

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

FINANCIAL STATEMENTS

JUNE 30, 2012 and 2011

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

Financial Statements

June 30, 2012 and 2011

C O N T E N T S

| | |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------|
| Independent Auditors' Report | 1-2 |
| Management's Discussion and Analysis (Unaudited) | 3-23 |
| Financial Statements: | |
| Statements of Net Assets | 24 |
| Statements of Revenues, Expenses and Changes in Net Assets | 25 |
| Statements of Cash Flows | 26 |
| Notes to the Financial Statements | 27-69 |
| Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i> | 70-71 |



INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying statements of net assets of the University of Rhode Island (the "University") (a component unit of the State of Rhode Island and Providence Plantations) as of June 30, 2012 and 2011, and the related statements of revenues, expenses, and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the University's management. Our responsibility is to express an opinion on these financial statements based on our audits. We did not audit the financial statements of the University of Rhode Island Foundation and the Alumni Association of the University of Rhode Island as of June 30, 2012 and 2011 as discussed in Note 1. The financial statements of these component units were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for the entities not audited by us included in the discretely presented component units of the University, is based solely upon the report of the other auditors.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the University of Rhode Island as of June 30, 2012 and June 30, 2011, and the respective changes in financial position and cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 30, 2012 on our consideration of the University of Rhode Island's internal control over financial reporting and on tests of its compliance with certain provisions of laws, regulations, contracts and grants, 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.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 23 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

O'Connor & Drew, P.C.

Certified Public Accountants

Braintree, Massachusetts

September 30, 2012

UNIVERSITY OF RHODE ISLAND

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

Management's Discussion and Analysis (Unaudited)

June 30, 2012 and 2011

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, 2012 and the results of operations for the year then ended, with selected comparative information for the years ended June 30, 2011 and 2010. 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.

In June 2012, the Rhode Island General Assembly approved a reorganization of the entire Rhode Island system of public education. The Rhode Island Board of Education (BOE) will be established, effective January 1, 2013, to assume all the powers and duties currently vested in the Board of Governors and in the Board of Regents for Elementary and Secondary Education (BOR). The Board of Governors will cease to exist as of January 1, 2013. The OHE will be abolished on July 1, 2014. The BOE will establish an Executive Commission of Education (Commission) consisting of the presidents of the University of Rhode Island, as well as the Commissioner of Higher Education and the commissioner of Elementary and Secondary Education to oversee public higher education. All recommendations by and information from the Commission will be forwarded to the BOE for final action. No later than July 1, 2013, the BOE will submit a final plan for the administrative structure for higher education.

UNIVERSITY OF RHODE ISLAND

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

Management's Discussion and Analysis (Unaudited) - Continued

June 30, 2012 and 2011

Introduction – Continued

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. The University's Transformation Goals for the 21st Century are: (1) create a 21st century 24/7 learning environment, (2) increase the magnitude, prominence, and impact of research, scholarship and creative work, (3) internationalize and globalize the University, and (4) build a community at the University that values and embraces equity and diversity.

The University has a combined enrollment of 16,317 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.

Financial Highlights

The University's financial position for the year ended June 30, 2012 shows a increase in net assets before capital appropriations and gifts of \$5.09 million, compared to an increase of \$11.04 million in fiscal year 2011 and \$6.12 million in fiscal year 2010. The decrease of \$5.95 million in fiscal year 2012 compared to fiscal year 2011 was due to the reversal of the Other Post Employment Benefit (OPEB) Obligation in the amount of \$4.10 million and capitalized interest expense of \$1.65 million are reflected in fiscal year 2011. In prior years, the University contributed to the State and Board OPEB plan, which consistent with GASB 45 provisions, was administered as an agent multiple employer plan because no separate legal trust had been created. The transition by the State of its OPEB plan in fiscal 2011 to an OPEB Trust resulted in the Plans being redefined as a cost sharing multiple employer plan. In accordance with the requirements of GASB 45, the University's net OPEB obligation recorded in previous years has been reduced to zero.

