close of fiscal years 2005, 2004, and 2003, respectively.

By far the largest portion of the University's net assets, \$142.78 million, \$139.18 million, and \$137.31 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, construct, improve, or rehabilitate 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 the related debt. 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 also 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.

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Required Supplementary Information
Management's Discussion and Analysis
(Unaudited)
June 30, 2005

The University's condensed net assets are presented below.

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

	<u>2005</u>	<u>2004</u>	<u>2003</u>
Current assets	\$ 76.39	66.04	53.07
Noncurrent assets	347.21	271.72	278.49
Total assets	<u>\$ 423.60</u>	<u>337.76</u>	<u>331.56</u>
Current liabilities	48.68	38.81	37.93
Noncurrent liabilities	205.94	137.27	136.97
Total liabilities	<u>\$ 254.62</u>	<u>176.08</u>	<u>174.90</u>
Net assets:			
Invested in capital assets, net of related debt	\$ 142.78	139.18	137.31
Restricted, expendable	14.91	13.78	18.33
Unrestricted	11.29	8.72	1.02
Total net assets	<u>\$ 168.98</u>	<u>161.68</u>	<u>156.66</u>

The University's current assets include cash and cash equivalents, cash held by the State Treasurer, accounts receivable, inventories, and prepayments, while current liabilities consist of accounts payable and accrued expenses, deferred revenues, funds held for others, and the current portion of compensated absences and long-term debts. Compensated absences represent accumulated vacation and sick leave and deferred compensation that will be used or paid in future years. The current ratio (current assets divided by current liabilities), which measures the University's liquidity, has remained positive: 1.57 to 1 and 1.70 to 1 as of June 30, 2005 and 2004, respectively.

During fiscal 2005, the University's net cash and cash equivalents increased by \$4.07 million over last year as a result of the increase in net assets and prudent cash management. Previous year's \$3.66 million increase is largely attributed to the increase in net assets.

One of the major components of the University's noncurrent assets are the funds on deposit with the bond trustee totaling \$72.67 million as of June 30, 2005. This amount includes the \$60.18 million unspent proceeds of Series 2004 Bonds, which are being used to finance the construction of a 440-bed apartment unit and a 360-suite-style residence hall. These additional housing facilities, which are scheduled to go online in the fall of 2006, will have positive impact on student enrollment especially among transfer students who seek on-campus housing. It is the University's goal to increase transfer student enrollment by 20% over the three-year period of the strategic plan.

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During fiscal years 2005, 2004, and 2003, the University's net assets increased by \$7.30 million, \$5.02 million, and \$21.15 million, respectively, which is largely due to capital and private funds received. The University closed fiscal 2005, 2004, and 2003 with positive unrestricted net assets of \$11.29 million, \$8.72 million, and \$1.02 million, respectively.

The restricted expendable net assets consist of resources that are subject to external restrictions on how they must be used, and they represent 9%, 9%, and 12% of the University's net assets at June 30, 2005, 2004, and 2003, respectively.

Net assets that are not subject to restrictions imposed by creditors, grantors, contributors, laws, regulations or enabling legislation are classified as unrestricted net assets. As of June 30, 2005, 2004, and 2003, the University's unrestricted net assets represent 7%, 5%, and 1%, respectively, of the net assets. At year end, all of these net assets are designated or committed for goods and services that have not yet been received and normal working capital for auxiliary enterprise and departmental activities.

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The University's condensed revenues, expenses and changes in net assets are presented below.

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

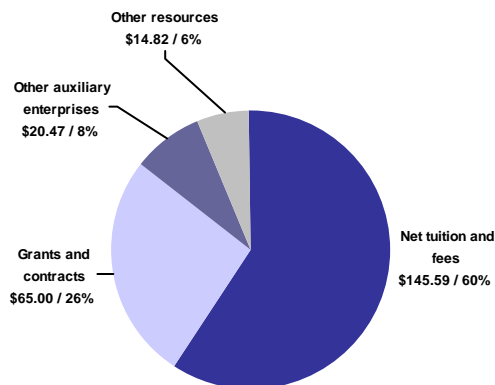
	<u>2005</u>	<u>2004</u>	<u>2003</u>
Operating revenues:			
Tuition and fees, net of tuition waivers and remissions	\$ 145.59	131.42	112.06
Operating grants and contributions	65.00	66.17	68.78
Other sources	35.29	33.98	33.55
Total operating revenues	<u>245.88</u>	<u>231.57</u>	<u>214.39</u>
Operating expenses:			
Salaries and benefits	222.42	212.78	210.48
Operating expenses	40.78	36.35	34.68
Scholarships, grants and contracts	9.60	9.11	7.71
Auxiliaries	49.51	48.45	45.57
Depreciation and amortization	15.44	14.59	12.12
Total operating expenses	<u>337.75</u>	<u>321.28</u>	<u>310.56</u>
Net operating loss	<u>(91.87)</u>	<u>(89.71)</u>	<u>(96.17)</u>
Nonoperating revenues (expenses):			
State appropriation	82.91	82.82	81.99
Net investment income	1.49	0.39	0.80
Private gifts	9.00	10.58	10.40
Interest expense	(5.62)	(6.17)	(5.70)
Total nonoperating revenues	<u>87.78</u>	<u>87.62</u>	<u>87.49</u>
Loss before other revenues, expenses, gains or losses	(4.09)	(2.09)	(8.68)
Capital appropriations	6.21	4.57	9.38
State contributed capital	3.20	2.11	13.25
Capital gifts	1.98	0.43	7.20
Increase in net assets	<u>7.30</u>	<u>5.02</u>	<u>21.15</u>
Net assets – beginning of year	161.68	156.66	135.51
Net assets – end of year	<u>\$ 168.98</u>	<u>161.68</u>	<u>156.66</u>

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Operating Revenues

The following provides a graphical breakdown of operating revenues by category for the year ended June 30, 2005.

Operating Revenues by Category
 (\$ in millions)



The total operating revenues were up \$14.31 million or 6% in fiscal 2005 (\$16.92 million or 8% in fiscal 2004) as compared with those of the preceding year. This increase 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. Revenues from tuition and fees, net of waivers and remissions, contributed 59% of the total operating revenue stream of fiscal 2005 as opposed to 56% of fiscal 2004.

Consistent with the goal of the University’s 2003-2006 strategic plan, the benefits derived from tuition and fees rate and student enrollment increases became evident at the close of fiscal 2005. They have funded many aspects of the University that have been long under-funded such as libraries and information technologies. Such revenues also gave the University the capacity to fund salary increases to faculty and staff, as well as medical and insurance costs. However, the need for financial support of students, both need-based and merit-based scholarships, has become more critical in order to increase, if not stabilize, the current student enrollment at the University.

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

	<u>2005</u>	<u>2004</u>	<u>2003</u>
Tuition	\$ 114.43	99.25	88.08
Student service fees	18.16	18.91	14.33
Health service fees	4.02	3.89	3.57
Housing fees	17.67	17.20	16.12
Dining service fees	12.88	12.73	10.56
Miscellaneous student fees	5.97	4.57	4.00
Total	173.13	156.55	136.66
Tuition waived or remitted	<u>(27.54)</u>	<u>(25.13)</u>	<u>(24.60)</u>
Net	\$ <u>145.59</u>	<u>131.42</u>	<u>112.06</u>

During fiscal years ended June 30, 2005 and 2004, the revenues from operating grants and contracts contributed 26% and 29%, respectively, of the total operating revenues.

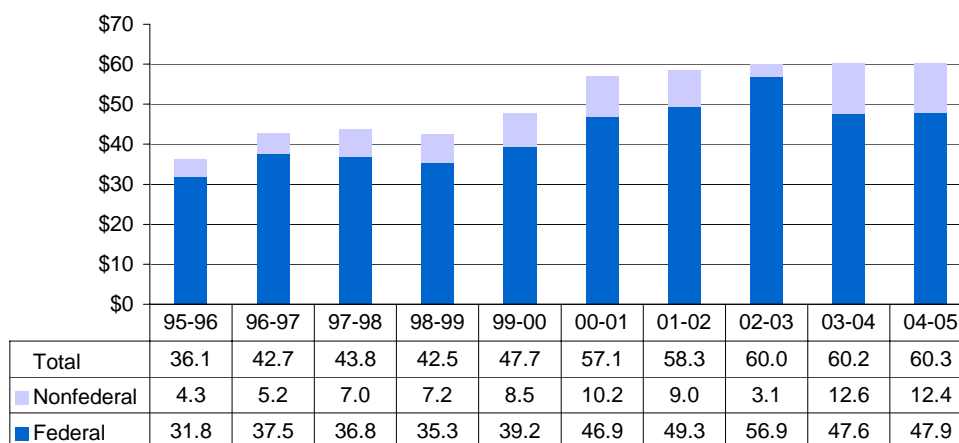
The recognition of revenue from grants and contracts is deferred until services have been performed to fulfill the requirements of the grants and contracts. Hence, awards received are not reflected in the statement of net assets.

The bar chart below shows a steady growth in the amount of grants and contracts awarded to the University during the last ten years, from a total of \$36.1 million in 1995 to \$60.3 million in 2005 or a 67% increase. This positive development is a reflection of the University's vision to pursue research and to enhance creative and entrepreneurial activities on campus.

