



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

Financial Statements

June 30, 2008 and 2007

(With Independent Auditors' Report Thereon)

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

Financial Statements  
June 30, 2008 and 2007

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**KPMG LLP**  
50 Kennedy Plaza  
Providence, RI 02903

## **Independent Auditors' Report**

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

We have audited the accompanying financial statements of the business-type activities and aggregate 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 years ended June 30, 2008 and 2007, which collectively comprise the University's basic financial statements as listed in the table of contents. 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 they relate to the amounts included in the aggregate discretely presented component units, are based on the reports of 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 *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes 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, 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 respective financial position of the business-type activities and aggregate discretely presented component units of the University as of June 30, 2008 and 2007, and the respective changes in financial position, and, where applicable, cash flows thereof for the years then ended in conformity with U.S. generally accepted accounting principles.

As described in note 16, the University, in 2008, implemented Governmental Accounting Standards Board (GASB) Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 4, 2008 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 read in conjunction with this report in considering the results of our audit.

The Management's Discussion and Analysis (MD&A) and schedule of funding progress are not a required part of the financial statements but are supplementary information required by U.S. generally accepted accounting principles. 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

December 4, 2008

**UNIVERSITY OF RHODE ISLAND**  
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Management's Discussion and Analysis

(Unaudited)

June 30, 2008 and 2007

**Introduction**

The following management's 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, 2008 and the results of operations for the year then ended, with selected comparative information for the years ended June 30, 2007 and 2006. 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 studies 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 University was changed to Rhode Island State College, and the program of study was revised and expanded. In 1951, the University 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 to be committed to enriching the lives of its students through its land, sea and urban grant traditions. Students, faculty, staff and alumni are united in one common purpose; to learn and lead together. The University values (1) creativity and scholarship, (2) diversity, fairness and respect, (3) engaged learning and civic involvement, and (4) intellectual and ethical leadership. As set forth in its Vision Statement, the University is building a new culture for learning. The University will share in the power of discovery through collaborative teaching, learning and research and through independent inquiry and free speech. This culture generates a spirited public life for our students, who will become engaged and productive leaders. This Vision Statement will serve as a guideline for the University's commitment to continuous improvement and high quality.

The University has a combined enrollment of 15,650 students and offers undergraduate and graduate degree programs through the doctoral level. The University has over 100 majors in seven degree-granting colleges. 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.

The University has adopted a 2006 – 2009 Strategic Plan "Steps toward transformation," which seeks to: (1) enhance student recruitment, retention, involvement, and graduation rates; (2) improve the fiscal health of the

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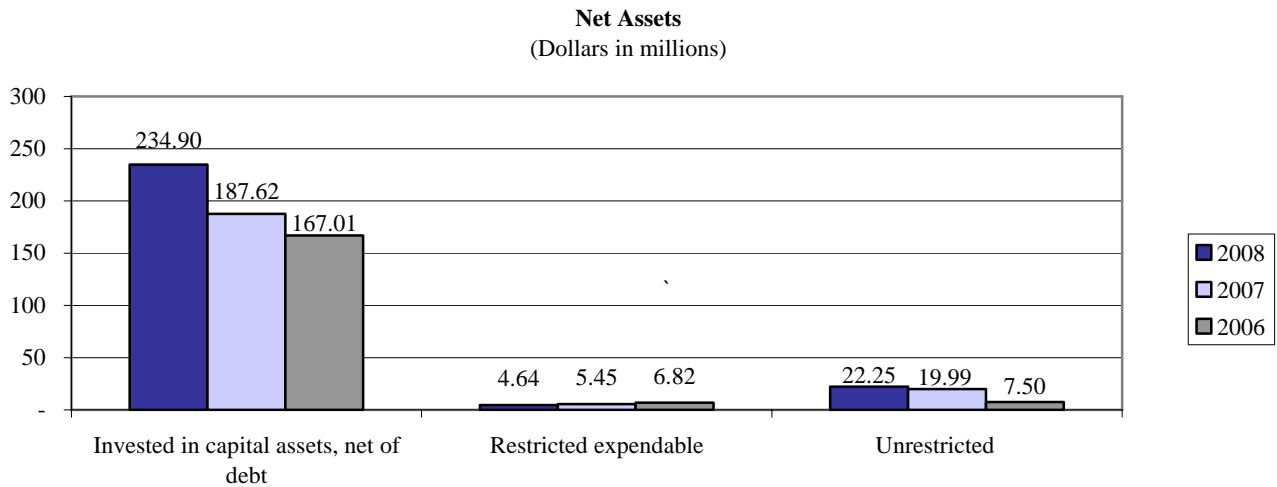
June 30, 2008 and 2007

University; (3) create a more inclusive environment; and (4) improve the efficiency and effectiveness of research and outreach support. 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, 2008 showed a loss before capital appropriations and gifts of \$8.97 million for the year, compared with income of \$5.63 million for fiscal 2007 and a net loss of \$10.39 million in 2006. The \$8.97 million net loss in fiscal year 2008 resulted from a decrease in the State Appropriation of \$7.97 million in fiscal year 2008.

The following chart displays the components of the University's net assets for the fiscal years ended June 30, 2008, 2007, and 2006.



On June 30, 2008, 2007, and 2006, the University's total assets of \$526.77 million, \$478.78 million, and \$448.56 million, exceeded its total liabilities of \$264.98 million, \$265.72 million, and \$267.23 million resulting in net assets of \$261.79 million, \$213.06 million, and \$181.33 million, respectively. The resulting net assets are summarized in the following categories (dollars in millions):

	<u>2008</u>	<u>2007</u>	<u>2006</u>
Invested in capital assets, net of related debt	\$ 234.90	187.62	167.01
Restricted expendable	4.64	5.45	6.82
Unrestricted	22.25	19.99	7.50
Total net assets	<u>\$ 261.79</u>	<u>213.06</u>	<u>181.33</u>

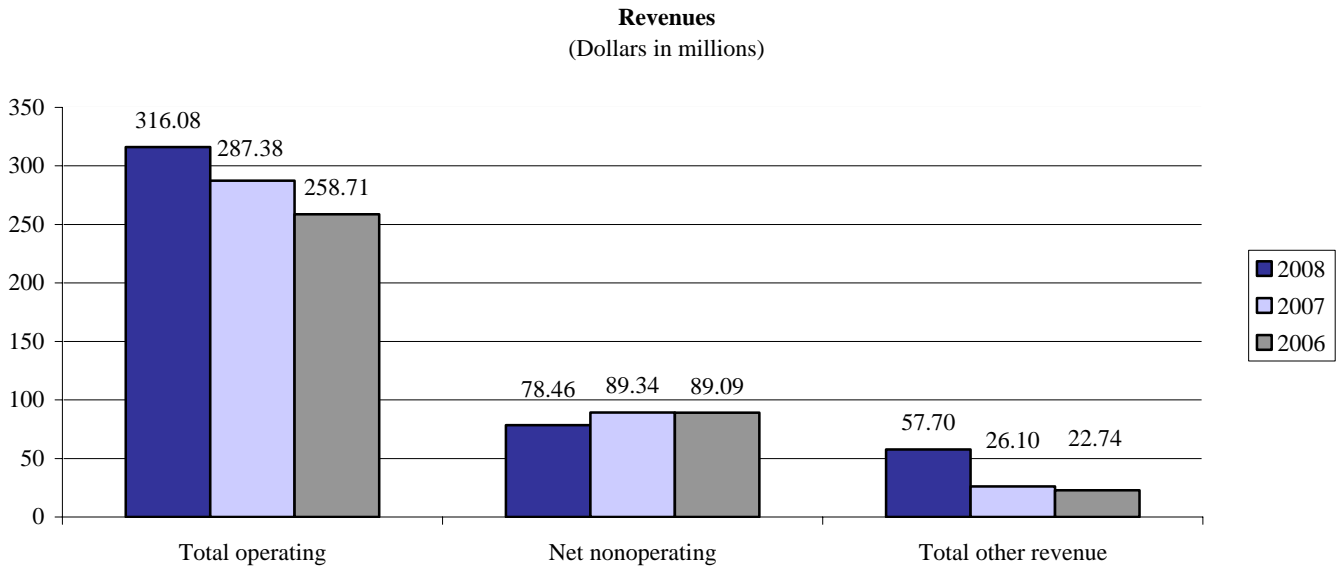
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The following chart provides a graphical breakdown of total revenues by category for the fiscal years ending June 30, 2008, 2007, and 2006:



**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.

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

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

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

The *Statement of Cash Flows* is reported on the direct method. The direct method of cash flow reporting portrays net cash flows from operations as major classes of operating receipts (e.g. tuition and fees) and disbursements (e.g. cash paid to employees for services).

The 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 52 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 \$261.79 million, \$213.06 million, and \$181.33 million at the close of fiscal years 2008, 2007, and 2006, respectively.



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The University's condensed statement of net assets are presented below.

**University of Rhode Island's Net Assets**

(Dollars in millions)

	<u>2008</u>	<u>2007</u>	<u>2006</u>
Current assets	\$ 84.67	76.94	58.89
Noncurrent assets	442.10	401.84	389.67
Total assets	<u>\$ 526.77</u>	<u>478.78</u>	<u>448.56</u>
Current liabilities	\$ 47.49	44.51	41.28
Noncurrent liabilities	217.49	221.21	225.95
Total liabilities	<u>\$ 264.98</u>	<u>265.72</u>	<u>267.23</u>
Net assets:			
Invested in capital assets, net of related debt	\$ 234.90	187.62	167.01
Restricted, expendable	4.64	5.45	6.82
Unrestricted	22.25	19.99	7.50
Total net assets	<u>\$ 261.79</u>	<u>213.06</u>	<u>181.33</u>

By far the largest portion of the University's net assets, \$234.90 million, \$187.62 million, and \$167.01 million, respectively, reflects its investment in capital assets (such as land, buildings, machinery, and equipment), net of any related outstanding debts, 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. 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. 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. Borrowings by the State are not reflected in these financial statements.

The restricted expendable net assets consist of resources that are subject to external restrictions on how they must be used, and they represent approximately 2%, 3%, and 4% of the University's net assets at June 30, 2008, 2007, and 2006, 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, 2008, 2007, and 2006, the University's unrestricted net assets represent 8%, 9%, and 4%, respectively, of the net assets. At year end, these net assets are designated or committed for goods and services that have not yet been received, working capital for

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auxiliary enterprise and departmental activities, payment of annual debt service, capital improvements, equipment replacement, scholarships and new faculty startup costs, including lab renovation and matching funds.