UNIVERSITY OF RHODE ISLAND

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

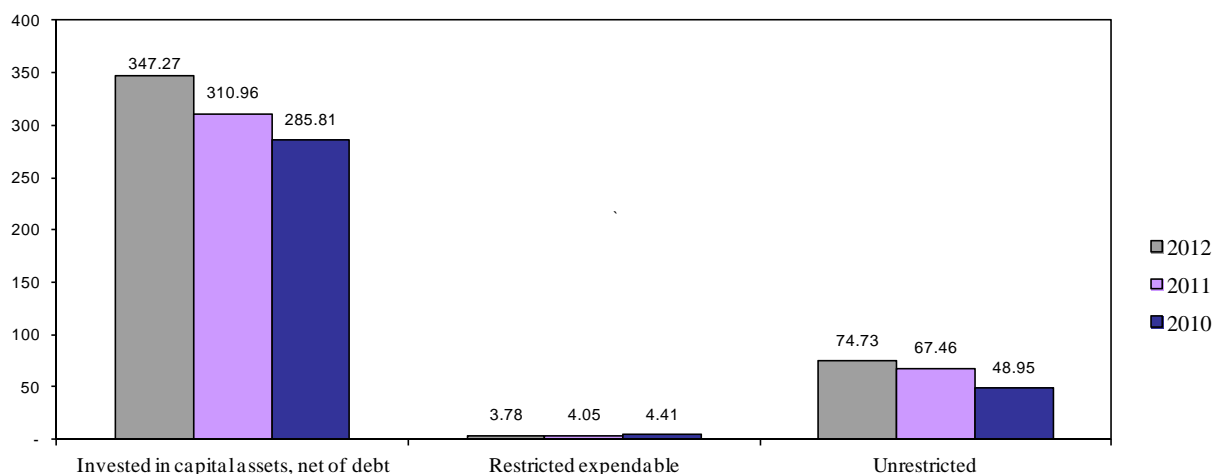
Management's Discussion and Analysis (Unaudited) - Continued

June 30, 2012 and 2011

Financial Highlights - Continued

The following chart displays the components of the University's net assets for the fiscal years ended June 30, 2012, 2011, and 2010.

Net Assets
(Dollars in millions)



On June 30, 2012, 2011, and 2010, the University's total assets of \$767.41 million, \$720.25 million, and \$688.54 million, exceeded its total liabilities of \$341.63 million, \$337.78 million, and \$349.37 million resulting in net assets of \$425.78 million, \$382.47 million, and \$339.17 million, respectively. The resulting net assets are summarized in the following categories (dollars in millions):

| | 2012 | 2011 | 2010 |
|-------------------------------------------------|-------------------------|---------------|---------------|
| Invested in capital assets, net of related debt | \$ 347.27 | 310.96 | 285.81 |
| Restricted expendable | 3.78 | 4.05 | 4.41 |
| Unrestricted | 74.73 | 67.46 | 48.95 |
| Total net assets | \$ <u>425.78</u> | <u>382.47</u> | <u>339.17</u> |

UNIVERSITY OF RHODE ISLAND

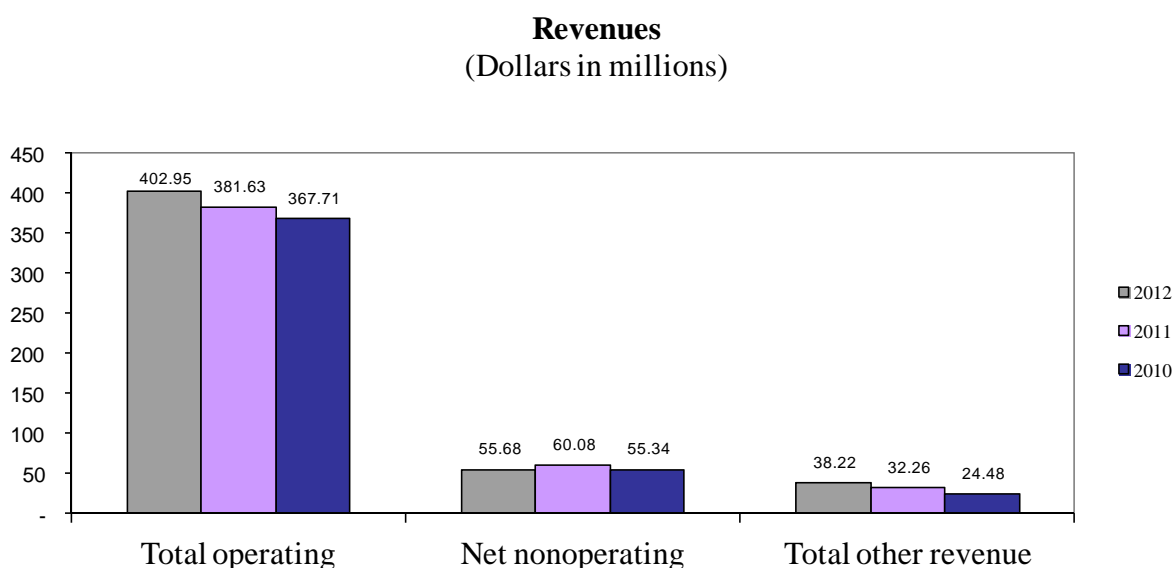
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Management's Discussion and Analysis (Unaudited) - Continued

June 30, 2012 and 2011

Financial Highlights - Continued

The following chart provides a graphical breakdown of total revenues by category for the fiscal years ending June 30, 2012, 2011, and 2010:



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 fundraising 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.

UNIVERSITY OF RHODE ISLAND

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

Management's Discussion and Analysis (Unaudited) - Continued

June 30, 2012 and 2011

Overview of the Financial Statements - Continued

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

The Financial Statements

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

The *Statements 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 *Statements of Revenues and 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 *Statements 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 24 to 26 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.