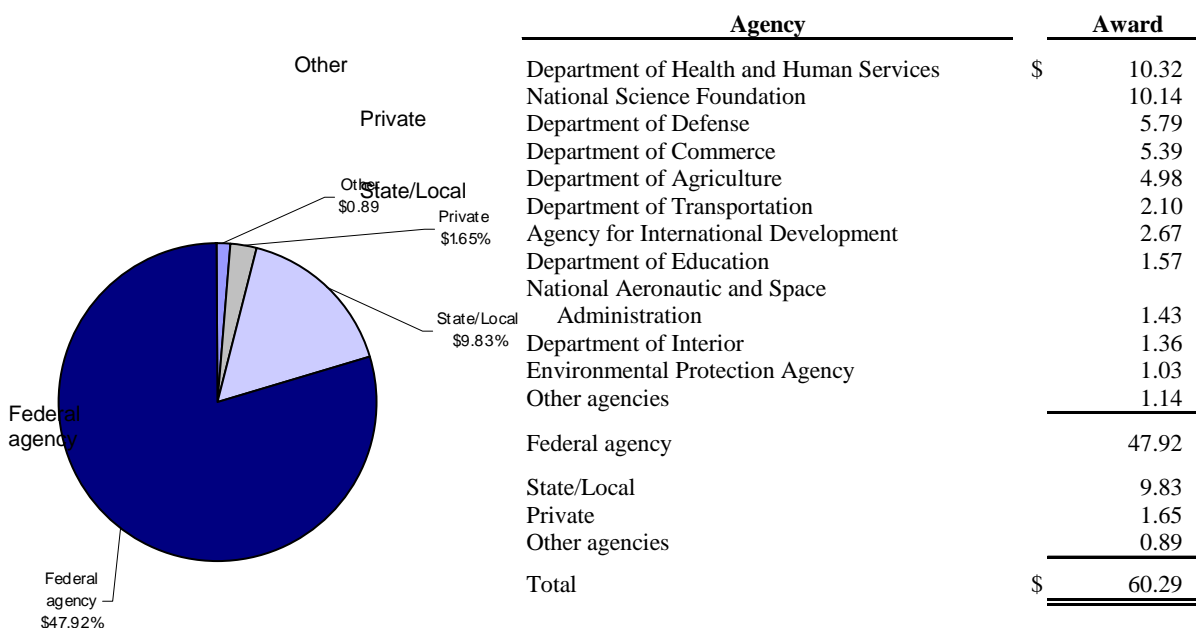
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Awards for Competitive Sponsored Programs
(\$ in millions)



The following summary shows the breakdown of federal awards received from sponsoring agencies during fiscal 2005, with a pie chart for federal and nonfederal awards (\$ in millions).



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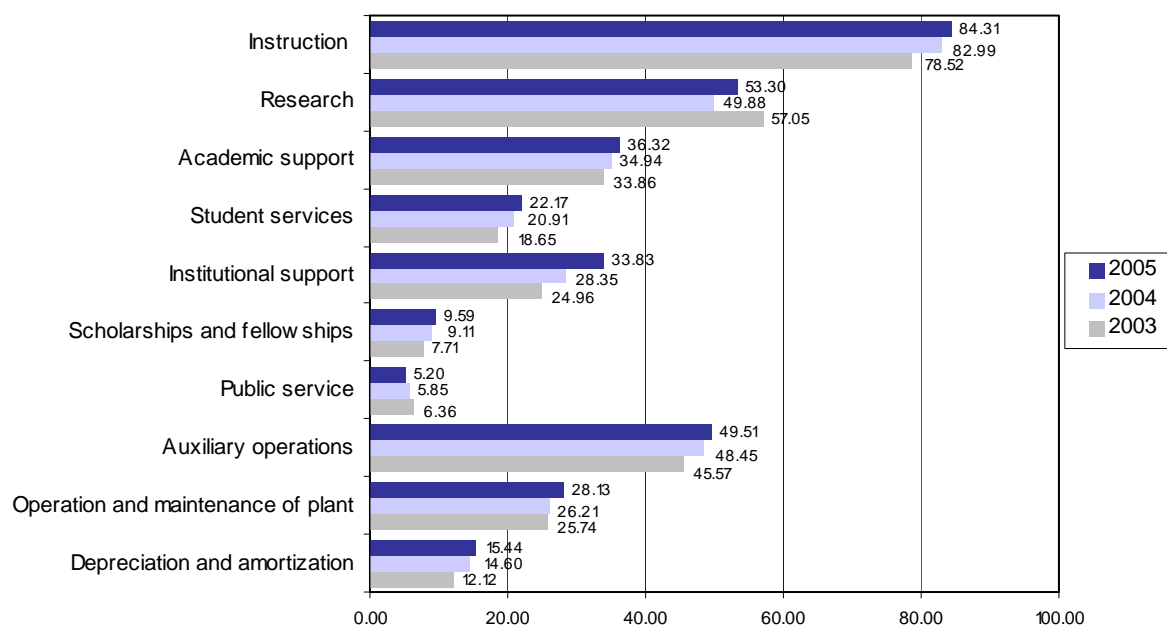
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The University has been awarded close to \$25 million in federal grants for biomedical research in Rhode Island. The award for \$16.5 million is a five-year grant to continue the University's work as a catalyst for biomedical research in the State. With funding from the previous \$8 million grant, the University has completed the fifth 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. In addition, 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.

Operating Expenses

The bar chart below illustrates the University's operating expenses by function for the fiscal years ended June 30, 2005, 2004, and 2003, excluding scholarship allowances applied against tuition and fees.

Operating Expenses by Function
(\$ in millions)



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The operating expenses for fiscal 2005 and 2004 totaled \$337.75 million and \$321.28 million, respectively, an increase of \$16.47 million and \$10.72 million or 5.12% and 3.46% over those of fiscal 2004 and 2003. The increase in fiscal 2005 operating expenses is accounted for by the increase in health insurance premiums, faculty and staff salaries and associated fringe benefits, consulting fees related to systems implementation, ground maintenance, utilities, and depreciation expense.

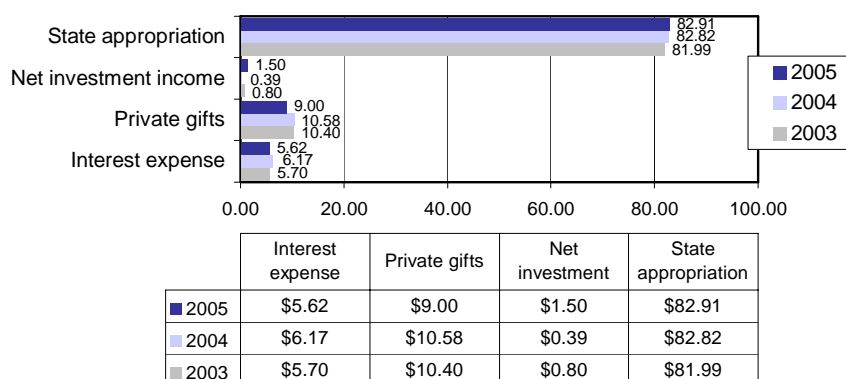
The following summary shows where major grant and contract expenditures, including indirect cost charges, occurred during 2005, 2004, and 2003 (\$ in millions).

Agency	Amount		
	2005	2004	2003
National Science Foundation	\$ 10.62	10.81	9.23
Department of Health and Human Services	9.43	10.54	10.58
Department of Defense	6.35	7.39	7.74
Department of Agriculture	5.50	6.56	5.20
Department of Commerce	4.42	4.60	4.69
National Aeronautic and Space Administration	1.75	1.61	1.54
Agency for International Development	1.50	2.37	5.94
Department of Transportation	1.48	1.49	1.64
Environmental Protection Agency	1.25	1.35	1.18
Department of Interior	1.23	1.16	1.41
Department of Education	0.44	1.22	2.00

Nonoperating Revenues and Expenses

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

Nonoperating Revenues and Expenses
(\$ in millions)



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The State's unrestricted appropriation is the largest component of the University's nonoperating revenues. The amount requested for fiscal 2005 was \$85.74 million. However, the amount appropriated by the State was \$82.91 million resulting in an appropriation for fiscal 2005 that was \$2.83 million less than the amount requested. Although the budget request for fiscal 2005 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 up \$1.10 million or 2.82% (compared with a decrease of \$0.41 million or 51% in fiscal 2004) due to increased short-term rates of return and to the major increase in funds available for investment by the bond trustee during the year. Interest expense was down \$0.55 million or 8.9% (compared with an increase of \$0.47 million or 8% in fiscal 2004) because of the interest that was capitalized in regard to capital projects that were under construction during the year.

Direct State Appropriation

The University has a long tradition of using the state appropriation to support its operating expenses. During fiscal years 2005, 2004, and 2003, the University received state appropriations of \$82.91 million, \$82.82 million, and \$81.99 million, respectively, which was not sufficient to cover operating expenses to the extent of \$8.96 million, \$6.9 million, and \$14.18 million, respectively, as the schedule below indicates. Because operating costs have increased over the years and the state appropriations have not risen enough to cover operating expenses, the student tuition and fees have played an increasingly important role in funding (43% in fiscal 2005, 41% in fiscal 2004, and 36% in fiscal 2003) 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>2005</u>	<u>2004</u>	<u>2003</u>
		(\$ in millions)	
Tuition and fee revenue	\$ 145.59	131.42	112.06
Other revenue	100.29	100.14	102.33
Operating expenses	<u>(337.75)</u>	<u>(321.28)</u>	<u>(310.56)</u>
Operating loss	(91.87)	(89.72)	(96.17)
State direct appropriations	<u>82.91</u>	<u>82.82</u>	<u>81.99</u>
Net loss	<u>\$ (8.96)</u>	<u>(6.90)</u>	<u>(14.18)</u>

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Capital Assets and Debt Administration

Capital Assets

The University's investment in capital assets as of June 30, 2005, 2004, and 2003 net of accumulated depreciation, amounts to \$261.87 million, \$252.61 million, and \$250.16 million, respectively. This investment in capital assets includes land, buildings (including improvements), and furnishings and equipment (including the cost of capital leases). Capital assets increased during fiscal 2005 by \$9.26 million and \$2.45 million during fiscal 2004. 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, 2005, 2004, and 2003 is presented below.

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

	<u>2005</u>	<u>2004</u>	<u>2003</u>
Land and improvements	\$ 29.24	27.79	27.70
Major capital additions to building and improvements	196.37	196.90	189.25
Furnishings and equipment	21.45	21.34	21.72
Construction in progress	14.81	6.58	11.49
Total	<u>\$ 261.87</u>	<u>252.61</u>	<u>250.16</u>

Major capital additions in fiscal 2005 included the Alumni Center and Aquaculture Lab with total costs of \$4.90 million and \$2.31 million, respectively.

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 fiscal year 2007-2011 plan for the University totals \$609 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, 2005 and 2004, the University had \$183.19 million and \$113.43 million, respectively, in outstanding debt, an increase of \$69.75 million and \$0.58 million over that of the prior years. The table below summarizes the types of debt instruments.