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 current portion of long-term debts. Compensated absences represent accumulated vacation, 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, remains positive: 1.78 to 1, 1.73 to 1 and 1.43 to 1 as of June 30, 2008, 2007, and 2006, respectively.

One of the components of the University's noncurrent assets are the funds on deposit with the bond trustee totaling \$5.82 million, \$11.10 million and \$58.83 million as of June 30, 2008, 2007 and 2006 respectively. The majority of the bond proceeds were from the 2005 F Bonds for \$3.24 million for the acquisition and demolition of Theta Delta Chi House and the construction of an addition to Tyler Hall.

During fiscal years 2008, 2007, and 2006, the University's net assets increased by \$48.73 million, \$31.74 million, and \$12.35 million, respectively, which is largely due to capital and private funds received. The University closed fiscal years 2008, 2007, and 2006 with positive unrestricted net assets of \$22.25 million, \$19.99 million, and \$7.50 million, respectively.

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

**University of Rhode Island's Condensed Revenues,  
Expenses and Changes in Net Assets**

(Dollars in millions)

	<u>2008</u>	<u>2007</u>	<u>2006</u>
Operating revenues:			
Tuition and fees, net of tuition waivers and remissions	\$ 197.64	172.61	155.43
Operating grants and contributions	74.55	72.01	65.76
Other sources	43.89	42.76	37.52
Total operating revenues	<u>316.08</u>	<u>287.38</u>	<u>258.71</u>
Operating expenses:			
Salaries and benefits	257.91	236.60	230.70
Operating expenses	50.10	47.52	47.73
Scholarships, grants and contracts	12.82	10.89	10.41
Auxiliaries	62.38	57.43	53.04
Depreciation and amortization	20.30	18.65	16.31
Total operating expenses	<u>403.51</u>	<u>371.09</u>	<u>358.19</u>
Net operating loss	<u>(87.43)</u>	<u>(83.71)</u>	<u>(99.48)</u>
Nonoperating revenues (expenses):			
State appropriation	75.39	83.36	83.19
Net investment income	3.45	4.10	2.50
Private gifts	8.01	7.78	7.72
Interest expense	(8.39)	(5.90)	(4.32)
Total nonoperating revenues	<u>78.46</u>	<u>89.34</u>	<u>89.09</u>
Income (loss) before other revenues, expenses, gains or losses	<u>(8.97)</u>	<u>5.63</u>	<u>(10.39)</u>
Capital appropriations	9.11	5.19	9.31
State contributed capital	47.05	18.97	12.44
Capital gifts	1.54	1.94	0.99
Increase in net assets	<u>48.73</u>	<u>31.73</u>	<u>12.35</u>
Net assets – beginning of year	<u>213.06</u>	<u>181.33</u>	<u>168.98</u>
Net assets – ending of year	<u>\$ 261.79</u>	<u>213.06</u>	<u>181.33</u>

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**Operating Revenues**

The total operating revenues were up \$28.70 million or 10% in fiscal 2008 (\$28.68 million or 11% in fiscal 2007 and \$12.83 million or 5% in fiscal 2006) 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 2006 – 2009 fiscal year Strategic Plan. Fiscal year 2008 freshman enrollment of 3,027 exceeded fiscal year 2007 by 9%. Graduate student enrollment decreased to 2,564 or by 2.6%. Tuition and student fees increased 6.0% – 7.5% in fiscal year 2008. Revenues from tuition and fees, net of waivers and remissions, contributed 62% of the total operating revenue stream of fiscal year 2008 as opposed to 60% of fiscal 2007 and 2006.

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

	<u>2008</u>	<u>2007</u>	<u>2006</u>
Tuition	\$ 170.11	142.54	126.90
Student service fees	18.61	18.11	14.85
Health service fees	5.06	4.61	4.26
Housing fees	25.98	21.30	18.15
Dining service fees	15.98	13.73	12.61
Miscellaneous student fees	5.25	8.57	8.87
Total	<u>240.99</u>	<u>208.86</u>	<u>185.64</u>
Tuition waived or remitted	<u>(43.35)</u>	<u>(36.25)</u>	<u>(30.21)</u>
Net	<u>\$ 197.64</u>	<u>172.61</u>	<u>155.43</u>

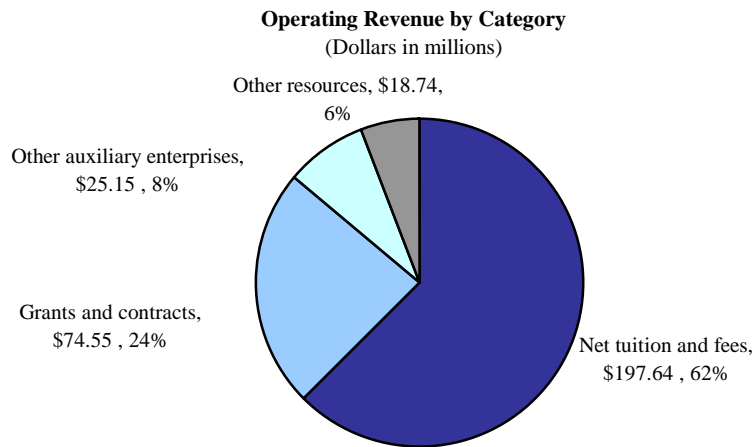
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The following provides a graphical breakdown of operating revenues by category for the year ended June 30, 2008.



Consistent with the goal of the University's 2006-2009 Strategic Plan, the benefits derived from tuition and fees rate and student enrollment increases became evident at the close of fiscal 2008. Additional housing facilities for students also increased revenues in fiscal year 2008. An increase in revenues gave the University the capacity to fund salary increases to faculty and staff, employee benefits, insurance, utilities, capital improvements, and interest expense. However, the need for financial support of students, both need-based and merit-based scholarships, has become more critical in order to stabilize or increase the current student enrollment at the University.

During fiscal years ended June 30, 2008, 2007, and 2006, the revenues from operating grants and contracts contributed 24%, 25%, and 25% respectively, of the total operating revenues.

**Grant and Contract Revenue**

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 statements of net assets.

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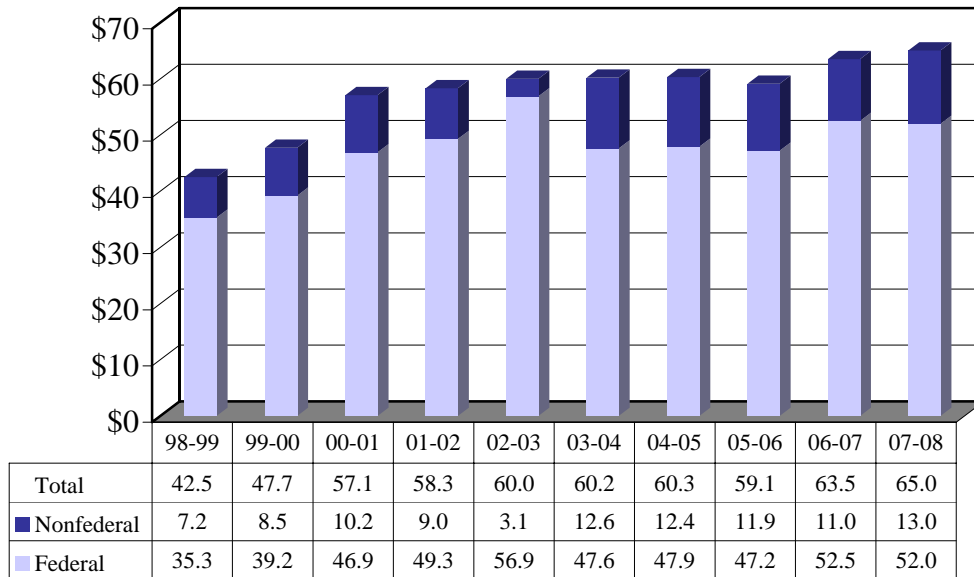
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The bar chart below shows a steady growth in the amount of grants and contracts awarded to the University during the last ten years, from a total of \$42.5 million in 1998 to \$65.0 million in 2008 or a 53% increase. This positive development is a reflection of the University's vision to pursue research and to enhance creative and entrepreneurial activities on campus.

**Awards for Competitive Sponsored Programs**



\$ in millions

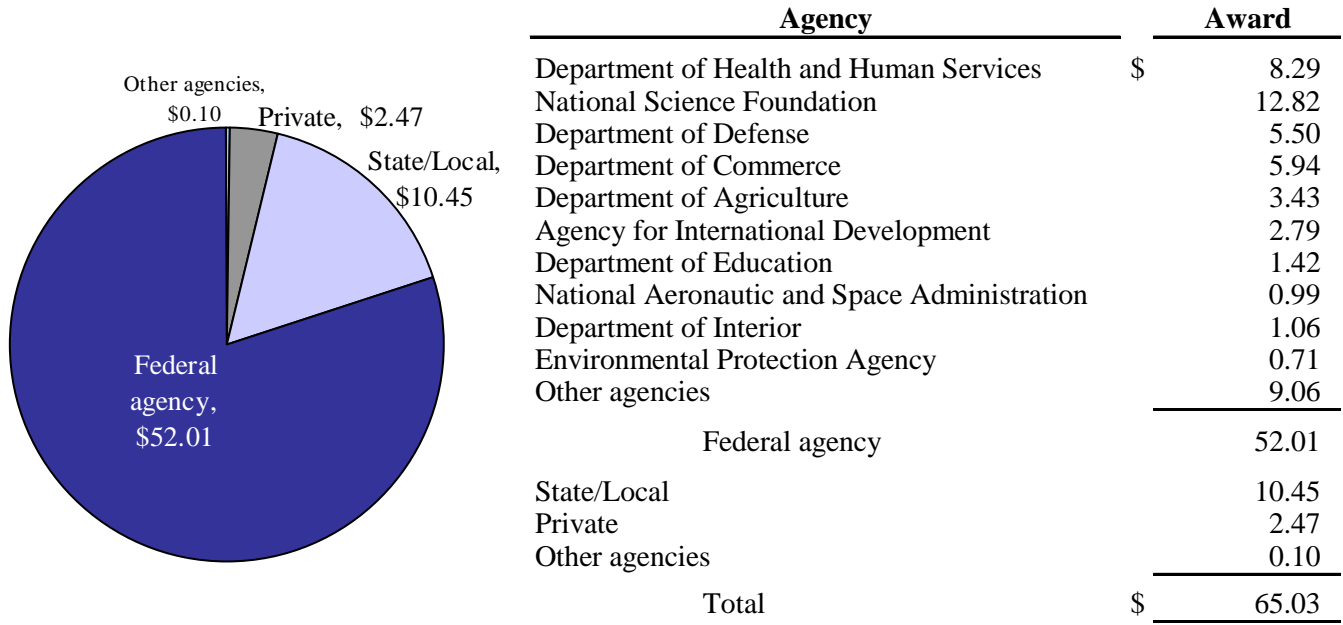
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The following summary shows the breakdown of federal awards received from sponsoring agencies during fiscal 2008, with a pie chart for federal and nonfederal awards (dollars in millions).