UNIVERSITY OF RHODE ISLAND

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

Management's Discussion and Analysis (Unaudited) - Continued

June 30, 2012 and 2011

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 27 to 68 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 \$425.78 million, \$382.47 million, and \$339.17 million at the close of fiscal years 2012, 2011, and 2010, respectively.

The University's condensed statement of net assets is presented below (dollars in millions).

| | 2012 | 2011 | 2010 |
|-------------------------------------------------|------------------|--------|--------|
| Current assets | \$ 140.66 | 125.44 | 117.73 |
| Noncurrent assets | 626.75 | 594.81 | 570.81 |
| Total assets | \$ 767.41 | 720.25 | 688.54 |
| Current liabilities | 64.43 | 51.85 | 52.28 |
| Noncurrent liabilities | 277.20 | 285.93 | 297.09 |
| Total liabilities | \$ 341.63 | 337.78 | 349.37 |
| Net assets: | | | |
| Invested in capital assets, net of related debt | \$ 347.27 | 310.96 | 285.81 |
| Restricted, expendable | 3.78 | 4.05 | 4.41 |
| Unrestricted | 74.73 | 67.46 | 48.95 |
| Total net assets | \$ 425.78 | 382.47 | 339.17 |

UNIVERSITY OF RHODE ISLAND

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

Management's Discussion and Analysis (Unaudited) - Continued

June 30, 2012 and 2011

Financial Analysis - Continued

By far the largest portion of the University's net assets, \$347.27 million, \$310.96 million, and \$285.81 million as of June 30, 2012, 2011, and 2010, 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. This represents approximately 82%, 81%, and 84% net assets, respectively. 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 capital 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 0.9%, 1.1%, and 1.3% of the University's net assets at June 30, 2012, 2011, and 2010, 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, 2012, 2011, and 2010, the University's unrestricted net assets represent 18%, 18%, and 14%, 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 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: 2.18 to 1, 2.42 to 1 and 2.25 to 1 as of June 30, 2012, 2011, and 2010, respectively.

UNIVERSITY OF RHODE ISLAND

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

Management's Discussion and Analysis (Unaudited) - Continued

June 30, 2012 and 2011

Financial Analysis - Continued

One of the components of the University's noncurrent assets are the funds on deposit with the bond trustee totaling \$40.21 million, \$74.90 million and \$83.33 million as of June 30, 2012, 2011, and 2010, respectively. The majority of the bond proceeds were from the 2009 B Bonds for \$11.78 million for fire protection, 2010 A Bonds for \$10.87 million for the repaving and reconstruction of major parking facilities and 2010 B bonds for \$11.86 million for the construction of a new residence hall and demolition of the Terrance Apartments.

During fiscal years 2012, 2011, and 2010, the University's net assets increased by \$43.31 million, \$43.30 million, and \$30.60 million, respectively, which is largely due to capital and private funds received. The University closed fiscal years 2012, 2011, and 2010 with positive unrestricted net assets of \$74.73 million, \$67.46 million, and \$48.95 million, respectively.

UNIVERSITY OF RHODE ISLAND

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

Management's Discussion and Analysis (Unaudited) - Continued

June 30, 2012 and 2011

Financial Analysis - Continued

The University's condensed statements of revenues, expenses and, changes in net assets are presented below (dollars in millions).

| | <u>2012</u> | <u>2011</u> | <u>2010</u> |
|------------------------------------------------------------|-------------------------|----------------|----------------|
| Operating revenues: | | | |
| Tuition and fees, net of tuition waivers and remissions | \$ 239.57 | 230.34 | 226.57 |
| Operating grants and contributions | 117.84 | 107.32 | 97.24 |
| Other sources | 45.54 | 43.97 | 43.90 |
| Total operating revenues | <u>402.95</u> | <u>381.63</u> | <u>367.71</u> |
| Operating expenses: | | | |
| Salaries and benefits | 275.04 | 265.22 | 259.19 |
| Operating expenses | 60.21 | 54.67 | 59.88 |
| Scholarships, grants and contracts | 26.67 | 24.51 | 13.73 |
| Auxiliaries | 63.94 | 62.90 | 61.52 |
| Depreciation and amortization | 27.68 | 23.37 | 22.61 |
| Total operating expenses | <u>453.54</u> | <u>430.67</u> | <u>416.93</u> |
| Net operating loss | <u>(50.59)</u> | <u>(49.04)</u> | <u>(49.22)</u> |
| Nonoperating revenues (expenses): | | | |
| State appropriation | 58.49 | 56.62 | 56.78 |
| Net investment income | 0.28 | 0.49 | 0.51 |
| Private gifts | 7.12 | 7.43 | 6.82 |
| Reversal of OPEB Obligation | - | 4.10 | - |
| Interest expense | (10.21) | (8.56) | (8.77) |
| Total nonoperating revenues | <u>55.68</u> | <u>60.08</u> | <u>55.34</u> |
| Income before other revenues, expenses, gains or losses | <u>5.09</u> | <u>11.04</u> | <u>6.12</u> |
| Capital appropriations | 11.33 | 7.99 | 4.70 |
| State contributed capital | 23.30 | 23.07 | 18.30 |
| Capital gifts | 3.59 | 1.20 | 1.48 |
| Increase in net assets | <u>43.31</u> | <u>43.30</u> | <u>30.60</u> |
| Net assets – beginning of year | 382.47 | 339.17 | 308.57 |
| Net assets – ending of year | \$ <u>425.78</u> | <u>382.47</u> | <u>339.17</u> |