Summary Schedule of Debt
(\$ in millions)

	2005	2004	2003
Loans payable	\$ 0.25	0.32	0.25
Capital lease obligations	15.51	16.16	16.25
Revenue bonds	167.43	96.95	96.35
Total	\$ 183.19	113.43	112.85

The additions to revenue bonds payable during fiscal 2005 consisted of: (a) University of Rhode Island Auxiliary Enterprise Revenue Issue, Series 2004 A and B Bonds for \$66.93 million and (b) University of Rhode Island Educational and General Revenue Issue, Series A and B Bonds for \$4.74 million. The proceeds of Series 2004 Bonds are primarily used for the construction of a 440-bed apartment unit and 360 suite-style residence hall. Currently, these projects are under construction and are scheduled to go online in the fall of fiscal 2006. The proceeds of Series 2005 Bonds are primarily used for the construction of a 2nd level above the Surge Modular Building to provide interim classroom space during the Independence Hall construction and for the construction and rebuilding of parking facilities, roadways, sidewalks, curbing, drainage and landscape amenities on the Kingston Campus.

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-.

As a means to lower debt service costs, the University, acting through the Board of Governors for Higher Education entered into a swap agreement in connection with the issuance of its \$33 million Series B revenue bonds in December 2004.

More detailed information about the University's long-term liabilities is presented in note 7 to the financial statements.

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Economic Factors That Will Affect the Future

The seasonally adjusted unemployment rate for the State of Rhode Island, from which the University draws a majority of its students, decreased from 5.7% in June of 2003 to 5.2% in June of 2004 and to 4.8% in June of 2005, according to the Federal Reserve Bank of Boston. This compares to a decrease from 6.4% to 5.6% and 5.0%, respectively, on a national level. Rhode Island's job growth rate for the first six months of 2005 of 1.4% trailed the national average of 1.6% for the period.

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. Conversely, public college/university enrollment generally stabilizes and decreases during economic upturns. 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, approximately \$1.4 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 2005.

- Fiscal 2005 tuition and mandatory fees increased by 8% and 12% 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 has not had 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 2005, 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 5.4% since 2000. Out-of-state undergraduate student charges have been held to an average of 9.1% over the same period. Based upon in-state undergraduate mandatory tuition and fee charges during the 2004-2005 academic year, the University ranks second pertaining to affordability 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.

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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.

Information System

The University has implemented PeopleSoft's Student Administration, Human Resources, and Financial Systems. The PeopleSoft e-Campus system is stable. After several years of hard work implementing the fundamental pieces of these systems, the University still 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.

A consultant has been hired to assess and resolve problems experienced in transitioning to the new financial system and streamline the financial closings and financial statements preparation.

In addition, the University has initiated a plan to upgrade the University's Advancement software (Sungard BSR) in order to facilitate fundraising efforts. The new software uses state-of-the-art fundraising technology and telecommunications that will aid in future gift/pledge drives, events, and capital campaign. The University will start the upgrade or migration of the BSR fundraising system in August 2005.

Subsequent Event – Negotiated Wage Settlements

The University's classified and nonclassified employees collective bargaining agreements expired on June 30, 2004. Tentative agreements with new contracts were reached and ratified by the unions and formally accepted by the Board of Governors on September 19, 2005. One union contract is still pending ratification by its members. The agreements provide for a salary increase ranging from 1.5% to 3.5% with a medical insurance co-payment. All salary increases are retroactive to July 1, 2004. The University has estimated the cost of these agreements on 2005 results to be \$2,202,060 and has recorded this expense in the fiscal 2005 financial statements.

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.

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Statements of Net Assets

June 30, 2005 and 2004

Assets	2005 University of Rhode Island	2004 University of Rhode Island	2005 Component Units	2004 Component Units
Current assets:				
Cash and cash equivalents (note 2)	\$ 33,451,421	29,400,183	4,462,999	5,268,444
Cash held by State Treasurer – capital projects (note 3)	4,007,506	1,298,704	—	—
Cash held by State Treasurer – other (note 3)	1,704,400	373,063	—	—
Accounts receivable, net (note 4)	32,422,171	31,754,497	—	—
Current portion of pledges receivable (note 4)	—	—	2,329,836	4,708,949
Current portion of notes receivable	—	—	39,297	63,094
Current portion of net investment in sales types leases	—	—	33,237	208,773
Inventory and other current assets	4,799,511	3,214,996	962,608	1,062,026
Total current assets	<u>76,385,009</u>	<u>66,041,443</u>	<u>7,827,977</u>	<u>11,311,286</u>
Noncurrent assets:				
Cash and cash equivalents – restricted (note 2)	18,197	—	—	—
Funds on deposit with bond trustee – restricted	72,666,479	8,436,466	—	—
Investments (note 2)	—	—	75,903,594	72,228,261
Net investment in sales – type leases	—	—	—	21,000
Pledges receivable (note 4)	—	—	1,901,144	1,639,890
Loans receivable, net (note 5)	11,312,154	10,669,416	133,349	—
Notes receivable	—	—	—	165,318
Charitable remainder trusts	—	—	1,028,415	643,417
Other deferred assets	1,342,489	—	—	—
Capital assets, net of accumulated depreciation (notes 6 and 7)	261,874,693	252,607,979	2,215,241	2,334,694
Total noncurrent assets	<u>347,214,012</u>	<u>271,713,861</u>	<u>81,181,743</u>	<u>77,032,580</u>
Total assets	<u>\$ 423,599,021</u>	<u>337,755,304</u>	<u>89,009,720</u>	<u>88,343,866</u>
Liabilities				
Current liabilities:				
Cash overdraft implicitly financed (note 2)	\$ —	100,492	—	—
Accounts payable and accrued liabilities (note 3)	31,377,919	23,626,467	217,956	495,067
Current portion of contributions payable to University of Rhode Island	—	—	374,428	1,817,719
Compensated absences (note 7)	1,300,450	734,217	—	13,913
Funds held for others	207,064	924,931	—	—
Deferred revenues	11,824,695	11,009,862	—	—
Current portion of capital lease obligations (notes 6 and 7)	1,202,816	1,150,355	—	—
Current portion of bonds and loans payable (notes 6 and 7)	2,762,909	1,258,951	—	—
Current portion of gift annuity payable	—	—	70,280	78,920
Total current liabilities	<u>48,675,853</u>	<u>38,805,275</u>	<u>662,664</u>	<u>2,405,619</u>
Noncurrent liabilities:				
Compensated absences (note 7)	15,910,533	15,644,275	—	—
Pledges payable	—	—	225,000	250,000
Contributions payable to University of Rhode Island	—	—	80,000	240,000
Capital lease obligations (notes 6 and 7)	14,307,386	15,011,684	—	—
Bonds and loans payable (notes 6 and 7)	164,914,197	96,010,532	—	—
Gift annuity payable	—	—	505,511	435,369
Grant refundable (note 9)	10,810,453	10,606,882	—	—
Total noncurrent liabilities	<u>205,942,569</u>	<u>137,273,373</u>	<u>810,511</u>	<u>925,369</u>
Total liabilities	<u>\$ 254,618,422</u>	<u>176,078,648</u>	<u>1,473,175</u>	<u>3,330,988</u>
Net Assets				
Invested in capital assets, net of related debt	\$ 142,780,392	139,176,457	4,762,620	2,334,694
Restricted:				
Expendable (note 10)	14,914,510	13,784,667	19,754,841	23,492,551
Non-expendable	—	—	58,142,003	54,166,361
Unrestricted (note 11)	11,285,697	8,715,532	4,877,081	5,019,272
Contingencies (note 12)	—	—	—	—
Total net assets	<u>\$ 168,980,599</u>	<u>161,676,656</u>	<u>87,536,545</u>	<u>85,012,878</u>

See accompanying notes to financial statements.

UNIVERSITY OF RHODE ISLAND
(A Component Unit of the State of Rhode Island and Providence Plantations)
Statements of Revenues, Expenses, and Changes in Net Assets
Years ended June 30, 2005 and 2004

	<u>2005</u> <u>University of</u> <u>Rhode Island</u>	<u>2004</u> <u>University of</u> <u>Rhode Island</u>	<u>2005</u> <u>Component</u> <u>Units</u>	<u>2004</u> <u>Component</u> <u>Units</u>
Operating revenues:				
Tuition and fees	\$ 132,968,906	117,658,595	—	—
Residence, dining, student union, and health fees	40,164,381	38,886,213	—	—
Less scholarship allowances	<u>(27,544,907)</u>	<u>(25,127,913)</u>	—	—
Net student fees	145,588,380	131,416,895	—	—
Federal, State, local, and private grants and contracts	65,003,960	66,172,241	—	—
Other auxiliary enterprises	20,468,823	19,324,223	—	—
Other sources	<u>14,815,870</u>	<u>14,653,718</u>	2,637,548	2,835,485
Total operating revenues	<u>245,877,033</u>	<u>231,567,077</u>	<u>2,637,548</u>	<u>2,835,485</u>
Operating expenses (note 13):				
Instruction	84,308,997	82,987,781	—	—
Research	53,300,260	49,881,316	—	—
Academic support	36,319,051	34,935,547	—	—
Student services	22,126,405	20,913,363	2,189,174	1,864,851
Scholarships and fellowships	9,585,186	9,112,691	—	—
Public service	5,198,606	5,847,415	—	—
Operation and maintenance of plant	28,134,680	26,211,711	205,238	117,069
Depreciation and amortization	15,439,135	14,598,737	75,937	75,602
Institutional support	33,825,673	28,347,636	3,838,881	3,544,774
Auxiliary operations	<u>49,513,845</u>	<u>48,448,281</u>	—	280,000
Total operating expenses	<u>337,751,838</u>	<u>321,284,478</u>	<u>6,309,230</u>	<u>5,882,296</u>
Operating loss	<u>(91,874,805)</u>	<u>(89,717,401)</u>	<u>(3,671,682)</u>	<u>(3,046,811)</u>
Nonoperating revenues (expenses):				
State appropriation (note 14)	82,910,362	82,816,282	—	—
Net investment income	1,496,959	391,978	135,254	757,447
Endowment income	—	—	2,701,125	15,692,637
Private gifts and contributions	—	—	6,298,792	5,944,073
Payments between the University and component units	8,996,801	10,582,253	(8,304,239)	(13,120,731)
Additions to permanent endowments	—	—	3,975,642	4,936,077
Patent receipts	—	—	1,107,244	1,186,221
Miscellaneous receipts	—	—	2,260,232	1,459,062
Interest expense	<u>(5,618,976)</u>	<u>(6,169,772)</u>	—	—
Net nonoperating revenues	<u>87,785,146</u>	<u>87,620,741</u>	<u>8,174,050</u>	<u>16,854,786</u>
(Loss) income before other revenues, expenses, gains or losses	<u>(4,089,659)</u>	<u>(2,096,660)</u>	<u>4,502,368</u>	<u>13,807,975</u>
Capital appropriations (note 14)	9,414,901	6,678,229	—	—
Capital gifts	<u>1,978,701</u>	<u>435,425</u>	<u>(1,978,701)</u>	<u>(435,425)</u>
Increase in net assets	7,303,943	5,016,994	2,523,667	13,372,550
Net assets, at beginning of year (note 18)	<u>161,676,656</u>	<u>156,659,662</u>	<u>85,012,878</u>	<u>71,640,328</u>
Net assets, at end of year	<u>\$ 168,980,599</u>	<u>161,676,656</u>	<u>87,536,545</u>	<u>85,012,878</u>

See accompanying notes to financial statements.