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 operating expenses for fiscal years 2008, 2007, and 2006 totaled \$403.51 million, \$371.09 million, and \$358.18 million, respectively, an increase of \$32.42 million, \$12.91 million and 20.43 million or 8.74%, 3.60%, and 6.05% over those of fiscal years 2008, 2007 and 2006. The increase in fiscal year 2008 operating expenses is accounted for by the increase in health insurance premiums, faculty and staff salaries and associated fringe benefits, ground maintenance, utilities, and depreciation expense.

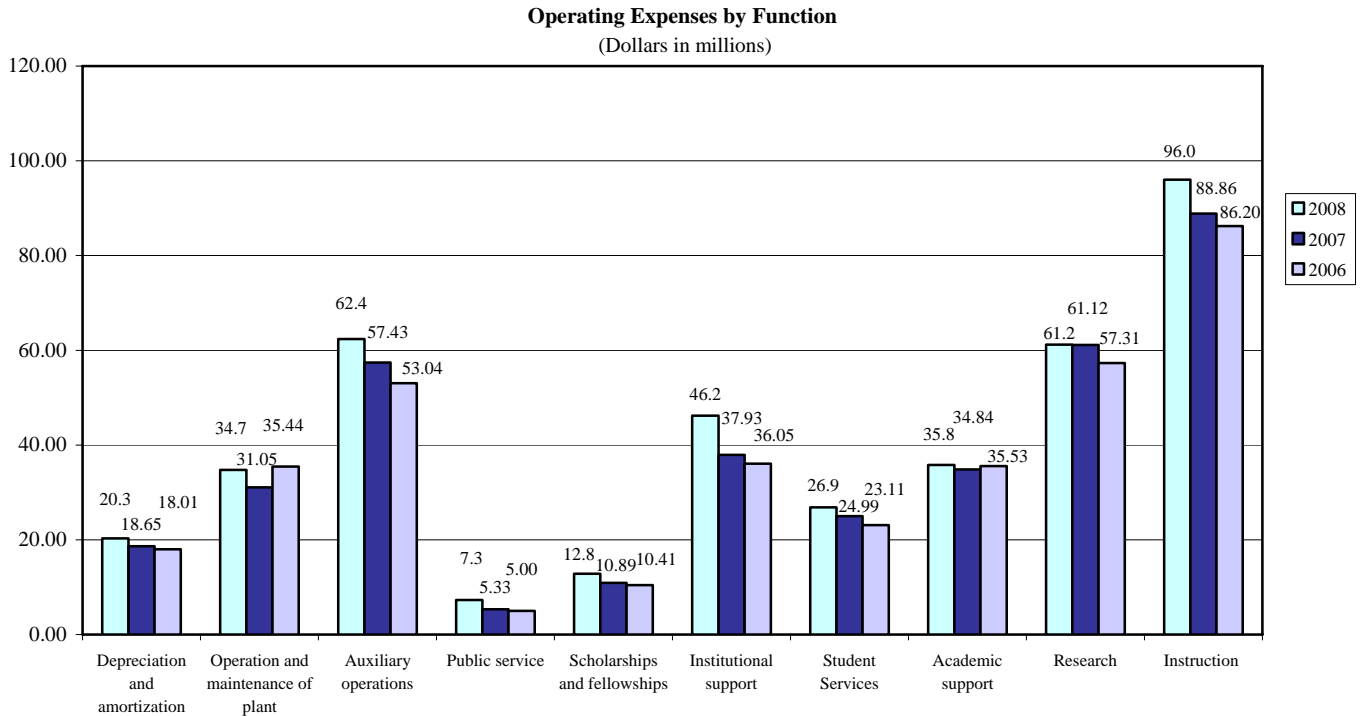
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The bar chart below illustrates the University's operating expenses by function for the fiscal years ended June 30, 2008, 2007, and 2006, excluding scholarship allowances applied against tuition and fee revenues.



The following summary shows where major grant and contract expenditures, including indirect cost charges, occurred during 2008, 2007, and 2006 (dollars in millions):

Agency	Amount		
	2008	2007	2006
National Science Foundation	\$ 12.82	14.54	11.38
Department of Health and Human Services	8.29	11.41	10.52
Department of Agriculture	3.43	5.93	5.76
Department of Defense	5.50	5.28	4.99
Department of Commerce	5.94	4.83	4.98
National Aeronautic and Space Administration	0.99	1.77	1.98
Department of Transportation	0.92	1.53	1.23
Department of Education	1.42	1.40	1.53
Department of Interior	1.06	1.12	1.03
Environmental Protection Agency	0.71	0.92	1.26
Agency for International Development	2.79	0.19	0.20



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**Nonoperating Revenues and Expenses**

The State's unrestricted appropriation is the largest component of the University's nonoperating revenues. The amount requested for fiscal 2008 was \$91.48 million. However, the amount appropriated by the State was \$75.39 million resulting in an appropriation for fiscal 2008 that was \$16.09 million less than the amount requested. Although the budget request for fiscal 2008 did not fully meet the real needs of the University, it was able to maintain a balanced budget and an acceptable level of quality in carrying out the University's mission as it currently exists.

The University has a long tradition of using the state appropriation to support its operating expenses. During fiscal years 2008, 2007, and 2006, the University received state appropriations of \$75.39 million, \$83.36 million, and \$83.19 million, respectively, which combined with operating revenue, was not sufficient to cover operating expenses to the extent of \$12.04 million, \$0.35 million, and \$16.29 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 (49% in fiscal 2008, 47% in fiscal 2007 and 43% in fiscal 2006) 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.

	(Dollars in millions)		
	<u>2008</u>	<u>2007</u>	<u>2006</u>
Net student fees	\$ 197.64	172.61	155.43
Other operating revenue	118.44	114.77	103.28
Operating expenses	<u>(403.51)</u>	<u>(371.09)</u>	<u>(358.19)</u>
Operating loss	(87.43)	(83.71)	(99.48)
State direct appropriations	<u>75.39</u>	<u>83.36</u>	<u>83.19</u>
Net loss after state appropriation	<u>\$ (12.04)</u>	<u>(0.35)</u>	<u>(16.29)</u>

Investment income was down \$0.66 million or 16% due to decreased short-term rates of return and funds available for investment during the year. Interest expense was up \$2.48 million or 42% due to the completion of new student housing and Hope Dining Hall facilities resulting in additional interest payments not expensed in prior years.

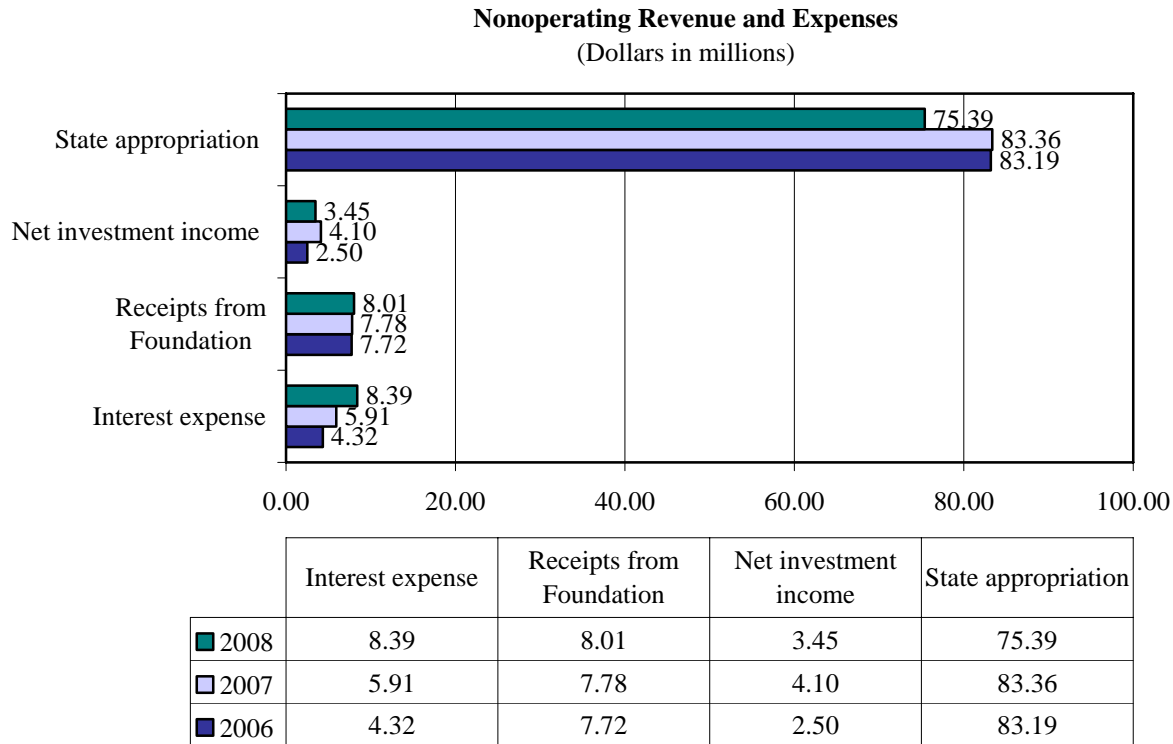
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The following chart provides a graphical breakdown of the University's nonoperating revenues and expenses.



**Capital Assets and Debt Administration**

**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, general obligation bonds, federal appropriations, and private fund raising. The execution of the University's capital improvement plan is contingent upon approval from the State and sufficient funding.

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 2009-2013 plan for the University totals \$637.8 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.

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

Management's Discussion and Analysis

(Unaudited)

June 30, 2008 and 2007

**Capital Assets**

The University's investment in capital assets as of June 30, 2008, 2007, and 2006 net of accumulated depreciation, amounts to \$417.78 million, \$372.37 million, and \$313.30 million, respectively. This investment in capital assets includes land, buildings (including improvements), and furnishings and equipment (including capital leases). Capital assets increased during fiscal 2008 by \$45.41 million, \$59.07 million during fiscal 2007, and \$51.43 million during fiscal 2006. 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 net capital asset balances as of June 30, 2008, 2007, and 2006 is presented below.