UNIVERSITY OF RHODE ISLAND

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

Management's Discussion and Analysis (Unaudited) - Continued

June 30, 2012 and 2011

Operating Revenues

The total operating revenues increased by \$21.32 million or 5.6% in fiscal 2012, compared to increase of \$13.92 million or 3.8% in fiscal 2011 and \$28.22 million or 8.3% in fiscal 2010. This increase is largely attributable to the tuition and fee rate increase as well as a slight increase in Out-of-State Students as well as an increase in Grants and contracts. Fiscal year 2012 instate tuition and fees increased by 8.50% and Out-of-State increased by 1.00%

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

| | 2012 | 2011 | 2010 |
|----------------------------|------------------|---------|---------|
| Tuition | \$ 236.71 | 223.98 | 213.80 |
| Student service fees | 18.56 | 16.82 | 14.75 |
| Health service fees | 6.09 | 6.07 | 5.82 |
| Housing fees | 32.62 | 30.62 | 29.36 |
| Dining service fees | 17.28 | 17.84 | 17.65 |
| Miscellaneous student fees | 2.55 | 2.63 | 2.60 |
| Total | 313.81 | 297.96 | 283.98 |
| Tuition waived or remitted | (74.24) | (67.62) | (57.41) |
| Net | \$ 239.57 | 230.34 | 226.57 |

UNIVERSITY OF RHODE ISLAND

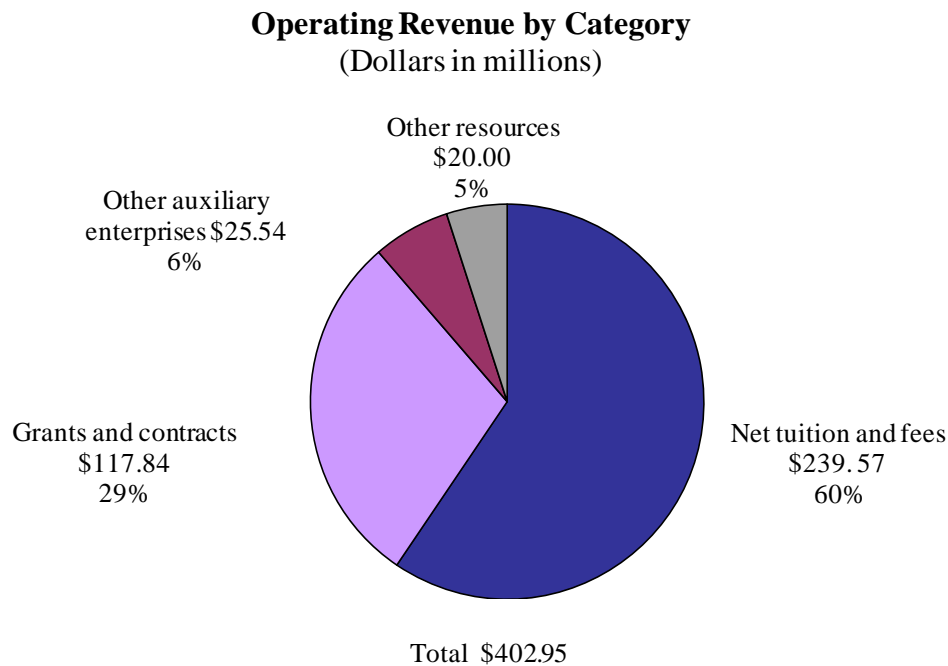
(a Component Unit of the State of Rhode Island and Providence Plantations)

Management's Discussion and Analysis (Unaudited) - Continued

June 30, 2012 and 2011

Operating Revenues - Continued

The following provides a graphical breakdown of operating revenues by category for the year ended June 30, 2012.



During fiscal years ended June 30, 2012, 2011, and 2010, the revenues from grants and contracts contributed 29%, 28%, and 26% respectively, of the total operating revenues.