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

Statements of Cash Flows

Years ended June 30, 2005 and 2004

	<u>2005</u> <u>University of</u> <u>Rhode Island</u>	<u>2004</u> <u>University of</u> <u>Rhode Island</u>
Cash flows from operating activities:		
Tuition and fees	\$ 144,580,185	129,072,518
Grants and contracts	62,289,849	62,330,927
Payments to suppliers	(84,226,173)	(82,055,947)
Payments to employees	(217,066,684)	(211,633,690)
Payments for scholarships, fellowships, and sponsored programs	(13,940,038)	(13,006,488)
Auxiliary enterprises	20,386,388	19,510,757
Other receipts	18,248,223	13,595,025
Net cash used by operating activities	<u>(69,728,250)</u>	<u>(82,186,898)</u>
Cash flows from noncapital financing activities:		
State appropriations	82,910,362	83,073,837
Cash overdraft implicitly financed	(100,492)	100,492
Gifts from component units	8,996,801	10,582,253
Funds held for others	(717,867)	630,045
Net cash provided by noncapital financing activities	<u>91,088,804</u>	<u>94,386,627</u>
Cash flows from capital and related financing activities:		
Proceeds from capital debt	70,332,511	20,805,364
Capital appropriations	9,414,901	6,678,229
Capital gifts	1,978,701	435,425
Net loss on disposal of capital assets	296,294	126,629
Purchase of capital assets	(24,418,575)	(15,988,765)
Principal paid on capital debt and leases	(2,502,782)	(21,408,427)
Interest paid on capital debt and leases	(5,618,976)	(6,169,772)
Deposit with trustee	(64,230,013)	6,691,556
Net cash used by capital and related financing activities	<u>(14,747,939)</u>	<u>(8,829,761)</u>
Cash flows from investing activities:		
Interest on investments	1,496,959	391,978
Net cash provided by investing activities	<u>1,496,959</u>	<u>391,978</u>
Net increase in cash, restricted cash and cash equivalents	8,109,574	3,761,946
Cash, restricted cash and cash equivalents – beginning of year	31,071,950	27,310,004
Cash, restricted cash and cash equivalents – end of year	<u>\$ 39,181,524</u>	<u>31,071,950</u>
Reconciliation of net operating revenues (expenses) to net cash used by operating activities:		
Operating loss	\$ (91,874,805)	(89,974,956)
Adjustments to reconcile net loss to net cash used by operating activities:		
Depreciation and amortization	15,439,135	14,598,737
Changes in assets and liabilities:		
Accounts receivable	(667,674)	(8,899,031)
Inventory and other current assets	(1,584,515)	1,469,300
Loans receivable	(642,738)	635,686
Accounts payable and accrued liabilities	7,751,452	(1,093,279)
Deferred revenues	814,833	1,144,169
Compensated absences	832,491	(259,373)
Refundable grant	203,571	191,849
Net cash used by operating activities	<u>\$ (69,728,250)</u>	<u>(82,186,898)</u>
Supplemental disclosure of cash flows information:		
New capital leases	\$ 583,568	1,187,844

See accompanying notes to financial statements.

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

Notes to Financial Statements

June 30, 2005 and 2004

(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 supported by the State of Rhode Island, as part of the system of public higher education that includes the Community College of Rhode Island and Rhode Island College, with which articulation agreements exist for student transfer within the system.

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. 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) and related standards after November 30, 1989.

The accompanying statements of revenues, expenses, and changes in net assets demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable within a specific function. Program revenues primarily include charges to students or others who enroll or directly benefit from services that are

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Notes to Financial Statements

June 30, 2005 and 2004

provided by a particular function. Items not meeting the definition of program revenues are instead reported as general revenue.

In March 2003, GASB issued Statement No. 40 of the Governmental Accounting Standards Board (GASB), *Deposit and Investment Risk Disclosures*. GASB 40 establishes and modifies disclosure requirements related to investment risks and deposit risks, and applies to all state and local governments. The University adopted GASB 40 as of July 1, 2004. The University's GASB 40 disclosures are presented in note 2. Except for custodial credit risk disclosure, the University's GASB 40 disclosures do not contemplate the other risks covered under GASB 40. Comparative disclosures will be in subsequent years.

The University of Rhode Island Foundation (the Foundation) and the 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 the 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 the 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 the Alumni Association, the majority of resources received or held by the Foundation and the Alumni Association are restricted to the activities of the University by the donors. Because these resources held by the Foundation and the Alumni Association can only be used by or are for the benefit of the University, the Foundation and the Alumni Association are considered component units of the University and are discretely presented in the University's financial statements.

During the years ended June 30, 2005 and 2004, the Foundation distributed \$8,996,801 and \$10,582,253 to the University for both restricted and unrestricted purposes. The Foundation's year-end was March 30, 2005. The Foundation's financial statements show that it distributed \$10,135,093 and \$13,120,731 in 2005 and 2004, respectively, to the University. The variance of \$1,138,292 in 2005 and \$2,538,478 in 2004 represents timing differences in reimbursement and funding of various expenses in auxiliary enterprise operations, academic support and operation and maintenance of plant.

During the years ended June 30, 2005 and 2004, the Alumni Association distributed \$2,189,174 and \$1,864,851 to the University for scholarships. These funds are recorded as agency transactions in the University's financial statements.

The Foundation and the 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 the Alumni Association's financial information in the University's financial reporting entity for these differences.

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Notes to Financial Statements

June 30, 2005 and 2004

The condensed statements of net assets of the Foundation as of March 31 and the Alumni Association as of June 30 are as follows:

	2005		
	Foundation	Alumni Association	Total
Current assets	\$ 7,531,081	296,896	7,827,977
Noncurrent assets	78,393,085	2,788,658	81,181,743
Total assets	\$ 85,924,166	3,085,554	89,009,720
Current liabilities	417,688	244,976	662,664
Noncurrent liabilities	730,511	80,000	810,511
Total liabilities	\$ 1,148,199	324,976	1,473,175
Net assets:			
Invested in capital assets, net of related debt	4,762,620	—	4,762,620
Restricted:			
Expendable	18,768,767	986,074	19,754,841
Nonexpendable	58,142,003	—	58,142,003
Unrestricted	3,102,577	1,774,504	4,877,081
Total net assets	\$ 84,775,967	2,760,578	87,536,545

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

Notes to Financial Statements

June 30, 2005 and 2004

	2004		
	Foundation	Alumni Association	Total
Current assets	\$ 10,658,789	652,497	11,311,286
Noncurrent assets	74,457,381	2,575,199	77,032,580
Total assets	\$ 85,116,170	3,227,696	88,343,866
Current liabilities	2,143,046	262,573	2,405,619
Noncurrent liabilities	685,369	240,000	925,369
Total liabilities	\$ 2,828,415	502,573	3,330,988
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	3,370,787	1,648,485	5,019,272
Total net assets	\$ 82,287,755	2,725,123	85,012,878

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

Notes to Financial Statements

June 30, 2005 and 2004

The condensed statements of revenues, expenses and changes in net assets of the Foundation for the years ended March 31 and the Alumni Association for the years ended March 31 are as follows:

	2005		
	Foundation	Alumni Association	Total
Operating revenues:			
Other sources	\$ —	2,637,548	2,637,548
Total operating revenue	—	2,637,548	2,637,548
Operating expenses:			
Student services	—	2,189,174	2,189,174
Operation and maintenance in plant	—	205,238	205,238
Depreciation and amortization	75,937	—	75,937
Institutional support	2,204,015	1,634,866	3,838,881
Total operating expenses	2,279,952	4,029,278	6,309,230
Operating loss	(2,279,952)	(1,391,730)	(3,671,682)
Nonoperating revenues (expenses):			
Net investment income	135,254	—	135,254
Endowment income	2,701,125	—	2,701,125
Private gifts	4,723,760	1,575,032	6,298,792
Gifts to University	(8,304,239)	—	(8,304,239)
Additions to permanent endowments	3,975,642	—	3,975,642
Patent receipts	1,107,244	—	1,107,244
Miscellaneous receipts	2,260,232	—	2,260,232
Net nonoperating revenues	6,599,018	1,575,032	8,174,050
Income before other revenues, expenses, gains or losses	4,319,066	183,302	4,502,368
Capital gifts to the University	(1,830,854)	(147,847)	(1,978,701)
Increase in net assets	2,488,212	35,455	2,523,667
Net assets, beginning of year	82,287,755	2,725,123	85,012,878
Net assets, end of year	\$ 84,775,967	2,760,578	87,536,545

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Notes to Financial Statements

June 30, 2005 and 2004

	2004		
	Foundation	Alumni Association	Total
Operating revenues:			
Other sources	\$ —	2,835,485	2,835,485
Total operating revenue	—	2,835,485	2,835,485
Operating expenses:			
Student services	—	1,864,851	1,864,851
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	2,329,549	3,552,747	5,882,296
Operating loss	(2,329,549)	(717,262)	(3,046,811)
Nonoperating revenues (expenses):			
Net investment income	757,447	—	757,447
Endowment income	15,692,637	—	15,692,637
Private gifts	4,669,179	1,274,894	5,944,073
Gifts to University	(13,120,731)	—	(13,120,731)
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 nonoperating revenues	15,579,892	1,274,894	16,854,786
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	69,037,412	2,602,916	71,640,328
Net assets, end of year	\$ 82,287,755	2,725,123	85,012,878

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

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Notes to Financial Statements

June 30, 2005 and 2004

Complete financial statements for the Alumni Association can be obtained from: Alumni Relations, Room 105, 73 Upper College Road, Kingston, RI 02881.