**Summary Schedule of Net Capital Assets**

(Dollars in millions)

	<b>2008</b>	<b>2007</b>	<b>2006</b>
Land and improvements	\$ 33.60	33.37	32.79
Major capital additions to building and improvements	304.84	291.11	198.73
Furnishings and equipment	18.27	20.57	21.96
Construction in progress	61.07	27.32	59.82
Total	\$ 417.78	372.37	313.30

Capital additions in fiscal 2008 included the completion of renovations to Hutchinson, Peck, Tucker, and Merrow Resident Halls (\$12.5 million), Gorham Hall and Fayerweather Hall (\$3.7 million), IEP House (\$1.4 million) and Athletics and Memorial Union Energy Project (\$4.4 million). In addition, construction in progress includes the renovations of Lippitt Hall, (\$5.6 million), Tyler Hall (\$1.5 million), Pell Marine Library (\$7.0 million) and new construction of the Bioscience building, (\$25.0 million) and Pharmacy building (\$6.5 million).

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

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Management's Discussion and Analysis

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**Debt**

As of June 30, 2008, 2007 and 2006, the University had \$194.06 million, \$198.39 million, and \$202.09 million respectively, in outstanding debt, a decrease of \$4.33 million and \$3.70 million over that of the prior years. The table below summarizes the types of debt instruments.

**Summary Schedule of Debt**

(Dollars in millions)

	<b>2008</b>	<b>2007</b>	<b>2006</b>
Loans payable	\$ 2.27	1.72	1.94
Capital lease obligations	12.19	13.21	14.63
Revenue bonds	179.60	183.46	185.52
Total	\$ 194.06	198.39	202.09

The University has no independent bonding authority. All bonds must be approved by and arranged through the Board of Governors for Higher Education. All general obligation and revenue bond related indebtedness is reflected on the financial accounts of the entity issuing the bonds. Both Moody's and Standard and Poor's rating services have given the Board of Governors for Higher Education general revenue bonds a rating of AAA. The State of Rhode Island general obligation bonds are rated by Moody's at Aa3, Fitch's at AA, and Standard and Poor's at AA.

More detailed information about the University's long-term liabilities is presented in notes 7 and 8 to the financial statements.

**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, increased from 4.7% in June of 2007 to 7.5% in June of 2008, according to the U.S. Bureau of Labor Statistics. This compares to a increase from 4.67% to 5.5%, respectively, on a national level. Historically, in times of economic slowdowns, public colleges/universities have experienced increases in their enrollment as unemployed and underemployed workers seek to update and upgrade their skills. The University cannot predict the extent to which enrollment may vary in this current environment.

To support their strategic priorities in this financially challenging environment, the University and the Board of Governors for Higher Education took the following actions:

- Fiscal 2008 and 2007 tuition and fees were increased by 6% for in-state students, 7.5% for out-of-state students and all graduate students
- All discretionary expenses were closely reviewed by senior management
- Developed an energy performance contract to use energy savings to pay for necessary equipment and facility upgrades with no negative impact on current operating budgets

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- In June 2007, the State of Rhode Island approved the creation of URI Research Foundation, a private non profit foundation, to commercialize the intellectual property derived from URI research

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.

In accordance with its strategic plan, the University continues to increase its enrollment gradually each year, consistent with its efforts to effectively manage student housing and class enrollment. The University has also attempted to maintain affordability by limiting the size of tuition and fee increases. Increases in in-state undergraduate student charges have been held to an average of 7% in past academic years. Out-of-state undergraduate student charges have been held to an average of 9% over the same period. Based on in-state undergraduate mandatory tuition and fees during the 2006-2007 academic year, the University ranks fifth lowest among the six New England public flagship universities.

### **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 Academic Investment and Improvement Model along with other financial and program assessment tools continue to be utilized to balance mission and resources. The University has established plans to increase revenue over the next three years as reflected in the University's 2006-2009 Strategic Plan.

### **Requests for Information**

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

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

Statements of Net Assets

June 30, 2008 and 2007

Assets	2008 University of Rhode Island	2007 University of Rhode Island	2008 Component units	2007 Component units
<b>Current assets:</b>				
Cash and cash equivalents (note 2)	\$ 49,641,395	49,191,657	6,069,628	6,038,744
Cash held by State Treasurer – capital projects (note 3)	956,676	4,573,427	—	—
Cash held by State Treasurer – other (note 3)	—	1,213,562	—	—
Accounts receivable, net (note 4)	30,162,333	17,748,548	7,019	153,684
Current portion of pledges receivable	—	—	3,495,269	1,554,878
Current portion of notes receivable	—	—	—	26,529
Inventory and other current assets	3,905,871	4,213,817	592,461	750,630
Total current assets	<u>84,666,275</u>	<u>76,941,011</u>	<u>10,164,377</u>	<u>8,524,465</u>
<b>Noncurrent assets:</b>				
Cash and cash equivalents – restricted (note 2)	12,633	28,885	—	—
Funds on deposit with bond trustee	5,824,838	11,101,349	—	—
Investments (note 2)	—	—	93,498,891	94,529,552
Pledges receivable	—	—	4,718,733	4,615,399
Loans receivable, net (note 5)	13,694,311	13,338,259	292,467	90,381
Charitable remainder trusts	—	—	1,150,738	865,002
Other deferred assets	4,790,743	5,002,474	—	—
Capital assets, net of accumulated depreciation (note 6)	417,781,001	372,372,688	2,061,689	2,062,895
Total noncurrent assets	<u>442,103,526</u>	<u>401,843,655</u>	<u>101,722,518</u>	<u>102,163,229</u>
Total assets	<u>\$ 526,769,801</u>	<u>478,784,666</u>	<u>111,886,895</u>	<u>110,687,694</u>
<b>Liabilities</b>				
<b>Current liabilities:</b>				
Accounts payable and accrued liabilities (note 3)	\$ 24,977,271	24,975,721	788,117	566,220
Cash due to State Treasurer – other (note 3)	325,141	—	—	—
Compensated absences (note 7)	1,028,601	1,027,126	—	—
Funds held for others	737,128	563,602	—	—
Deferred revenues	13,585,963	12,315,807	17,045	11,495
Current portion of capital lease obligations (note 7)	942,876	1,160,564	—	—
Current portion of bonds and loans payable (note 7)	5,893,877	4,464,114	—	—
Current portion of gift annuity payable	—	—	195,500	111,253
Total current liabilities	<u>47,490,857</u>	<u>44,506,934</u>	<u>1,000,662</u>	<u>688,968</u>
<b>Noncurrent liabilities:</b>				
Compensated absences (note 7)	17,328,612	17,247,542	—	—
Due to State of Rhode Island – OPEB (note 16)	818,776	—	—	—
Pledges payable	—	—	150,000	175,000
Capital lease obligations (note 7)	11,244,195	12,051,683	—	—
Bonds and loans payable (note 7)	175,979,950	180,718,319	—	—
Gift annuity payable	—	—	746,543	753,860
Grant refundable (note 9)	11,366,715	11,198,313	—	—
Net OPEB obligation (note 16)	746,579	—	—	—
Total noncurrent liabilities	<u>217,484,827</u>	<u>221,215,857</u>	<u>896,543</u>	<u>928,860</u>
Total liabilities	<u>\$ 264,975,684</u>	<u>265,722,791</u>	<u>1,897,205</u>	<u>1,617,828</u>
<b>Net Assets</b>				
Invested in capital assets, net of related debt	\$ 234,897,475	187,620,905	2,061,689	2,062,895
<b>Restricted:</b>				
Expendable (note 10)	4,644,385	5,449,571	21,672,210	26,769,939
Nonexpendable	—	—	76,058,253	70,475,401
Unrestricted (note 11)	22,252,257	19,991,399	10,197,538	9,761,631
Total net assets	<u>\$ 261,794,117</u>	<u>213,061,875</u>	<u>109,989,690</u>	<u>109,069,866</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, 2008 and 2007

	<b>2008</b>	<b>2007</b>	<b>2008</b>	<b>2007</b>
	<b>University of Rhode Island</b>	<b>University of Rhode Island</b>	<b>Component units</b>	<b>Component units</b>
Operating revenues:				
Tuition and fees	\$ 186,114,637	162,183,950	—	—
Residence, dining, student union, and health fees	54,873,396	46,677,749	—	—
Less scholarship allowances	(43,346,807)	(36,248,768)	—	—
Net student fees	197,641,226	172,612,931	—	—
Federal, State, local, and private grants and contracts	74,548,864	72,010,704	—	—
Other auxiliary enterprises	25,152,124	23,905,962	—	—
Other sources	18,738,495	18,855,158	3,756,252	3,752,779
Total operating revenues	<u>316,080,709</u>	<u>287,384,755</u>	<u>3,756,252</u>	<u>3,752,779</u>
Operating expenses (note 13):				
Instruction	95,998,846	88,859,508	—	—
Research	61,204,054	61,121,333	—	—
Academic support	35,755,884	34,843,578	—	—
Student services	26,848,700	24,990,311	2,181,047	2,232,337
Scholarships and fellowships	12,818,002	10,886,890	—	—
Public service	7,282,571	5,326,923	—	—
Operation and maintenance of plant	34,726,362	31,051,864	624,531	585,941
Depreciation and amortization	20,296,296	18,648,615	81,385	76,173
Institutional support	46,195,208	37,930,962	5,729,277	4,313,853
Auxiliary operations	62,381,924	57,432,683	—	—
Total operating expenses	<u>403,507,847</u>	<u>371,092,667</u>	<u>8,616,240</u>	<u>7,208,304</u>
Operating loss	<u>(87,427,138)</u>	<u>(83,707,912)</u>	<u>(4,859,988)</u>	<u>(3,455,525)</u>
Nonoperating revenues (expenses):				
State appropriation (note 14)	75,389,594	83,359,181	—	—
Net investment income	3,453,133	4,108,591	385,694	860,381
Endowment income (loss)	—	—	(5,262,697)	5,581,008
Private gifts and contributions	—	—	12,232,578	7,620,656
Payments between the University and component units	8,007,593	7,782,294	(7,869,032)	(7,541,240)
Additions to permanent endowments	—	—	5,623,333	9,337,483
Patent receipts	—	—	349,819	587,837
Miscellaneous receipts	—	—	1,859,208	1,072,183
Interest expense	(8,392,507)	(5,908,538)	—	—
Net nonoperating revenues	<u>78,457,813</u>	<u>89,341,528</u>	<u>7,318,903</u>	<u>17,518,308</u>
Income (loss) before capital activities	<u>(8,969,325)</u>	<u>5,633,616</u>	<u>2,458,915</u>	<u>14,062,783</u>
Capital appropriations (note 14)	56,162,476	24,158,176	—	—
Capital gifts	1,539,091	1,943,926	(1,539,091)	(1,943,926)
Increase in net assets	<u>48,732,242</u>	<u>31,735,718</u>	<u>919,824</u>	<u>12,118,857</u>
Net assets, at beginning of year	<u>213,061,875</u>	<u>181,326,157</u>	<u>109,069,866</u>	<u>96,951,009</u>
Net assets, at end of year	<u>\$ 261,794,117</u>	<u>213,061,875</u>	<u>109,989,690</u>	<u>109,069,866</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, 2008 and 2007