UNIVERSITY OF RHODE ISLAND

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

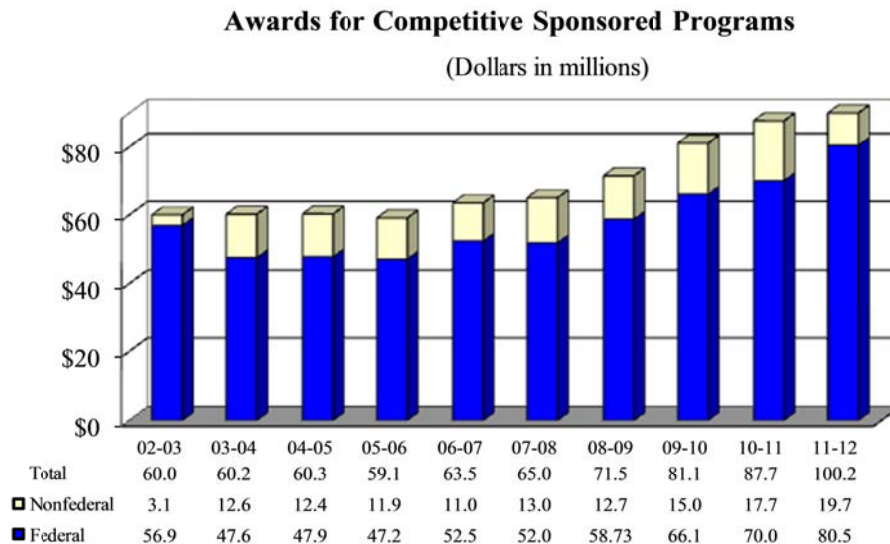
Management's Discussion and Analysis (Unaudited) - Continued

June 30, 2012 and 2011

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.

The bar chart below shows a steady growth in the amount of grants awarded (not necessarily expensed) to the University during the last ten years, from a total of \$60 million in 2003 to \$100.2 million in 2012 or a 67% increase. This positive development is a reflection of the University's vision to pursue research and to enhance creative and entrepreneurial activities on campus.



UNIVERSITY OF RHODE ISLAND

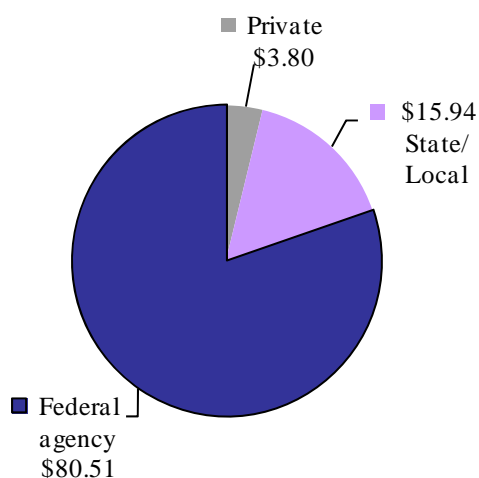
(a Component Unit of the State of Rhode Island and Providence Plantations)

Management's Discussion and Analysis (Unaudited) - Continued

June 30, 2012 and 2011

Grant and Contract Revenue - Continued

The following summary shows the breakdown of grants received from sponsoring agencies during fiscal 2012, with a pie chart for federal and nonfederal awards (dollars in millions).



| Agency | Award |
|-----------------------------------------|-----------------|
| National Science Foundation | \$ 20.36 |
| Department of Health and Human Services | 19.53 |
| Agency for International Development | 9.94 |
| Department of Agriculture | 7.01 |
| Department of Defense | 6.82 |
| National Oceanic and Atmospheric Admin | 5.55 |
| Other agencies | 3.62 |
| Department of Homeland Security | 3.31 |
| Department of Energy | 3.12 |
| Department of Interior | 1.25 |
| Federal agency | 80.51 |
| State/Local | 15.94 |
| Private | 3.80 |
| Total | <u>\$100.25</u> |

Operating Expenses

The operating expenses for fiscal years 2012, 2011, and 2010 totaled \$453.54 million, \$430.67 million, and \$416.93 million, respectively, an increase of \$22.87 compared to a increase of \$13.74 million and \$16.50 million or 5.31%, 3.29% and 4.12% over those of fiscal years 2012, 2011, and 2010. The increase in fiscal year 2012 operating expense is a result of an increase in research expenses of \$5.4 million, depreciation of \$4.3 million, institutional expenses of \$3.9 million and student services of \$2.6 million.