(c) *Net Assets*

Resources are 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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Notes to Financial Statements

June 30, 2005 and 2004

(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 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). Certain non-union employees (classified and non-classified) contribute up to 5% of the cost of their health plans. The University pays 100% for their health care costs for those employees who do not contribute to their health plans 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 2005 and 2004 health premiums were \$25,393,363 and \$24,667,151, 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 2005 was 4.1% and for 2004 was 3.8%. The assessed fringe benefit cost for the University was \$4,950,120 for fiscal year 2005 and \$4,671,936 for fiscal year 2004.

(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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Notes to Financial Statements

June 30, 2005 and 2004

(k) Student Fees

Student tuition, dining, residence, health, 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, 2004 have been reclassified to conform to the presentation as of June 30, 2005.

(o) Risk Management

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

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 with limits of \$4 million per claim and \$4 million for the annual aggregate with a \$150,000 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 property items such as computer equipment, valuable papers, fine arts, contractors equipment, and miscellaneous property at various limits of insurance and deductibles. The University also maintains Hull and Property & Indemnity coverage on a specific schedule of watercraft. This policy has a \$300,000 policy limit with a \$1,000 deductible over which there is an excess coverage bringing the limit to \$1 million. A separate policy insures the University's 184-foot research vessel.

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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

(a) Overall Deposits and Investment Description

Deposits and investments of the University at June 30, 2005 consist of:

<u>Investment type</u>	<u>Fair value</u>
Cash on deposit	\$ 15,225,883
Money market funds	19,455,641
Total deposits	34,681,524
Certificate of deposit	4,500,000
Total deposits and investments	\$ 39,181,524

(b) Custodial Credit Risk

Deposits and investments in excess of the insured amount are uninsured and uncollateralized. As of June 30, 2005, \$4,735,445 of the University's total bank balance of \$43,829,562 was exposed to custodial risk as follows:

	<u>2005</u>	<u>2004</u>
Uninsured and uncollateralized	\$ 4,735,445	1,052,408
Uninsured and collateralized	33,134,405	31,999,719
Total deposits and investments	\$ 37,869,850	33,052,127

(c) Investment Policy

The Rhode Island Board of Governors for Higher Education has a policy stressing preservation of principal and limiting deposits to federally insured and other financially secured accounts. The University predominantly invests in short to medium term cash and similar vehicles.

In accordance with the RI General Laws, Chapter 35-10.1, depository institutions holding deposits of the State, its agencies of 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 that do not meet minimum capital standards prescribed by federal regulators will insure or pledge eligible collateral equal to 100% of deposits, regardless of maturities.

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(d) **Investments and Maturities Inferring Risk**

The University's investments and maturities inferring risk at June 30, 2005 consist of:

Investment type	Fair value	Investment maturities (in years)			
		Less than 1	1 to 5	6 to 10	More than 10
Money market funds	\$ 19,455,641	23,955,641	—	—	—
Certificate of deposit	4,500,000	4,500,000	—	—	—
Total	\$ 23,955,641	28,455,641	—	—	—

(e) **Investments**

The Foundation investments at March 31, 2005 and 2004 and the Alumni Association investments at June 30, 2005 and 2004 are reported at fair market value and are comprised of the following:

	2005		
	Foundation	Alumni Association	Total
	Government securities	\$ 15,293,620	—
Corporate bonds	3,910,992	1,760,227	5,671,219
Common stock	53,910,324	1,028,431	54,938,755
	\$ 73,114,936	2,788,658	75,903,594

	2004		
	Foundation	Alumni Association	Total
	Government securities	\$ 14,820,249	—
Corporate bonds	4,227,849	953,207	5,181,056
Common stock	50,604,964	1,621,992	52,226,956
	\$ 69,653,062	2,575,199	72,228,261

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

Cash held by State Treasurer of \$5,711,906 and \$1,671,767 at June 30, 2005 and 2004, respectively, was subsequently used to pay accounts payable and accrued salaries.

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(4) Accounts and Pledges Receivable

Accounts receivable include the following at June 30:

	2005	2004
Student accounts receivable	\$ 8,413,959	8,087,194
Grants receivable	6,310,759	5,540,097
Unbilled grants receivables	15,303,770	12,183,102
Other receivables	7,734,145	9,164,454
	37,762,633	34,974,847
Less allowance for doubtful accounts	(5,340,462)	(3,220,350)
	\$ 32,422,171	31,754,497

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, 2005 and 2004 has been calculated using interest rate of 2% which approximates the federal reserve three-year treasury bill. The promised contributions are due as follows:

	2005	2004
Within one year	\$ 2,287,789	4,660,284
One to five years	1,836,011	1,600,757
Five to ten years	110,750	100,000
	4,234,550	6,361,041
Less present value component	45,617	60,867
	\$ 4,188,933	6,300,174

The Foundation uses the allowance method to determine uncollectible, unconditional pledges receivable. Under this method, the allowance is based upon prior years' experience and management's analysis of specific promises made. As of March 31, 2005 and 2004, the Foundation had no allowance for uncollectible pledges receivable.

The Alumni Association pledges receivable, net of allowance of \$47,088 and \$88,044, at June 30, 2005 and 2004 were \$42,047 and \$48,665.

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(5) Loans Receivable

Loans receivable include the following at June 30:

	2005	2004
Perkins loans receivable	\$ 8,595,190	8,250,664
Nursing loans receivable	1,107,914	1,013,706
Health profession loans receivable	1,394,832	1,321,218
Other	639,733	509,343
	11,737,669	11,094,931
Less allowance for doubtful accounts	(425,515)	(425,515)
	\$ 11,312,154	10,669,416

(6) Capital Assets

Capital assets consist of the following at June 30:

2005						
	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	—	6,576,407	13,549,257	—	(5,314,181)	14,811,483
Total not being depreciated		7,464,579	13,549,257	—	(5,314,181)	15,699,655
Capital assets being depreciated:						
Land improvements	15-25	32,664,418	2,909,472	—	—	35,573,890
Buildings, including improvements	10-50	308,160,913	3,228,913	—	5,314,181	316,704,007
Furnishings and equipment (including cost of capital leases)	5-15	55,761,097	5,314,501	(1,201,498)	—	59,874,100
Total being depreciated		396,586,428	11,452,886	(1,201,498)	5,314,181	412,151,997
Less accumulated depreciation:						
Land improvements		5,767,859	1,451,422	—	—	7,219,281
Building, including improvements		111,257,829	9,078,257	—	—	120,336,086
Furnishings and equipment		34,417,340	4,909,456	(905,204)	—	38,421,592
Total accumulated depreciation		151,443,028	15,439,135	(905,204)	—	165,976,959
Capital assets, net		\$ 252,607,979	9,563,008	(296,294)	—	261,874,693

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2004						
	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	—	11,492,329	5,393,663	—	(10,309,585)	6,576,407
Total not being depreciated		12,380,501	5,393,663	—	(10,309,585)	7,464,579
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		377,814,948	11,782,946	(3,321,051)	10,309,585	396,586,428
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		140,038,713	14,598,737	(3,194,422)	—	151,443,028
Capital assets, net		\$ 250,156,736	2,577,872	(126,629)	—	252,607,979

(7) Long-Term Liabilities

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

2005					
	Beginning balance	Additions	Reductions	Ending balance	Current portion
Leases and bonds payable:					
Lease obligations	\$ 16,162,039	583,568	1,235,405	15,510,202	1,202,816
Revenue bonds payable	96,952,155	71,675,000	1,193,533	167,433,622	2,687,533
Loans payable	317,328	—	73,844	243,484	75,376
Total leases and bonds payable	113,431,522	72,258,568	2,502,782	183,187,308	3,965,725
Other long-term liabilities:					
Compensated absences	16,378,492	1,986,135	1,153,644	17,210,983	1,300,450
Total long-term liabilities	\$ 129,810,014	74,244,703	3,656,426	200,398,291	5,266,175

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	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	\$ 129,484,606	22,734,303	22,408,895	129,810,014	3,143,523

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Bonds Payable

The revenue bonds payable totaling \$167,433,622 and \$96,952,155 as of June 30, 2005 and 2004, respectively, consist of the following:

	<u>2005</u>	<u>2004</u>
Revenue Bonds payable to U.S. Government:		
1972 Graduate Housing Revenue Bonds, 5.75%, due semiannually through 2007	\$ 375,000	485,000
1993 Series B Facility Revenue and Refunding Bonds - Various Purpose Educational Facilities, 4.60% to 5.50%, due semiannually through 2008	403,660	556,791
1997 Series Higher Education Revenue Bonds - University of Rhode Island Issue, 4% to 5.31%, due semiannually through 2015	1,780,000	1,835,000
Series 1999 A University of Rhode Island Auxiliary Enterprise Revenue Issue, 4.75% to 5.50%, due semiannually through 2030	18,390,000	18,745,000
Series 1999 B University of Rhode Island Educational and General Issue, 4.75% to 5.625%, due semiannually through 2030	3,500,000	3,565,000
Series 2000 B University of Rhode Island Educational and General Issue, 4.50% to 5.70%, due semiannually through 2031	40,045,000	40,085,000
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	12,640,959	13,013,108
Series 2003 C Facility Revenue Refunding Bonds, Educational and General Revenue Issue, 2% to 5%, due semiannually through 2023	7,549,003	7,592,256
Series 2004 A University of Rhode Island Auxiliary Enterprise Revenue Issue, 2.5% to 5.25%, due semiannually through 2024	33,935,000	—
Series 2004 B University of Rhode Island Auxiliary Enterprise Revenue Issue, 4% due semiannually through 2035	33,000,000	—
Series 2005 A University of Rhode Island Educational and General Revenue Issue, 3% to 4.25%, due semiannually through 2021	2,740,000	—
Series 2005 B University of Rhode Island Educational and General Revenue Issue, 3% to 4.25%, due semiannually through 2026	2,000,000	—
	<u>\$ 167,433,622</u>	<u>96,952,155</u>

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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 which included the \$14,281,069 Various Purpose Educational Facilities Issue – Series 1993 B. The proceeds from this issue were used to defease the 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, and to fund the acquisition of library capital, and various capital renovations to existing buildings at the three institutions.