	<u>2008</u> <u>University of</u> <u>Rhode Island</u>	<u>2007</u> <u>University of</u> <u>Rhode Island</u>
Cash flows from operating activities:		
Tuition and fees	\$ 195,036,009	174,243,346
Grants and contracts	73,924,030	72,876,953
Payments to suppliers	(109,202,708)	(101,084,016)
Payments to employees	(253,223,044)	(236,323,336)
Payments for scholarships, fellowships, and sponsored programs	(18,625,925)	(15,899,383)
Auxiliary enterprises	25,193,148	24,251,470
Other receipts	10,393,765	18,308,702
Net cash used in operating activities	<u>(76,504,725)</u>	<u>(63,626,264)</u>
Cash flows from noncapital financing activities:		
State appropriations	75,389,594	83,359,181
Gifts from component units	8,007,593	7,782,294
Funds held for others	173,526	205,458
Net cash provided by noncapital financing activities	<u>83,570,713</u>	<u>91,346,933</u>
Cash flows from capital and related financing activities:		
Proceeds from capital debt	1,125,083	321,099
Capital appropriations	56,162,476	24,158,176
Capital gifts	1,539,091	1,943,926
Net loss on disposal of capital assets	17,283	35,635
Purchase of capital assets	(65,422,117)	(77,502,752)
Principal paid on capital debt and leases	(5,546,909)	(4,054,167)
Interest paid on capital debt and leases	(8,392,507)	(5,908,538)
Deposit with trustee	5,276,511	47,730,897
Net cash used in capital and related financing activities	<u>(15,241,089)</u>	<u>(13,275,724)</u>
Cash flows from investing activity:		
Interest on investments	3,453,133	4,108,591
Net cash provided by investing activity	<u>3,453,133</u>	<u>4,108,591</u>
Net increase (decrease) in cash, restricted cash and cash equivalents	(4,721,968)	18,553,536
Cash, restricted cash and cash equivalents – beginning of year	<u>55,007,531</u>	<u>36,453,995</u>
Cash, restricted cash and cash equivalents – end of year	<u>\$ 50,285,563</u>	<u>55,007,531</u>
Reconciliation of net operating loss to net cash used by operating activities:		
Operating loss	\$ (87,427,138)	(83,707,912)
Adjustments to reconcile net operating loss to net cash used in operating activities:		
Depreciation and amortization	20,296,296	18,648,615
Changes in assets and liabilities:		
Accounts receivable	(12,413,785)	1,382,679
Inventory and other current assets	307,946	(888,987)
Loans receivable	(356,052)	(1,035,594)
Accounts payable and accrued liabilities	1,550	(117,231)
Deferred revenues	1,270,156	1,267,889
Compensated absences	82,545	581,689
Other post employment benefits	1,565,355	—
Refundable grant	168,402	242,588
Net cash used in operating activities	<u>\$ (76,504,725)</u>	<u>(63,626,264)</u>
Supplemental disclosure of cash flows information:		
New capital leases	\$ 203,059	41,765

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, 2008 and 2007

### (1) Summary of Significant Accounting Policies

#### (a) *Organization*

The University of Rhode Island (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 (CCRI) and Rhode Island College (RIC), with which matriculation agreements exist for student transfer within the system.

The University, a component unit of the State of Rhode Island and Providence Plantations, 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.

The Rhode Island Office of Higher Education, which operates under the direction of the Commissioner of Higher Education, is the administrative and research arm of the Rhode Island Board of Governors for Higher Education. The Board of Governors is not a department of state government but an independent public corporation vested with the responsibility of providing oversight for the system of public education in Rhode Island. This system consists of four entities: the University of Rhode Island, Rhode Island College, the Community College of Rhode Island and the Rhode Island Office of Higher Education.

#### (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 U.S. generally accepted accounting principles 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 revenues 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 statements 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.

**UNIVERSITY OF RHODE ISLAND**  
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Notes to Financial Statements

June 30, 2008 and 2007

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

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. 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, 2008 and 2007, the Foundation distributed \$9,546,684 and \$9,726,220, respectively, to the University for both restricted and unrestricted purposes. The Foundation's year-end was March 31, 2008. The Foundation's financial statements indicate that it distributed \$9,408,123 and \$9,485,166 in fiscal 2008 and 2007, respectively, to the University. The variance of \$138,561 in 2008 and \$241,054 in 2007 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, 2008 and 2007, the Alumni Association distributed \$2,181,047 and \$2,232,337, respectively, to the University for scholarships.

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.

**UNIVERSITY OF RHODE ISLAND**  
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Notes to Financial Statements

June 30, 2008 and 2007

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

	<b>2008</b>		
	<b>Foundation</b>	<b>Alumni Association</b>	<b>Total</b>
Current assets	\$ 9,603,837	560,540	10,164,377
Noncurrent assets	97,978,382	3,744,136	101,722,518
Total assets	<u>107,582,219</u>	<u>4,304,676</u>	<u>111,886,895</u>
Current liabilities	583,766	416,896	1,000,662
Noncurrent liabilities	896,543	—	896,543
Total liabilities	<u>1,480,309</u>	<u>416,896</u>	<u>1,897,205</u>
Net assets:			
Invested in capital assets, net of related debt	2,061,689	—	2,061,689
Restricted:			
Expendable	20,405,283	1,266,927	21,672,210
Nonexpendable	76,058,253	—	76,058,253
Unrestricted	<u>7,576,685</u>	<u>2,620,853</u>	<u>10,197,538</u>
Total net assets	<u>\$ 106,101,910</u>	<u>3,887,780</u>	<u>109,989,690</u>
	<b>2007</b>		
	<b>Foundation</b>	<b>Alumni Association</b>	<b>Total</b>
Current assets	\$ 7,698,133	826,332	8,524,465
Noncurrent assets	98,559,266	3,603,963	102,163,229
Total assets	<u>106,257,399</u>	<u>4,430,295</u>	<u>110,687,694</u>
Current liabilities	227,945	461,023	688,968
Noncurrent liabilities	928,860	—	928,860
Total liabilities	<u>1,156,805</u>	<u>461,023</u>	<u>1,617,828</u>
Net assets:			
Invested in capital assets, net of related debt	2,062,895	—	2,062,895
Restricted:			
Expendable	25,422,681	1,347,258	26,769,939
Nonexpendable	70,475,401	—	70,475,401
Unrestricted	<u>7,139,617</u>	<u>2,622,014</u>	<u>9,761,631</u>
Total net assets	<u>\$ 105,100,594</u>	<u>3,969,272</u>	<u>109,069,866</u>

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

Notes to Financial Statements

June 30, 2008 and 2007

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 June 30 are as follows:

	<b>2008</b>		
	<b>Foundation</b>	<b>Alumni Association</b>	<b>Component units</b>
Endowment income (loss)	\$ (5,262,697)	—	(5,262,697)
Other sources	—	3,756,252	3,756,252
Total operating revenues	(5,262,697)	3,756,252	(1,506,445)
Operating expenses:			
Operation and maintenance of plant	—	624,531	624,531
Depreciation and amortization	81,385	—	81,385
Student services	—	2,181,047	2,181,047
Institutional support	3,781,153	1,948,124	5,729,277
Auxiliary operations	—	—	—
Total operating expenses	3,862,538	4,753,702	8,616,240
Operating loss	(9,125,235)	(997,450)	(10,122,685)
Nonoperating revenues (expenses):			
Net investment income	692,441	(306,747)	385,694
Private gifts	10,956,249	1,276,329	12,232,578
Gifts to the university	(7,869,032)	—	(7,869,032)
Additions to permanent endowments	5,623,333	—	5,623,333
Patent receipts	349,819	—	349,819
Miscellaneous receipts	1,912,832	(53,624)	1,859,208
Net nonoperating revenues	11,665,642	915,958	12,581,600
Income (loss) before other revenues, expenses, gains or losses	2,540,407	(81,492)	2,458,915
Capital gifts	(1,539,091)	—	(1,539,091)
Increase (decrease) in net assets	1,001,316	(81,492)	919,824
Net assets, at beginning of year	105,100,594	3,969,272	109,069,866
Net assets, at end of year	\$ 106,101,910	3,887,780	109,989,690

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	<b>2007</b>		
	<b>Foundation</b>	<b>Alumni Association</b>	<b>Component units</b>
Endowment income	\$ 5,581,008	—	5,581,008
Other sources	—	3,752,779	3,752,779
Total operating revenues	5,581,008	3,752,779	9,333,787
Operating expenses:			
Operation and maintenance of plant	—	585,941	585,941
Depreciation and amortization	76,173	—	76,173
Student services	—	2,232,337	2,232,337
Institutional support	2,420,170	1,893,683	4,313,853
Auxiliary operations	—	—	—
Total operating expenses	2,496,343	4,711,961	7,208,304
Operating income (loss)	3,084,665	(959,182)	2,125,483
Nonoperating revenues (expenses):			
Net investment income	490,002	370,379	860,381
Private gifts	6,208,415	1,412,241	7,620,656
Gifts to the university	(7,541,240)	—	(7,541,240)
Additions to permanent endowments	9,337,483	—	9,337,483
Patent receipts	587,837	—	587,837
Miscellaneous receipts	1,072,183	—	1,072,183
Net nonoperating revenues	10,154,680	1,782,620	11,937,300
Income before other revenues, expenses, gains or losses	13,239,345	823,438	14,062,783
Capital gifts	(1,943,926)	—	(1,943,926)
Increase in net assets	11,295,419	823,438	12,118,857
Net assets, at beginning of year	93,805,175	3,145,834	96,951,009
Net assets, at end of year	\$ 105,100,594	3,969,272	109,069,866

Complete financial statements for the Foundation can be obtained from: 79 Upper College Road, Kingston, RI 02881.