UNIVERSITY OF RHODE ISLAND

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

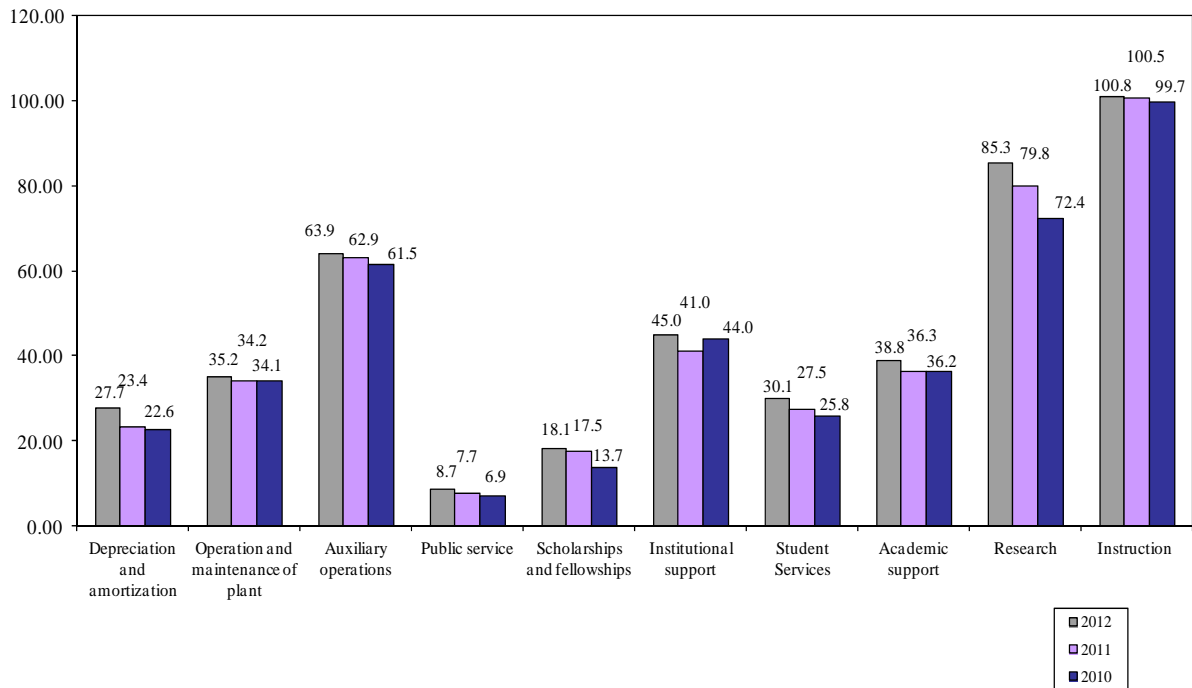
Management's Discussion and Analysis (Unaudited) - Continued

June 30, 2012 and 2011

Operating Expenses - Continued

The bar chart below illustrates the University's operating expenses by function for the fiscal years ended June 30, 2012, 2011, and 2010, excluding scholarship allowances applied against tuition and fee revenues.

Operating Expenses by Function
(Dollars in millions)



UNIVERSITY OF RHODE ISLAND

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

Management's Discussion and Analysis (Unaudited) - Continued

June 30, 2012 and 2011

Operating Expenses - Continued

The following summary shows where major grant and contract expenditures, including indirect cost charges, occurred during 2012, 2011 and 2010 (dollars in millions):

| Agency | Amount | | |
|-------------------------------------------------|----------|-------|-------|
| | 2012 | 2011 | 2010 |
| National Science Foundation | \$ 20.36 | 17.74 | 17.59 |
| Department of Health and Human Services | 19.53 | 18.79 | 9.08 |
| Agency for International Development | 9.94 | 6.25 | 4.69 |
| Department of Agriculture | 7.01 | 6.23 | 3.24 |
| Department of Defense | 6.82 | 7.88 | 5.70 |
| National Oceanic and Atmospheric Administration | 5.55 | 5.61 | 6.97 |
| Department of Homeland Security | 3.31 | - | - |
| Department of Energy | 3.12 | - | - |
| Department of Interior | 1.25 | 1.14 | 0.69 |
| Department of Education | 0.72 | 1.25 | 1.12 |
| National Aeronautic and Space Administration | 0.72 | 0.78 | 0.56 |
| Environmental Protection Agency | 0.71 | 0.71 | - |

Nonoperating Revenues and Expenses

The State's unrestricted appropriation is the largest component of the University's nonoperating revenues. The amount requested for fiscal 2012 was \$71.24 million. However, the amount appropriated by the State was \$58.49 million resulting in an appropriation for fiscal 2012 that was \$12.75 million less than the amount requested. Although the budget request for fiscal 2012 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.

UNIVERSITY OF RHODE ISLAND

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

Management's Discussion and Analysis (Unaudited) - Continued

June 30, 2012 and 2011

Nonoperating Revenues and Expenses - Continued

The University has a long tradition of using the state appropriation to support its operating expenses. During fiscal years 2012, 2011, and 2010, the University received state appropriations of \$58.49 million, \$56.62 million, and \$56.78 million, respectively, which combined with operating revenue, was sufficient to cover operating expenses in excess of \$7.90 million in fiscal 2012, \$7.58 million in fiscal 2011, and \$7.56 million in fiscal 2010, as the schedule below indicates. As the state appropriation has declined and operating expenses have remained steady, the student tuition and fees have played an increasingly important role in funding (53% in fiscal years 2012 and 54% in 2011 and 2010) the University's operations (dollars in millions).