On September 1, 1997, the Corporation issued the \$2,125,000 University of Rhode Island Issue, Series 1997. The proceeds of the Series 1997 Bonds, including accrued interest to the date of delivery, were used for the construction of an addition to the University's Social Science Center and for the renovations to the University's Multicultural Center.

On September 15, 1999, the Corporation issued the \$20,000,000 University of Rhode Island Auxiliary Enterprise Revenue Issue, Series 1999 A and the \$3,800,000 University of Rhode Island Educational and General Reserve Issue, Series 1999 B. The proceeds of the Series 1999 A Bonds were used for the renovations and improvements to the University's residence halls and surrounding landscaping on the Kingston Campus, while the proceeds of the Series 1999 B Bonds were used for the acquisition of buildings on the University's Kingston Campus for general administrative use and for the reconstruction of paved surfaces on the Kingston Campus including roads, walkways, and parking lots.

On November 1, 2000, the Board completed a second amendment to the Loan and Trust Agreement dated as of September 1, 1997 authorizing the issuance of the University of Rhode Island Educational and General Issue Series 2000 B Bonds, par amount \$40,160,000. The proceeds of Series 2000 B Bonds were used to finance capital improvements at the University consisting of the Athletic Complex Convocation Center, the Athletic Complex Ice Rink Facility, and a modular building.

On November 15, 2002, the Corporation issued the University of Rhode Island Educational and General Reserve Issue, Series 2002 Bonds. The proceeds of these bonds were used to finance the construction and equipping of 1,000 parking spaces, transit shelters, parking meters, and shuttle services. In addition, part of the proceeds were deposited in a capitalized interest fund to finance the interest due until 2005.

On May 1, 2003, the Corporation issued the University of Rhode Island Educational and General Revenue Issue, Series 2003 A Bonds, par amount \$3,100,000. The proceeds of the Series 2003 A Bonds were used for the construction, equipping and furnishing of the Alumni Center, which provides 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.

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On July 17, 2003, the Corporation issued the Facility Revenue Refunding Bonds, Auxiliary Enterprise Revenue Issue, Series 2003 B Bonds, par amount \$20,785,000, and the Facility Revenue Refunding Bonds, 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.

In December 2004, the Corporation issued the University of Rhode Island Auxiliary Enterprise Revenue Issue, Series 2004 A, Fixed Rate Revenue Bonds with a par amount of \$33,935,000 and the University of Rhode Island Auxiliary Enterprise Revenue Issue, Series 2004 B, Variable Rate Revenue Bonds with a par amount of \$33,000,000. The proceeds of the 2004 Bonds are being used for the construction of a 440-bed apartment unit and a 360-suite-style residence hall. In addition, part of the proceeds were deposited in a capitalized interest fund to finance the interest due until 2007.

On April 1, 2005, the Corporation issued the University of Rhode Island Educational and General Revenue Issue, Series 2005 A Bonds, par amount \$2,740,000. The proceeds will be used to construct the 2nd level of an existing facility, Surge Modular Building I, located at 210 Flag Road on the Kingston Campus. The Surge Modular Building I and II will be used to provide interim classroom space during the Independence Hall reconstruction.

On June 30, 2005, the Corporation issued the University of Rhode Island Educational and General Revenue Issue, Series 2005 B, with a par amount of \$2,000,000. The proceeds of this bond will be used for the construction and rebuilding of parking facilities, roadways, sidewalks, curbing, drainage and landscape amenities on the Kingston Campus.

In addition to specific project costs, bond proceeds were also used to fund debt service reserve funds and costs of bond issuance.

The bonds issued by the Corporation are special limited obligations of the Board of Governors acting on behalf of the University. The refunding and general and educational bonds are secured by all available revenues of the Board of Governors derived by the University and State appropriations for the University. The auxiliary enterprise revenue bonds are secured by all auxiliary enterprise revenue of the University.

The bond agreements covering the above-mentioned bond issues contain redemption provisions and various restrictive covenants. The University complied with such covenants at June 30, 2005 and 2004.

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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:			
2006	\$ 2,687,533	7,880,171	10,567,704
2007	2,985,626	7,819,231	10,804,857
2008	4,414,309	7,698,374	12,112,683
2009	4,595,930	7,396,161	11,992,091
2010	4,748,116	7,237,517	11,985,633
2011-2015	26,272,322	33,216,733	59,489,055
2016-2020	30,937,384	26,736,786	57,674,170
2021-2025	35,827,402	17,693,314	53,520,716
2026-2030	34,035,000	8,827,386	42,862,386
2031-2035	20,930,000	1,945,655	22,875,655
	<u>\$ 167,433,622</u>	<u>126,451,328</u>	<u>293,884,950</u>

In conjunction with its 2004 A and B issuance of fixed-rate revenue bonds, the University entered into an interest rate Swap agreement with a financial institution counter party.

Interest costs for the years ended June 30, 2005 and 2004 were \$7,331,214 and \$6,449,844, respectively. Of these amounts, \$1,712,238 and \$280,072 were capitalized in 2005 and 2004, respectively.

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.

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Principal and interest in loans payable for the next five years are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Year ending June 30:			
2006	\$ 75,376	9,291	84,667
2007	77,010	7,659	84,669
2008	28,479	5,921	34,400
2009	30,330	4,070	34,400
2010	32,289	2,111	34,400
	<u>\$ 243,484</u>	<u>29,052</u>	<u>272,536</u>

Lease Obligations

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

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

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

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

On May 21, 1998, the Board and the University (individually and collectively called University) entered into a Development and a Steam Service Agreement with ERI Services, Inc., the Seller, a Delaware corporation. Under this agreement, the Seller is required to deliver and the University is required to purchase certain quantities of acceptable steam required by the University in connection with its operation.

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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 of the debt service on the Rhode Island Economic Development Corporation Revenue Bonds (University of Rhode Island Steam Facility Project) Series 1999. 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

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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, 2005:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Year ending June 30:			
2006	\$ 1,202,816	711,188	1,914,004
2007	1,122,217	663,161	1,785,378
2008	1,147,368	615,680	1,763,048
2009	861,299	566,086	1,427,385
2010	897,370	526,459	1,423,829
2011-2015	4,679,132	1,960,257	6,639,389
2016-2020	5,600,000	703,667	6,303,667
	<u>\$ 15,510,202</u>	<u>5,746,498</u>	<u>21,256,700</u>

(8) Interest Rate Swap

(a) Objective of the Interest Rate Swap

The intent of the Swap was to lower the cost of funds relating to the University's currently outstanding Auxiliary Enterprise Revenue Issue, Series 2004 B.

(b) Terms

The University pays the bondholders a variable rate set weekly. Based on the Swap agreement, the University pays interest at a variable rate based on the Bonds and I) a Fixed Rate on the Swap equal to 3.691% and II) in return the University receives the sum of (i) 67.0% of the one month USD-LIBOR-BBA plus (ii) 0.12%. The one month USD-LIBOR-BBA plus 0.12% is a variable rate designed to offset the variable rate paid to the bondholders, thereby establishing a synthetic fixed rate for the bonds.

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All payments under the Swap agreement are netted and paid on a monthly basis each on the fifteenth (15th), commencing on January 15, 2005. As further defined in the Confirmation to the Swap agreement, the Board of Governors of Higher Education is acting for the University. Subject to cash settlement, the University has the right to terminate the agreement, in whole or in part, on the Effective Date and on any Business Day thereafter. The Swap is scheduled to terminate on September 15, 2034.

(c) *Fair Value*

Because interest rates have declined and tax-exempt and taxable ratios have remained high since execution of the Swap, the Swap, if it were to be terminated, had a negative fair market value of \$2,530,725 as of June 30, 2005. Swaps are not normally valued through exchange-type markets with easily accessible quotation systems and procedures. The fair market value was calculated using the zero coupon method. Information was obtained from generally recognized sources with respect to quotations, reporting specific transactions and market conditions and based on accepted industry standards and methodology.

(d) *Basis and Credit Risk*

As the variable rate that the University pays on its Bonds, which approximates the Bond Market Association Municipal Swap Index, differs from the variable percent of LIBOR rate received from MLCS, the Swap exposes the University to basis risk. As of June 30, 2005, the Bond Market Municipal Swap Index was 2.28%, whereas 67.0% of 1 month LIBOR plus 0.12% was 2.35%.

As of June 30, 2005, the University was not exposed to credit risk because the Swap had a negative fair value. MLCS is unconditionally guaranteed by Merrill Lynch & Co. and has maintained their ratings since inception of AA3, A+ and AA- by Moody's Investors Service, Standard & Poor's and Fitch Ratings, respectively. Additionally the University has obtained Swap insurance on this transaction from Ambac Assurance Corporation. To mitigate credit risk, if the counterparty's credit quality falls below a threshold level, the counterparty is obligated, on demand of the University, to provide and maintain collateral (cash or U.S. Government and Agency Securities) having certain values required by the Swap in order to provide security for payment of the positive value of the Swap, if any, to the University.

(9) **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.

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(10) 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 composed of the following:

	2005	2004
Restricted – expendable:		
Loans	\$ 3,012,534	2,967,091
Capital programs	11,737,873	9,887,564
Debt service	139,418	756,942
Sponsored research	24,685	173,070
	\$ 14,914,510	13,784,667

(11) 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 auxiliary enterprise and departmental activities.

(12) 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, 2005 and 2004, the University is a guarantor of loans to fraternities and sororities in the amount of \$563,782 and \$576,032, respectively.

The University receives significant financial assistance from federal and state agencies in the form of grants. Expenditures of funds under these programs require compliance with the grant agreements and are subject to audit. Any disallowed expenditures resulting from such audits become a liability of the University. In the opinion of management such adjustments, if any, are not expected to materially affect the financial condition of the University.

The University, along with RIC and CCRI, 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.

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(13) Operating Expenses

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

	<u>2005</u>	<u>2004</u>
Compensation and benefits	\$ 221,823,351	212,741,962
Supplies and services	86,549,314	80,937,291
Depreciation and amortization	15,439,135	14,598,737
Scholarships and fellowships	13,940,038	13,006,488
	<u>\$ 337,751,838</u>	<u>321,284,478</u>

(14) 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 re-appropriations made by the Governor for fiscal 2005. The Board reviews and approves the unrestricted and restricted budgets and makes recommendations to the Governor and General Assembly for revisions to the current year's budget and the ensuing year's budget for the University, RIC, CCRI, and the Office of Higher Education.