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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 – Nonexpendable:** Net assets subject to externally imposed conditions that the University must maintain them in perpetuity.

**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 generally utilizing restricted – expendable funds, when available, prior to unrestricted funds.

(d) *Cash Equivalents*

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

(e) *Inventories*

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

(f) *Capital Assets*

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

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

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**(g) *Compensated Absences and Salary Reduction Plan***

University employees are granted vacation and sick leave in varying amounts. The University is committed to separate union contracts which contain 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 nonunion employees (classified and nonclassified) contribute between 6% to 13% of the cost of their health plans. The University pays the remaining balance of 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 2008 and 2007 health premiums were \$29,531,932 and \$22,721,289, 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 2008 and 2007 was 3.8% and 3.2%. The assessed fringe benefit cost for the University was \$5,628,341 for fiscal year 2008 and \$4,320,997 for fiscal year 2007.

**(j) *Students' Deposits and Unearned Revenues***

Students' deposits and advance payments received for tuition and fees for the following academic year are recorded as deferred revenue in current year and recorded as earned revenue in the following year.

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

**(n) Risk Management**

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

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 faculty, staff, students, and volunteers acting within scope of their duties on behalf of the University. Employed health care providers, are covered under an institutional medical malpractice policy 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.

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



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compensation, unemployment, and employee health and life insurance claims are self-insured and managed by the State of Rhode Island.

**(o) *Reclassifications***

Certain 2007 balances have been reclassified to conform to the 2008 presentation.

**(p) *Implementation of New Accounting Standards***

GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, requires governments to recognize other postemployment benefits (OPEB) when earned rather than on a pay-as-you-go basis. Governments with revenues greater than \$100 million are required to implement this standard for financial statement periods beginning after December 15, 2006. The University implemented this standard in the current year (see note 16).

**(2) Cash, Cash Equivalents, and Investments**

**(a) *Cash and Cash Equivalents***

At June 30, 2008 and 2007, the carrying amount of the University's cash deposits was \$49,654,028 and \$49,220,542 and the bank balance was \$60,135,125 and \$51,342,073, respectively. Deposits are exposed to custodial credit risk if they are not covered by depository insurance and the deposits are:

- a) Uncollateralized
- b) Collateralized with securities held by the pledging financial institution, or
- c) Collateralized with securities held by the pledging financial institution's trust department or agent but not in the depositor-government's name.

Of the bank balance \$356,312 and \$354,842 was covered by federal depository insurance and \$48,479,517 and \$39,801,465 was collateralized with securities held by the pledging financial institution, in the University's name as of June 30, 2008 and June 30, 2007 respectively. The remaining amount, \$11,299,295 for 2008 compared to \$11,185,777 in 2007, that was uninsured and uncollateralized. None of the University's cash deposits were required to be collateralized by law since the deposits are not time deposits. In addition, the three financial institutions doing business with the University exceed the minimum capital standards prescribed by their federal regulator.

The University's policy is in accordance with Chapter 35-10.1 of the Rhode Island General Laws dealing with the Public Finance which states that any depository institutions holding public deposits shall insure or pledge eligible collateral equal to one hundred percent (100%) with any time deposit with maturities greater than sixty (60) days. If any depository institution does not meet its minimum capital standards as prescribed by its federal regulator they shall insure or pledge eligible collateral equal to one hundred percent (100%) of all public deposits.

The University does not have a policy for custodial credit risk associated with deposits.

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**(b) Investments**

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.

The Foundation investments at March 31, 2008 and 2007 and the Alumni Association investments at June 30, 2008 and 2007 are reported at fair market value and are composed of the following:

<b>2008</b>			
	<b>Foundation</b>	<b>Alumni Association</b>	<b>Total</b>
Government securities	\$ 13,170,995	—	13,170,995
Corporate bonds	2,640,552	1,112,874	3,753,426
Common stocks	74,278,828	2,295,642	76,574,470
	\$ 90,090,375	3,408,516	93,498,891
<b>2007</b>			
	<b>Foundation</b>	<b>Alumni Association</b>	<b>Total</b>
Government securities	\$ 10,991,099	—	10,991,099
Corporate bonds	13,822,081	1,092,662	14,914,743
Common stocks	66,220,909	2,402,801	68,623,710
	\$ 91,034,089	3,495,463	94,529,552

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

Accounts payable and accrued salaries to be funded from state-appropriated funds totaled \$631,535 and \$5,786,989 at June 30, 2008 and 2007, respectively. The University has recorded a comparable dollar amount of cash held by the State Treasurer for the benefit of the University which was subsequently utilized to pay for such liabilities.

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**(4) Accounts Receivable**

Accounts receivable include the following at June 30:

	<u>2008</u>	<u>2007</u>
Student accounts receivable	\$ 7,977,050	4,531,467
Grants receivable	4,258,442	3,849,897
Unbilled grants receivables	10,044,847	8,717,292
Other receivables	6,336,276	4,883,823
State of Rhode Island	6,016,739	—
	<u>34,633,354</u>	<u>21,982,479</u>
Less allowance for doubtful accounts	<u>(4,471,021)</u>	<u>(4,233,931)</u>
	<u>\$ 30,162,333</u>	<u>17,748,548</u>

The University has determined that the net amount of accounts receivable will be collected within one year's time.

**(5) Loans Receivable**

Loans receivable include the following at June 30:

	<u>2008</u>	<u>2007</u>
Perkins loans receivable	\$ 10,385,002	10,003,660
Nursing loans receivable	1,575,188	1,475,484
Health profession loans receivable	1,604,170	1,639,033
Other	567,261	565,798
	<u>14,131,621</u>	<u>13,683,975</u>
Less allowance for doubtful accounts	<u>(437,310)</u>	<u>(345,716)</u>
	<u>\$ 13,694,311</u>	<u>13,338,259</u>

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**(6) Capital Assets**

Capital assets of the University consist of the following at June 30:

2008						
	Estimated lives (in years)	Beginning balance	Additions	Reductions	Reclassifications	Ending balance
Capital assets not being depreciated:						
Land	—	\$ 1,024,671	1,080,405	—	—	2,105,076
Construction in progress	—	27,324,504	60,308,969	—	(26,565,241)	61,068,232
Total not being depreciated		28,349,175	61,389,374	—	(26,565,241)	63,173,308
Capital assets being depreciated:						
Land improvements	15 – 25	42,932,571	—	—	975,713	43,908,284
Buildings, including improvements	10 – 50	431,018,798	639,729	—	25,589,528	457,248,055
Furnishings and equipment (including cost of capital leases)	5 – 15	66,984,161	3,596,073	(1,393,186)	—	69,187,048
Total being depreciated		540,935,530	4,235,802	(1,393,186)	26,565,241	570,343,387
Less accumulated depreciation:						
Land improvements		10,591,984	1,823,472	—	—	12,415,456
Building, including improvements		139,905,789	12,501,270	—	—	152,407,059
Furnishings and equipment		46,414,244	5,874,838	(1,375,903)	—	50,913,179
Total accumulated depreciation		196,912,017	20,199,580	(1,375,903)	—	215,735,694
Capital assets, net		\$ 372,372,688	45,425,596	(17,283)	—	417,781,001

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2007						
	Estimated lives (in years)	Beginning balance	Additions	Reductions	Reclassifications	Ending balance
Capital assets not being depreciated:						
Land	—	\$ 888,172	136,499	—	—	1,024,671
Construction in progress	—	59,816,064	71,737,767		(104,229,327)	27,324,504
Total not being depreciated		60,704,236	71,874,266	—	(104,229,327)	28,349,175
Capital assets being depreciated:						
Land improvements	15 – 25	40,731,539	—	—	2,201,032	42,932,571
Buildings, including improvements	10 – 50	327,906,820	1,083,683	—	102,028,295	431,018,798
Furnishings and equipment (including cost of capital leases)	10 – 50	64,021,416	4,586,568	(1,623,823)	—	66,984,161
Total being depreciated		432,659,775	5,670,251	(1,623,823)	104,229,327	540,935,530
Less accumulated depreciation:						
Land improvements		8,832,046	1,759,938	—	—	10,591,984
Building, including improvements		129,167,065	10,738,724	—	—	139,905,789
Furnishings and equipment		42,064,210	5,938,222	(1,588,188)	—	46,414,244
Total accumulated depreciation		180,063,321	18,436,884	(1,588,188)	—	196,912,017
Capital assets, net		\$ 313,300,690	59,107,633	(35,635)	—	372,372,688



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(a) **Bonds Payable**

The revenue bonds payable totaling \$179,601,155 and \$183,465,464 as of June 30, respectively, consist of the following:

	<b>2008</b>	<b>2007</b>
Revenue Bonds payable to U.S. Government:		
1972 Graduate Housing Revenue Bonds, 5.75%, due semiannually through 2007	\$ —	135,000
Rhode Island Health and Education Building Corporation:		
1993 Series B Facility Revenue and Refunding Bonds – Various Purpose Educational Facilities, 4.60% to 5.50%, due semiannually through 2008	—	125,600
1997 Series Higher Education Revenue Bonds – University of Rhode Island Issue, 4% to 5.3%, due semiannually through 2008	1,595,000	1,660,000
Series 2002 University of Rhode Island Educational and General Revenue Issue, 3% to 5.0%, due semiannually through 2022	7,000,000	7,335,000
Series 2003 A University of Rhode Island Educational and General Revenue Issue, 2% to 5%, due semiannually through 2013	2,155,000	2,475,000
Series 2003 B Facility Revenue Refunding Bonds, Auxiliary Enterprise Revenue Issue, 2% to 5%, due semiannually through 2023	11,144,580	11,654,851
Series 2003 C Facility Revenue Refunding Bonds, Educational and General Revenue Issue, 2% to 5%, due semiannually through 2023	7,361,575	7,425,013
Series 2004 A University of Rhode Island Auxiliary Enterprise Revenue Issue, 2.5% to 5.5%, due semiannually through 2024	32,600,000	33,935,000
Series 2004 B University of Rhode Island Auxiliary Enterprise Revenue Issue, 4% due semiannually through 2034	33,000,000	33,000,000
Series 2005 A University of Rhode Island Educational and General Revenue Issue, 3% to 4.25% due semiannually through 2020	2,450,000	2,595,000

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	<u>2008</u>	<u>2007</u>
Series 2005 B University of Rhode Island Educational and General Revenue Issue, 3% to 4.25% due semiannually through 2025	\$ 1,855,000	1,930,000
Series 2005 C University of Rhode Island Auxiliary Enterprise Revenue Issue, 3% to 4.625% due semiannually through 2025	13,360,000	13,620,000
Series 2005 D University of Rhode Island Auxiliary Enterprise Revenue Refunding Issue, 3% to 4.25% due semiannually through 2029	19,510,000	19,625,000
Series 2005 F University of Rhode Island Educational and General Revenue Issue, 3% to 4.50% due semiannually through 2025	3,030,000	3,145,000
Series 2005 G University of Rhode Island Educational and General Revenue Issue, 4% to 5% due semiannually through 2030	44,540,000	44,805,000
	<u>\$ 179,601,155</u>	<u>183,465,464</u>

The 1972 Graduate Housing Revenue Bond was issued for \$1,900,000, 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 of the University’s Social Science Center and for the renovations to the University’s Multicultural Center.