(Dollars in millions)

| | <u>2012</u> | <u>2011</u> | <u>2010</u> |
|---------------------------------------------|------------------------|-----------------|-----------------|
| Net student fees | \$ 239.57 | 230.34 | 226.57 |
| Other operating revenue | 163.38 | 151.29 | 141.14 |
| Operating expenses | <u>(453.54)</u> | <u>(430.67)</u> | <u>(416.93)</u> |
| Operating loss | (50.59) | (49.04) | (49.22) |
| State direct appropriations | 58.49 | 56.62 | 56.78 |
| Net income (loss) after state appropriation | \$ <u>7.90</u> | <u>7.58</u> | <u>7.56</u> |

Investment income was down by \$213,641 or 43% in fiscal year 2012 due to the declining short-term rates of return and funds available for investment during the year.

UNIVERSITY OF RHODE ISLAND

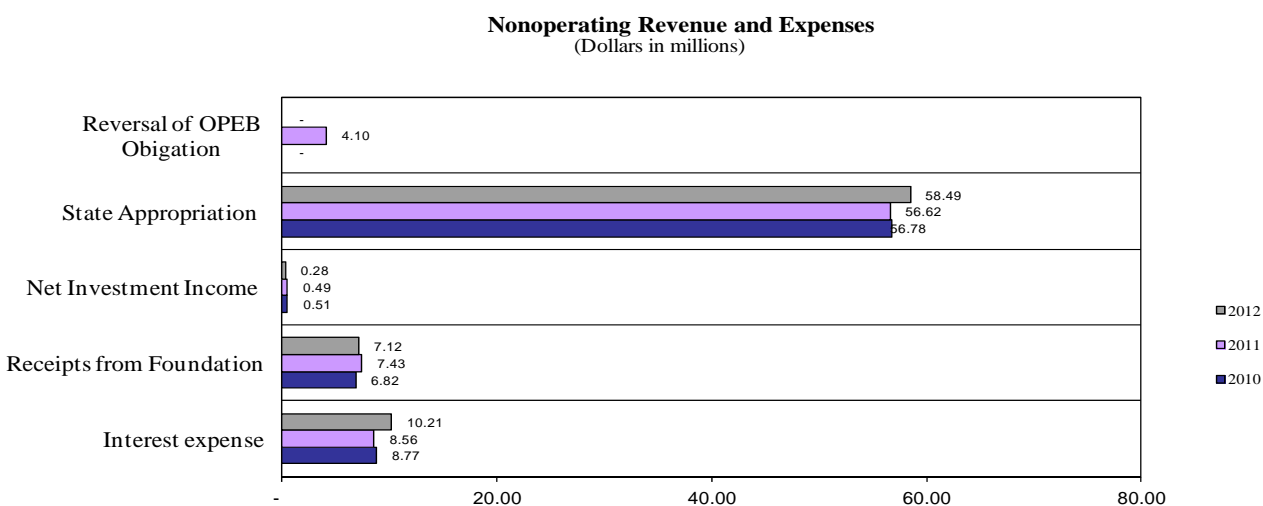
(a Component Unit of the State of Rhode Island and Providence Plantations)

Management's Discussion and Analysis (Unaudited) - Continued

June 30, 2012 and 2011

Nonoperating Revenues and Expenses - Continued

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.

UNIVERSITY OF RHODE ISLAND

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

Management's Discussion and Analysis (Unaudited) - Continued

June 30, 2012 and 2011

Capital Assets and Debt Administration - Continued

Capital Plan - Continued

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 plan for the period fiscal year 2014-2018 for the University totals \$1.03 billion, 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.

Capital Assets

The University's investment in capital assets as of June 30, 2012, 2011, and 2010 net of accumulated depreciation, amounts to \$564.33 million, \$497.61 million, and \$464.45 million, respectively. This investment in capital assets includes land, buildings (including improvements), and furnishings and equipment (including capital leases). Capital assets increased during fiscal 2012 by \$66.72 million, \$33.16 million during fiscal 2011, and \$15.30 million during fiscal 2010. 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, 2012, 2011, and 2010 is presented below (dollars in millions).

| | 2012 | 2011 | 2010 |
|------------------------------------------------------|-----------|--------|--------|
| Land and improvements | \$ 39.26 | 36.11 | 32.91 |
| Major capital additions to building and improvements | 387.51 | 378.56 | 381.97 |
| Furnishings and equipment | 24.57 | 25.64 | 23.97 |
| Construction in progress | 112.99 | 57.30 | 25.60 |
| Total | \$ 564.33 | 497.61 | 464.45 |

Major capital additions in fiscal 2012 included land improvements Utility Infrastructure Cyber (\$2 million) and East Farm Aquaculture System (\$1.2 million). Building and improvements included Fire Safety Upgrades (\$8.3 million). In addition, construction in progress included the Pharmacy Building (\$26.8 million) and Hillside Residence Hall (\$28.7 million).