The original and supplemental budget requests to the Governor and General Assembly are acted upon by a vote of the Board. As part of the University's annual budget process for unrestricted and restricted funds, the Board allocates specific amounts in the budget which are allocated for the following categories: (1) salaries and wages; (2) operating expenditures; and (3) outlays for personnel costs, utilities, repairs, capital, and student aid, as well as the overall budget allocation.

(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 2005 and 2004, the State allocated \$6.21 million and \$4.57 million, respectively, to the University for asset protection.

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(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 \$0.55 million and \$0.37 million on the renovations of the three buildings at its Kingston Campus during fiscal years 2005 and 2004, 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 2005 and 2004, the University spent \$1.99 million and \$1.84 million, respectively.

The expenditures funded from the proceeds of the above-mentioned general obligation bonds and capitalized during fiscal years 2005 and 2004 totaled \$3,201,612 and \$3,556,877, respectively.

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

	<u>2005</u>	<u>2004</u>
Direct appropriations	\$ 82,910,362	82,816,282
State Capital Plan Funds	6,213,289	4,566,000
State contributed capital	<u>3,201,612</u>	<u>2,112,229</u>
	<u>\$ 92,325,263</u>	<u>89,494,511</u>

(15) 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 under a defined contribution retirement plan. Eligible employees who have reached the age of 30, and who have two (2) years of service are required to participate in either the Teachers' Insurance and Annuity Association, the Metropolitan Life Insurance Company or Variable Annuity Life Insurance Company retirement plan. Eligible employees must contribute at least 5% of their gross biweekly earnings. These contributions may be made on a pre-tax basis. The University contributes 9% of the employee's gross biweekly earnings. Total expenditures by the University for such 403(b) annuity contracts amounted to \$7,913,225 and \$7,606,476 during 2005 and 2004, 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 \$348,397

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and \$340,594 during 2005 and 2004, 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 \$34,243,672 and \$33,352,320 for the years ended June 30, 2005 and 2004, respectively. The University's total payroll expense for the years ended June 30, 2005 and 2004 was \$166,682,017 and \$160,868,787, respectively.

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

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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 11.51% and 9.60% of salaries paid for the years ending June 30, 2005 and 2004, respectively. In addition, the University is required to contribute 1.87% and 1.30% in 2005 and 2004, respectively, for post-retirement health benefits. Employees contributed \$2,996,321 and \$2,918,328, respectively, and the University's contribution to the System for the years ended June 30, 2005, 2004, and 2003 were \$4,852,572, \$3,653,403, and \$2,927,000, respectively, representing 100% of the required contribution for each of the three years.

In 1998, the Rhode Island Board of Governors for Higher Education established a health care insurance retirement program (medical coverage only), effective July 1, 1998. This health benefit applies to employees who participate in the Rhode Island Board of Governors for Higher Education defined contribution retirement plan noted above. Active employees who are covered by the Board of Governors retiree medical plan contribute 0.25% of their regular salary. To be eligible for coverage the retiree must have worked a minimum of 10 years for the Board of Governors or the University and must be 60 years of age, unless they have 28 years of service. Depending on the years of service and the retiree's age the Board of Governors will pay from 50% to 100% medical insurance premium while the retiree will contribute from 50% to 0%. Employees covered by this program contributed \$348,000 and \$341,000 during fiscal years 2005 and 2004, respectively.

(16) 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, shares 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 2005 and 2004 share of capital expenditures amounted to \$20,442 and \$27,691, 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 is 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 \$397,920 and \$286,554 in 2005 and 2004, respectively. Financial information may be obtained at the Town of South Kingstown, 180 High Street, Wakefield, Rhode Island 02879.

(17) Pass Through Grants

The University distributed \$44,803,628 and \$43,244,428 during fiscal 2005 and 2004, 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.

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(18) Subsequent Event – Negotiated Wage Settlements

The University's classified and nonclassified employees collective bargaining agreements expired on June 30, 2004. Tentative agreements with new contracts were reached and ratified by the unions and formally accepted by the Board of Governors on September 19, 2005. One union is still pending ratification by its members. The agreements provide for a salary increase ranging from 1.5% to 3.5% with a medical insurance co-payment. All salary increases are retroactive to July 1, 2004. The University has estimated the cost of these agreements on 2005 results to be \$2,202,060 and has recorded this expense in the fiscal 2005 financial statements.

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Schedule of Expenditures of Federal Awards

Year ended June 30, 2005

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	\$ 1,383,599
Federal Work Study Program	84.033	960,411
Federal Pell Grant Program	84.063	5,942,060
Federal Perkins Loans	84.038	2,007,012
Federal Direct Loans	84.268	44,596,382
<i>U.S. Department of Health and Human Services</i>		
Health Professional Student Loan Program (note 3)	93.342	333,350
Nursing Student Loan Program (note 3)	93.364	280,950
Total Student Financial Assistance Cluster		<u>55,503,764</u>
Research and Development Cluster		
<i>U.S. Department of Agriculture</i>		
Direct Programs:		
Department of Agriculture with No CFDA Number	10.000	1,942
Agricultural Research-Basic and Applied Research	10.001	10,001
Grants for Agricultural Research, Special Research Grants	10.200	602,599
Grants for Agricultural Research – Competitive Research Grants	10.206	448,783
Higher Education Challenge Grants	10.217	76,038
Buildings and Facilities Program	10.218	151,230
Higher Education Multicultural Scholars Program	10.220	63,715
Agricultural and Rural Economic Research	10.250	23,261
Initiative for Future Agriculture and Food Systems	10.302	47
Integrated Programs	10.303	994,176
Soil Survey	10.903	7,463
Wildlife Habitat Incentive Program	10.914	10,080
Formula Funds:		
Payments to Agricultural Experiment Stations Under the Hatch Act	10.203	2,312,573
Cooperative Extension Service	10.500	119,741
Passed Through Subcontracts:		
Department of Agriculture with No CFDA Number	10.000	1,274
Agricultural Research – Basic and Applied Research	10.001	168,574
Grants for Agricultural Research, Special Research Grants	10.200	76,316
Grants for Agricultural Research – Competitive Research Grants	10.206	11,318
Initiative for Future Agriculture and Food Systems	10.302	52,760
Integrated Programs	10.303	67,586
Homeland Security – Agricultural	10.304	10,059
Crop Insurance	10.450	140,517
Cooperative Extension Service	10.500	13,320
Cooperative Forestry Assistance	10.664	(298)
Passed Through Other State Agencies:		
State Administrative Matching Grants for Food Stamp Program	10.561	139,493
Total U.S. Department of Agriculture		<u>5,502,568</u>

See accompanying notes to Schedule of Expenditures of Federal Awards.

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Year ended June 30, 2005

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>CFDA Number</u>	<u>Federal Expenditures</u>
<i>U.S. Department of Commerce</i>		
Direct Programs:		
Department of Commerce Award with No CFDA Number	11.000	\$ 17,471
Sea Grant Support	11.417	2,655,962
Coastal Zone Management Estuarine Research Reserves	11.420	22,628
Fisheries Development and Utilization Research and Development Grants Cooperative Agreements Program	11.427	72,473
Undersea Research	11.430	(542)
Climate and Atmospheric Research	11.431	197,983
Environmental Research Laboratories Institutes	11.432	16,750
Cooperative Science and Education Program	11.455	284,418
Special Oceanic and Atmospheric Projects	11.460	125,763
Habitat Conservation	11.463	12,930
Coastal Ocean Program	11.478	147,373
Passed Through Subcontracts:		
Department of Commerce Award with No CFDA Number	11.000	17,981
ITA Special Projects	11.113	15,916
Coastal Zone Management Administration Awards	11.419	160,610
Fisheries Development and Utilization Research and Development Grants and Cooperative Agreements Program	11.427	33,831
Undersea Research	11.430	62,102
Climate and Atmospheric Research	11.431	7,439
Pacific Fisheries Data Program	11.437	8,572
Cooperative Science and Education Program	11.455	116,033
Special Oceanic and Atmospheric Projects	11.460	113,018
Office of Administration of Special Programs	11.470	(294)
Coastal Services Center	11.473	4,632
Coastal Ocean Program	11.478	3,627
Passed Through Other State Agencies:		
Coastal Zone Management Estuarine Research Reserves	11.420	323,601
Total U.S. Department of Commerce		<u>4,420,277</u>
<i>U.S. Department of Defense</i>		
Direct Programs:		
Department of Defense Awards with no CFDA Numbers	12.000	150,451
Basic and Applied Scientific Research	12.300	5,399,059
Basic Scientific Research	12.431	100,354
Passed Through Subcontracts:		
Department of Defense Awards with no CFDA Numbers	12.000	20,224
Basic and Applied Scientific Research	12.300	570,729
Basic Scientific Research	12.431	106,755
Total U.S. Department of Defense		<u>6,347,572</u>

See accompanying notes to Schedule of Expenditures of Federal Awards.

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Year ended June 30, 2005

Federal Grantor/Pass-Through Grantor/Program Title	CFDA Number	Federal Expenditures
<i>U.S. Department of Interior</i>		
Direct Programs:		
Interior Department Awards with No CFDA Number	15.000	\$ 31,907
Fish, Wildlife, and Parks Programs on Indian Lands	15.039	184,404
Water Reclamation and Reuse Program	15.504	26,680
Fish and Wildlife Management Assistance	15.608	15,868
Coastal Wetlands Planning, Protection and Restoration Act	15.614	16,620
Assistance to State Water Resources Research Institutes	15.805	92,822
U.S. Geological Survey – Research and Data Acquisition	15.808	448,157
National Cooperative Geologic Mapping Program	15.810	21,416
Passed Through Other State Agencies:		
Interior Department Awards with No CFDA Number	15.000	37,461
Fish, Wildlife, and Parks Programs on Indian Lands	15.039	124,675
U.S. Geological Survey – Research and Data Acquisition	15.808	232,792
Total U.S. Department of Interior		<u>1,232,802</u>
<i>National Aeronautics & Space Administration</i>		
Direct Programs:		
Technology Transfer	43.002	1,080,344
Passed Through Subcontracts:		
National Aeronautics & Space Administration Awards with No CFDA	43.000	11,610
Aerospace Education Services Program	43.001	17,045
Technology Transfer	43.002	637,672
Total National Aeronautics and Space Administration		<u>1,746,671</u>
<i>National Science Foundation</i>		
Direct Programs:		
Engineering Grants	47.041	552,852
Mathematical and Physical Sciences	47.049	220,869
Geosciences	47.050	3,712,374
Computer and Information Science and Engineering	47.070	367,576
Biological Sciences	47.074	2,041,098
Social, Behavioral, and Economic Sciences	47.075	782,377
Education and Human Resources	47.076	1,556,635
Polar Programs	47.078	106,959
Passed Through Subcontracts:		
National Science Foundation Awards with no CFDA Numbers	47.000	7,457
Engineering Grants	47.041	(583)
Mathematical and Physical Sciences	47.049	7,553
Geosciences	47.050	1,751,179
Biological Sciences	47.074	2,839
Education and Human Resources	47.076	201,477
Total National Science Foundation		<u>11,310,662</u>

See accompanying notes to Schedule of Expenditures of Federal Awards.