On November 15, 2002, the Corporation issued the \$7,975,000 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 was deposited in a capitalized interest fund to finance the interest due until 2005.



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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.

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 was 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 were used to construct the second level of an existing facility, Surge Modular Building I, located at 210 Flag Road on the Kingston Campus.

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 were used for the construction and rebuilding of parking facilities, roadways, sidewalks, curbing, drainage and landscape amenities on the Kingston Campus.

On October 14, 2005, the Corporation issued the University of Rhode Island Auxiliary Enterprise Revenue Issue, Series 2005 C Bonds with a par amount of \$13,840,000. The proceeds of the 2005 C Bonds were used for the demolition and construction of a two story dining hall. The Corporation also issued the University of Rhode Island Educational and General Revenue Issue, Series 2005 F Bonds with a par amount of \$3,245,000. The proceeds of the 2005 F Bonds were used to acquire and demolish the former Delta Chi House.

On October 14, 2005, the Corporation issued the Auxiliary Enterprise Revenue Refunding Issue, Series 2005 D Bonds with a par amount of \$19,625,000. The proceeds of the 2005 D Bonds were used to advance refund the outstanding Series 1999 A principal of \$18,020,000. The net present value savings from refunding is \$1,127,401. The Corporation also issued the Educational and General Revenue Issue, Series 2005 G Bonds with a par amount of \$44,805,000. The proceeds of the 2005 G Bonds were used to advance refund the outstanding Series 1999 B principal of \$3,430,000 and Series 2000 B principal of \$39,290,000. The net present value of savings of this refunding is \$2,185,245 in total.

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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, 2008 and 2007.

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:			
2009	\$ 5,310,930	7,752,790	13,063,720
2010	5,488,117	7,571,080	13,059,197
2011	5,695,303	7,372,170	13,067,473
2012	5,895,620	7,162,429	13,058,049
2013	6,117,807	6,941,534	13,059,341
2014 – 2018	32,679,314	30,874,946	63,554,260
2019 – 2023	40,012,775	22,508,331	62,521,106
2024 – 2028	37,196,289	12,970,823	50,167,112
2029 – 2033	31,235,000	4,946,106	36,181,106
2034 – 2038	9,970,000	473,188	10,443,188
	<u>\$ 179,601,155</u>	<u>108,573,397</u>	<u>288,174,552</u>

In conjunction with its 2004 B issuance of fixed-rate revenue bonds, the University entered into an interest rate Swap agreement with a financial institution counter party. See note 8 for details.

Interest costs for the years ended June 30, 2008 and 2007 were \$8,328,469 and \$7,027,232, respectively. Of these amounts, \$39,313 and \$1,097,332 were capitalized in 2008 and 2007, respectively.

**(b) Loans Payable**

The University has a loan of \$1,075,000 payable to the Estate of Alice P Tibbits for the Flagg Road land purchase. The loan is payable in annual installments through 2013.

The University also obtained a loan from Rhode Island Health & Educational Building Corporation, in May 2006 for the amount of \$800,000 for the financing of the acquisition and renovations of the Chi Phi fraternity house for use as student housing for the International Engineering Program. The

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loan is payable in monthly installments of \$8,387 commencing May 20, 2006 through April 20, 2016.

The University has a loan from Oracle Corp for \$1,140,258 for the PeopleSoft System Software upgrade and support payable annually through 2009.

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

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

	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
Year ending June 30:			
2009	\$ 582,947	93,699	676,646
2010	600,642	75,996	676,638
2011	308,392	57,262	365,654
2012	201,002	39,652	240,654
2013	212,125	28,529	240,654
2014 – 2016	367,564	24,924	392,488
	\$ 2,272,672	320,062	2,592,734

(c) ***Lease Obligations***

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. Noresco, LLC, (a company subsidiary) was the Seller's contract service provider. On December 30, 2005, Noresco was sold to ERI (including the University's contract) to a fund managed by GFI Energy Ventures, LLC, a California corporation. Under this agreement, the Seller is required to deliver and the University is required to purchase certain quantities of acceptable steam required by the University in connection with its operation. The Seller's commitment for steam service to the University is for duration of 20 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

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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.

The following schedule summarizes future minimum payments under all noncancelable leases at June 30, 2008:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Year ending June 30:			
2009	\$ 942,876	574,951	1,517,827
2010	965,064	534,774	1,499,838
2011	938,731	483,820	1,422,551
2012	980,400	438,105	1,418,505
2013	875,000	391,195	1,266,195
2014 – 2018	5,080,000	1,239,200	6,319,200
2019 – 2020	2,405,000	111,604	2,516,604
	<u>\$ 12,187,071</u>	<u>3,773,649</u>	<u>15,960,720</u>

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**(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.

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 fair market value of (\$1,397,657) and \$1,162,670 as of June 30, 2008 and June 30, 2007, respectively. 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, 2008 and June 30, 2007, the Bond Market Municipal Swap Index was 1.55% and 3.73%, respectively whereas 67.0% of 1 month LIBOR plus 0.12% was 1.65% and 3.56%, respectively.

As of June 30, 2008, the University was exposed to credit risk because the Swap had a negative fair value. MLCS is unconditionally guaranteed by Merrill Lynch & Co. and has maintained its 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

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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.

Subsequent to June 30, 2008, the financial markets in the United States have experienced significant turmoil. The University has, as part of its management of debt, entered into various swap agreements as previously discussed. The continued effectiveness of these swaps will be contingent upon the ability of the counterparty to meet its contractual obligations under these agreements.

**(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.

**(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 at June 30:

	<b>2008</b>	<b>2007</b>
Restricted – expendable:		
Loans	\$ 3,603,490	3,459,236
Capital programs	978,921	1,873,326
Sponsored research	61,974	117,009
	\$ 4,644,385	5,449,571

**(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, 2008 and 2007, the University is a guarantor of loans to fraternities and sororities in the amount of \$363,678 and \$507,282, 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

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

**(13) Operating Expenses**

The University's operating expenses, on a natural classification basis, are the following for the years ended June 30:

	<b>2008</b>	<b>2007</b>
Operating expenses on a natural classification basis:		
Compensation and benefits	\$ 257,914,496	236,604,344
Supplies and services	106,671,130	99,940,325
Depreciation and amortization	20,296,296	18,648,615
Scholarships and fellowships	18,625,925	15,899,383
	\$ 403,507,847	371,092,667

**(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 2008 and 2007, the State allocated \$4.19 million and \$5.19 million, respectively, to the University for asset protection.

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(c) *State Contributed Capital*

In November 1998, the Rhode Island voters approved the issuance of \$21.0 million General Obligation Bonds for higher education facilities. The bond provided the University with \$10.0 million for the renovations of Lippitt and Independence Hall. From the proceeds of these general obligation bonds issues, the University spent \$0.52 million and \$2.21 million on the renovations of these two buildings at the Kingston Campus during fiscal years 2008 and 2007, respectively.

In November 2000, the Rhode Island voters approved the issuance of General Obligation Bonds to fund improvements to the University. 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. During fiscal years 2008 and 2007, the University spent \$0.07 million and \$0.67 million, respectively.

In November 2004, Rhode Island voters approved the issuance of \$114 million General Obligation Bonds to fund improvements for higher education facilities. The bonds provide the University with \$20 million to complete the residence hall renovation project initiated in 1999, \$14 million for the construction of an Ocean Exploration and Research Center and rehabilitate the Pell Marine Science Library, and \$50 million for the construction of the Center for Biotechnology and Life Sciences. During fiscal years 2008 and 2007, the University spent \$33.89 million and \$15.67 million, respectively.

In November 2006, the Rhode Island voters approved the issuance of \$65 million General Obligations Bonds for higher education facilities. The bond provides funding until 2009 for the construction of the College of Pharmacy Building. During fiscal years 2008 and 2007 the University spent \$6.4 million and \$0.3 million, respectively.

During fiscal year 2008 the University participated with the State Department of Administration in a request for proposal process to enter into an energy performance contract with an energy service company to make improvements to existing equipment and install new equipment that will conserve energy and water. In the contract there is a provision of a guarantee on energy savings from the improvements. Depending on the nature of improvements the contract period can range from 5 to years. The University spent \$5.3 million for fiscal year 2008.

In 2008 the University received an Information Technology certificate of participation funding to improve the state's technology infrastructure and to outfit classrooms to assist teachers in improving their skills in the use of information technology. During fiscal year 2008 the University spent \$0.84 million.

The expenditures funded from the proceeds of the above-mentioned general obligation bonds and capitalized during fiscal years 2008 and 2007 totaled \$47,045,884 and \$18,968,176, respectively.



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The University's State appropriations are composed of the following for the years ended June 30:

	<b>2008</b>	<b>2007</b>
Direct appropriations	\$ 75,389,594	83,359,181
State Capital Plan Funds	9,116,592	5,190,000
State contributed capital	47,045,884	18,968,176
	\$ 131,552,070	107,517,357

**(15) Pension, Early, and Post-Retirement Plans**

Certain employees of the University, (principally faculty and administrative personnel) are covered by individual annuity contracts under a defined contribution retirement plan established by the Rhode Island Board of Governors (Board) which is also responsible for amending it. 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. The Board establishes and amends contribution rates. 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 \$9,032,235 and \$8,705,560 during 2008 and 2007, respectively.

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 \$38,989,316 and \$37,367,794 for the years ended June 30, 2008 and 2007, respectively. The University's total payroll expense for the years ended June 30, 2008 and 2007 was \$188,977,315 and \$179,842,511, respectively.

All full-time employees of the University who have not obtained at least 10 years of contributory service as of July 1, 2005 and are not covered by 403(b) annuity contracts are eligible to retire at or after age 65 with 10 years of credited service, or at age 59 with 29 years of credited service or at age 55 and had completed 20 years of total service provided, that the retirement allowance, as determined according to the formula in the State statute is reduced actuarially for each month that the age of the member is less than 65 years. The retirement benefit is equal to various percentages of annual earnings, ranging from 1.6% to 2.25% for each of the first 38 years of service, to the maximum benefit of 75% of final salary after 38 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. The above information can be found at RIGL 36-10-9 and 36-10-10.

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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 an average of 20.77% and 18.24% of salaries paid for the years ending June 30, 2008 and 2007, respectively. Employees contributed \$3,411,565 and \$3,269,682, and \$3,233,531, respectively, and the University's contribution to the System for the years ended June 30, 2008, 2007, and 2006 were \$8,098,084 and \$6,816,417, and \$5,484,069, respectively, representing 100% of the required contribution.

**(16) Other Post Employment Benefits**

GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, is required to be implemented by governments with annual revenues greater than \$100 million for financial statement periods beginning after December 15, 2006. Statement No. 45 requires governments to account for other postemployment benefits (OPEB), primarily healthcare, on an accrual basis rather than on a pay-as-you-go basis. The effect is the recognition of an actuarially required contribution as an expense on the statement of revenues, expenses, and changes in net assets when a future retiree earns their postemployment benefits, rather than when they use their postemployment benefit. To the extent that an entity does not fund their actuarially required contribution, a postemployment benefit liability is recognized on the balance sheet over time.

**(a) Rhode Island Retiree Health Care Benefit Plan (RIRHCBP)**

Approximately 640 employees of the University (principally civil service personnel) who are members of the Employees' Retirement System of the State of Rhode Island also participate in the State-administered defined benefit post-employment health care plan known as the Rhode Island Retiree Health Care Benefit Plan (RIRHCBP).

RIGL Sections 36-10-2, 36-12.1, 36-12.2.2 and 36-12-4 govern the provisions of the RIRHCBP. The contribution requirements of plan members, the State and other participating employers are established and may be amended by the General Assembly.

A complete description of the RIRHCBP, including contribution requirements and benefits provided, is included in the State of Rhode Island's Comprehensive Annual Financial Report for the fiscal year ended June 30, 2008.

In order to recover its costs, the State bills the University for the costs of providing this benefit to the employees covered under the RIRHCBP. The University recognized an expense equal to the amount billed to them by the State totaling \$2,343,258, which represents 6.01% of covered payroll. However, the University actually reimbursed the State \$1,524,482, which is 3.91% of annual covered payroll. This resulted in an amount due to the State totaling \$818,776 as of June 30, 2008.

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**(b) *Rhode Island Board of Governors for Higher Education Health Care Insurance Retirement Program***

**Plan description**

The University contributes to the Rhode Island Board of Governors for Higher Education (Board) health care insurance retirement program (Plan), medical coverage only, for eligible employees who participate in the Board's Alternate Retirement Plan (ARP) and per union contracts. The Board established an agent multiple-employer defined benefit healthcare plan effective July 1, 1998 for Office of Higher Education, University of Rhode Island (URI), Rhode Island College (RIC) and Community College of Rhode Island (CCRI).

Contributions are recognized when made. Health care claims are recognized when due and payable in accordance with the terms of the plan. A liability for incurred but not reported claims is determined based on past claims payment trends and is included in the financial statements. Working premium rates are determined by the State each fiscal year after consultation with an employee benefits consultant and are designed to fund current claims incurred during the fiscal year as well as the costs of administering the plan. For the year ended June 30, 2008 the Plan operated on a pay as you go basis and no provision has been made to fund future benefits to be provided to Plan members.

The Plan offers two types of retiree health care benefits. The Plan offers a self-insured health care plan administered by United Healthcare for pre-65 and post-65 retirees or a fully insured Medicare HMO plan for post-65 retirees. Tier I, non-Medicare eligible plans, subsidy provides that the Board will pay the portion of the cost of post-retirement health care for the retiree between the active group rate and the early retiree rate. This subsidy is not based on years of service and ends at age 65. In addition, the Board pays a portion of the cost of post retirement health care for the retiree based on age and years of service, referred to as Tier II. Tier II benefits are a lifetime benefit.

To be eligible for coverage, the retiree must have worked a minimum of 10 years for the Board/University and must be 60 years of age, unless they have 28 years or more of service. Depending on the years of service and the retiree's age the Board will pay from 50% to 100% of medical insurance premium while the retiree contributes from 50% to 0%.

Effective July 1, 2008, the pre-65 retiree health coverage is eliminated. For Employees retiring after June 30, 2008, who are not yet 65 years of age, who have worked a minimum of 10 years for the Board/University and are at least 60 years of age or who have 28 years or more of service, may purchase health insurance coverage at the actual retiree premium rate for themselves and their spouses. The University will continue to pay a portion of the post-65 Tier II benefits, 50% to 100% of medical insurance premium depending on the years of service and the retiree's age while the retiree will contribute from 50% to 0%. In addition, the AAUP Faculty Union negotiated to eliminate this benefit for retirees after June 30, 2008, approximately 703 employees.

On May 1, 2008, Public Law 2008-09 was enacted. This law established the "Rhode Island State Employees' and Electing Teachers OPEB System", as defined in G.L. 36-12.1-5, which will be managed by an OPEB Board for the purpose of providing and administering OPEB Benefits for retired employees of the State, includes the Board Plan. The OPEB Board shall establish one or more trust funds and/or sub trusts to hold the assets of the OPEB System, which will be known as "Rhode Island OPEB System Trust."

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The Board health care insurance retirement program does not issue a publicly available financial report.

**Funding Policy**

The contribution requirements of plan members and the University are established and may be amended by the Board. The Board is not required to fund the plan other than the pay-as-you-go amount necessary to provide current benefits to retirees. The Board reserves the authority to establish and amend contribution rates and benefit provisions of the plan.

Active employees who are covered by the Board's Plan contribute the following:

Effective date	Percentage of salary
July 1, 1998	0.25%
January 1, 2008	0.50
July 1, 2008	0.75
July 1, 2009	0.90

Employer contributions are made to cover expenditures beyond the amount of employee and retiree contributions.

University employees covered by this program contributed \$242,512 and \$240,338, during fiscal years 2008 and 2007, respectively. Employer contributions to the program were \$744,767 and \$726,937 during fiscal years 2008 and 2007, respectively.

University membership in the Board's Plan consisted of the following at June 30, 2006, the date of the latest actuarial valuation:

Retires and beneficiaries receiving benefits	296
Active board plan members	610
Total	906

**Annual OPEB Cost and Net OPEB Obligation**

For fiscal year 2008, the University's annual OPEB cost (expense) was \$1,491,346 for the Plan, resulting in a net OPEB obligation of \$746,579.

Annual Required Contribution (ARC)	\$	1,491,346
Contributions		744,767
Increase in net obligation		746,579
Net obligations – beginning of year		—
Net obligations – end of year	\$	746,579

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The funded status of the University's share of the plan as of June 30, 2006, the date of the most recent actuarial valuation, was as follows:

Actuarial Accrued Liability (AAL)	\$	27,704,417
Actuarial value of plan assets		—
		—
Unfunded actuarial accrued liability (UAAL)	\$	27,704,417
Funded ratio (actuarial value of plan assets/AAL)		—%
Annual covered payroll (active plan members)	\$	37,892,989
UAAL as a percentage of covered payroll		73%

The University's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for fiscal year 2008 is as follows:

<b>Fiscal year ended</b>	<b>Annual OPEB cost</b>	<b>Percentage of annual OPEB cost contributed</b>	<b>Net OPEB obligation</b>
June 30, 2008	\$ 1,491,346	50%	\$ 746,579

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

**Actuarial Methods and Assumptions**

Projections of benefits for financial reporting purposes are based on the substantive plan and include the types of benefits provided at the time of each valuation. The actuarial assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

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In the June 30, 2006 actuarial valuation, the individual entry age actuarial cost method was used to determine the annual required contribution (ARC) and the annual net OPEB obligation. The actuarial assumptions included a 3.566% discount rate, rate of annual salary increases of 4.5%, an annual healthcare cost trend rate of 11% initially, reduced by decrements to an ultimate rate of 4.5% in 2015 and includes a 4.5% inflation assumption. The University's unfunded actuarial accrued liability of \$27,704,417 is being amortized over an open period of 30 years using the level percentage of projected payroll amortization method.

Plan changes effective for employees retiring after June 30, 2008 have been reflected in the actuarial valuation performed as of June 30, 2006.

**(17) 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 2008 and 2007 share of capital expenditures amounted to \$45,305.

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 \$544,630 in 2008 and 2007. Financial information may be obtained at the Town of South Kingstown, 180 High Street, Wakefield, Rhode Island 02879.

**(18) Pass Through Grants**

The University distributed \$55,279,722 and \$49,576,514 during fiscal 2008 and 2007, 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.

**(19) Subsequent Event**

On November 20, 2008, the University issued two series of bonds: \$34.1 million Series 2008 A and \$3.8 million series 2008 B bonds (taxable). Proceeds of Series 2008 A bonds will be used to refund the University's Series 2004 B Bonds while Series 2008 B bond proceeds will be used to finance swap termination payment in connection with the termination of an interest rate swap dated December 22, 2004.

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Required Supplementary Information

June 30, 2008

(Unaudited)

**Schedule of Funding Progress**

**Other Postemployment Benefits – Board of Governors Plan**

<b>Actuarial valuation date</b>	<b>Actuarial value of assets (a)</b>	<b>Actuarial accrued liability (b)</b>	<b>Unfunded (b-a)</b>	<b>Funded ratio (a/b)</b>	<b>Covered payroll (c)</b>	<b>((b-a)/c)</b>
June 30, 2006 \$	—	27,704,417	27,704,417	—%	\$ 37,892,989	73.1%

See accompanying independent auditors' report.



**KPMG LLP**  
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**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***

The Board of Governors for Higher Education  
University of Rhode Island:

We have audited the financial statements of the business-type activities and the discretely presented component unit 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, 2008, which collectively comprise the University's basic financial statements, and have issued our report thereon dated December 4, 2008. Our audit report was modified to include a reference to 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. Other auditors audited the financial statements of the University of Rhode Island Foundation and University of Rhode Island Alumni Association, as described in our report on the University's financial statements.

This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

**Internal Control over Financial Reporting**

In planning and performing our audit, we considered the University's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the University's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the University's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.





Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

### **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*.

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

**KPMG LLP**

December 4, 2008