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Year ended June 30, 2005

Federal Grantor/Pass-Through Grantor/Program Title	CFDA Number	Federal Expenditures
<i>Environmental Protection Agency</i>		
Direct Programs:		
Surveys, Studies, Investigations, Demonstrations, and Training Grants and Cooperative Agreements-Section 1442 of the Clean Water Act	66.436	\$ 4,263
Water Quality Cooperative Agreements	66.463	143,246
Environmental Protection – Consolidated Research	66.500	13,585
Surveys, Studies, Investigations, and Special Purpose Grants	66.606	323,591
Training and Fellowships for the Environmental Protection Agency	66.607	58,580
Pollution Prevention Grants Program	66.708	37,201
Passed Through Subcontracts:		
Surveys, Studies, Investigations, Demonstrations, and Training Grants and Cooperative Agreements-Section 1442 of the Clean Water Act	66.436	81,078
EPA Long Islan Sound Program	66.437	5,065
National Estuary Program	66.456	26,687
Environmental Protection – Consolidated Research	66.500	227,031
Surveys, Studies, Investigations, and Special Purpose Grants	66.606	99,250
Passed Through Other State Agencies:		
Water Pollution Control – State and Interstate Program Support	66.419	154,463
		78,901
Total Department of Environment Protection Agency		<u>1,252,941</u>
<i>U.S. Department of Energy</i>		
Direct Programs:		
Office of Energy Research Financial Assistance Program	81.049	44,972
Passed Through Subcontracts:		
Office of Scientific and Technical Information	81.064	41,918
Fossil Energy Research and Development	81.089	9,699
Total U.S. Department of Energy		<u>96,589</u>
<i>U.S. Department of Health & Human Services</i>		
Direct Programs:		
Department of Health and Human Services Awards with no CFDA Numbers	93.000	18,436
Biological Response to Environmental Health Hazards	93.113	580,325
Research Related to Deafness and Communication Disorders	93.173	8,591
Mental Health Research Grants	93.242	3,531
Advanced Education Nursing Grant Program	93.247	280,620
Alcohol National Research Service Awards for Research Training	93.272	122,347
Alcohol Research Programs	93.273	1,528,035
Centers for Disease Control and Prevention – Investigations and Technical Assistance	93.283	36,552
Professional Nurse Traineeships	93.358	34,986
Nursing Research	93.361	416,123
Research Infrastructure	93.389	2,353,211
Cancer Cause and Prevention Research	93.393	487,852
Cancer Detection and Diagnosis Research	93.394	287,937
Cancer Treatment Research	93.395	(8,746)
Cancer Biology Research	93.396	203,192

See accompanying notes to Schedule of Expenditures of Federal Awards.

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Schedule of Expenditures of Federal Awards

Year ended June 30, 2005

Federal Grantor/Pass-Through Grantor/Program Title	CFDA Number	Federal Expenditures
Medicaid Interstructure Grants to Support the Competitive Employment of People with Disabilities	93.768	\$ 676,238
Microbiology and Infectious Diseases Research	93.856	290,424
Pharmacology, Physiology, and Biological Chemistry Research	93.859	182,393
Aging Research	93.866	453,167
Medical Library Assistance	93.879	24,843
Health Care and Other Facilities	93.887	83,428
Grants for Geriatric Education Centers	93.969	487,440
Passed Through Subcontracts:		
Department of Health and Human Services Awards with no CFDA Numbers	93.000	157,777
Grants to Increase Organ Donations	93.134	155,926
Mental Health Research Grants	93.242	18,907
Alcohol Research Programs	93.273	2,629
Drug Abuse Research Programs	93.279	38,996
Cancer Treatment Research	93.395	(336)
Cancer Control	93.399	76,890
Heart and Vascular Diseases Research	93.837	90,385
Extramural Research Programs in the Neurosciences and Neurological Disorders	93.853	11,015
Microbiology and Infectious Diseases Research	93.856	161,739
Pharmacology, Physiology, and Biological Chemistry Research	93.859	40,086
Advanced Hypothermia System	93.873	40,138
Senior International Fellowships	93.989	40,882
Federal Assistance to Individuals and Households – Disaster Housing	97.049	45,114
Pass Through Other State Agencies:		
Community Services Block Grant	93.569	2
Total U.S. Department of Health & Human Services		<u>9,431,075</u>
Total Research and Development Cluster		<u>41,341,157</u>
U.S. Department of Housing and Urban Development		
Direct Programs:		
Community Development Work-Study Program	14.512	33,086
Total U.S. Department of Housing and Urban Development		<u>33,086</u>
U.S. Department of Justice		
Direct Programs:		
Grants to Combat Violent Crimes Against Women on Campuses	16.525	152,858
Crime Laboratory Improvement – Combined Offender DNA Index System	16.564	86,787
Passed Through Subcontracts:		
National Institute of Justice Domestic Anti-Terrorism Technology	16.565	145,629
Total U.S. Department of Justice		<u>385,274</u>

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Federal Grantor/Pass-Through Grantor/Program Title	CFDA Number	Federal Expenditures
U.S. State Department		
Direct Programs:		
State Department Awards with no CFDA Numbers	19.000	\$ 1,281,477
Cooperative Agreements	19.420	90,684
Passed Through Subcontracts:		
State Department with no CFDA Numbers	19.000	74,808
Total U.S. State Department		<u>1,446,969</u>
U.S. Department of Transportation		
Passed Through Subcontracts:		
Highway Planning and Construction	20.205	78,744
University Transportation Centers Program	20.701	1,327,622
Passed Through Other State Agencies:		
Highway Planning and Construction	20.205	35,516
Highway Transportation Centers Program	20.701	19,891
University Transportation Centers Program	20.701	17,220
Total U.S. Department of Transportation		<u>1,478,993</u>
National Foundation on the Arts and the Humanities		
Direct Programs:		
Promotion of Humanities – Fellowships and Stipends	45.160	8,830
Total National Foundation on the Arts and the Humanities		<u>8,830</u>
U.S. Department of Education		
Direct Programs:		
Fund for the Improvement of Postsecondary Education	84.116	6,087
Innovative Education Program Strategies	84.298	40,972
Demonstration Projects to Ensure Students with Disabilities Receive a Higher Education	84.333	244,996
Teacher Quality Enhancement Grants	84.336	163,748
Passed Through Subcontracts:		
Fund for the Improvement of Postsecondary Education	84.116	21,013
Magnet Schools Assistance	84.165	4,910
Fund for the Improvement of Education	84.215	(21,808)
Gaining Early Awareness and Readiness for Undergraduate Programs	84.334	(16,674)
Passed Through Other State Agencies:		
Innovative Education Program Strategies	84.298	3,154
Education Technology State Grants	84.318	41
Special Education-State Program Improvement Grants for Children with Disabilities	84.323	(5,665)
Total U.S. Department of Education		<u>440,774</u>

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

Schedule of Expenditures of Federal Awards

Year ended June 30, 2005

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>CFDA Number</u>	<u>Federal Expenditures</u>
Corporation for National and Community Service		
Direct Programs:		\$
AmeriCorps	94.006	61,480
Passed Through Subcontracts:		
Learn and Serve America School and Community Based Programs	94.004	<u>64,956</u>
Total Corporation for National and Community Service		<u>126,436</u>
Agency for International Development		
Direct Programs:		
AID with no CFDA	98.000	54,955
Passed Through Subcontracts:		
AID with no CFDA	98.000	81,638
USAID Foreign Assistance for Programs Overseas	98.001	<u>14,035</u>
Total Agency for International Development		<u>150,628</u>
Total Expenditure of Federal Awards		<u>\$ 100,915,911</u>

See accompanying notes to Schedule of Expenditures of Federal Awards.

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

Notes to Schedule of Expenditures of Federal Awards

June 30, 2005

(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, 2005. 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, 2005, \$2,007,012 in loans were advanced under the Federal Perkins Loan Program. \$333,350 in loans were advanced under the Health Professional Student Loan Program and \$280,950 were advanced under the Nursing Loan Program. As of June 30, 2005, loan balances receivable under the Perkins, Health Professional Student, and Nursing Loan Programs were \$8,635,270, \$1,403,603 and \$1,115,043, respectively.

(4) Federal Direct Loans

The amount of loans advanced during the year to students and parents under the Federal Direct Loan Program was \$44,596,382.

With respect to the Federal Direct Loan program, the University is responsible only for the performance of certain administrative duties and, accordingly, these loans are not included in the College's financial statements. It is not practical to determine the balances of loans outstanding to students of the University under this program at June 30, 2005.

UNIVERSITY OF RHODE ISLAND
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Summary Schedule of Prior Audit Findings
Year ended June 30, 2005

Reference	Summary of Finding	Status
04-1	The University did not have a record of an exit interview being performed or mailed for ten students who received Federal Direct Loan proceeds. Additionally, one exit interview tested was not performed within 30 days.	Not corrected. See Finding 05-1.
04-2	Promissory notes for two students were signed after the first disbursement of loan proceeds.	Corrected.
04-3	Monitoring of subrecipient audits was not performed in a timely manner.	Corrected.
04-4	The University does not have a procedure in place to notify students of the date and amount of disbursement of Federal Direct Loan proceeds and their right to cancel upon receipt of Federal Direct Loan and Federal Perkins Loan Program funds.	Not corrected. See Finding 05-4.
04-5	The University did not transmit disbursements to the Department of Education within the required 30 days for four students receiving Pell and two students receiving Federal Direct Loan.	Corrected.