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

UNIVERSITY OF RHODE ISLAND

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

Management's Discussion and Analysis (Unaudited) - Continued

June 30, 2012 and 2011

Capital Assets and Debt Administration - Continued

Debt

As of June 30, 2012, 2011 and 2010, the University had \$255.70 million, \$263.85 million, and \$271.57 million respectively, in outstanding debt, a decrease of \$8.15 million and \$7.2 million in 2012 and 2011, and an increase of \$50.79 million in 2010. The table below summarizes the types of debt instruments (dollars in millions).

| | <u>2012</u> | <u>2011</u> | <u>2010</u> |
|---------------------------|-------------------------|---------------|---------------|
| Loans payable | \$ 1.33 | 1.57 | 1.96 |
| Capital lease obligations | 8.57 | 9.76 | 10.93 |
| Revenue bonds | <u>245.80</u> | <u>252.52</u> | <u>258.68</u> |
| Total | \$ <u>255.70</u> | <u>263.85</u> | <u>271.57</u> |

The University has no independent bonding authority. All revenue bonds must be approved by and arranged through the Rhode Island Board of Governors for Higher Education. Debt related to revenue bonds is reported on the University's financial statements. Debt related to general obligations bonds is reflected on the state of Rhode Island's financial statements. As of June 30, 2012, the Board of Governors for Higher Education general revenue bonds are rated by Moody's as Aa3 and Baa2 on insured bonds, A1 on uninsured bonds and Standard and Poor's rating services have given rates of AA- and BBB on insured bonds, A+ on uninsured bonds.

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

UNIVERSITY OF RHODE ISLAND

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

Management's Discussion and Analysis (Unaudited) - Continued

June 30, 2012 and 2011

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 10.8% in June of 2011 to 10.9% in June of 2012, according to the U.S. Bureau of Labor Statistics. This compares to a steady rate of 8.2% in June 2012 and 9.2% in 2011 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 2012 tuition and fees were increased by 8.5% for in-state undergraduate and graduate students, and 1.0% for all out-of-state students.
- Fiscal 2011 tuition and fees were increased by 9.9% for in-state undergraduate students, 9.3% for in-state graduate students and 4.4% for all out-of-state students.
- Fiscal 2010 tuition and fees were increased by 9.8% for in-state undergraduate students, 9.5% for in-state graduate students and 5.05% for all out-of-state 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.

Despite the reductions in state direct appropriations per student in past years, 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.

UNIVERSITY OF RHODE ISLAND

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

Management's Discussion and Analysis (Unaudited) - Continued

June 30, 2012 and 2011

Economic Factors that Will Affect the Future - Continued

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. Based on in-state undergraduate mandatory tuition and fees during the 2011-2012 academic year, the University ranks among the lowest of 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.

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 and Finance, University of Rhode Island, Carlotti Administration Building, Room 108, 75 Lower College Road, 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, 2012 and 2011

| | <u>Assets</u> | | | |
|----------------------------------------------------------|------------------------------------------------|------------------------------------------------|-------------------------------------|-------------------------------------|
| | <u>2012 University of Rhode Island</u> | <u>2011 University of Rhode Island</u> | <u>2012 Component units</u> | <u>2011 Component units</u> |
| Current Assets: | | | | |
| Cash and equivalents (Note 2) | \$ 98,596,561 | \$ 88,765,569 | \$ 7,128,675 | \$ 6,370,239 |
| Cash held by State Treasurer (Note 3) | 9,093,350 | 1,740,753 | - | - |
| Accounts receivable, net (Note 4) | 29,703,938 | 31,623,511 | 22,597 | 356,551 |
| Current portion of pledges receivable | - | - | 967,527 | 2,053,204 |
| Current portion of notes receivable | - | - | 246,381 | 285,044 |
| Inventory and other current assets | 3,266,410 | 3,307,937 | 242,171 | 524,870 |
| Total Current Assets | <u>140,660,259</u> | <u>125,437,770</u> | <u>8,607,351</u> | <u>9,589,908</u> |
| Noncurrent Assets: | | | | |
| Cash and equivalents – restricted (Note 2) | 221,918 | 56,837 | - | - |
| Funds on deposit with bond trustee | 40,214,666 | 74,901,145 | - | - |
| Investments (Note 2) | - | - | 118,981,208 | 122,075,834 |
| Pledges receivable, net of current portion | - | - | 2,227,073 | 2,805,941 |
| Loans receivable, net (Note 5) | 13,658,092 | 13,375,477 | - | - |
| Charitable remainder trusts | - | - | 460,356 | 668,794 |
| Other deferred assets (Note 6) | 8,324,000 | 8,876,347 | - | - |
| Capital assets, net of accumulated depreciation (Note 6) | 564,331,422 | 497,606,240 | 1,817,791 | 1,828,773 |
| Total Noncurrent Assets | <u>626,750,098</u> | <u>594,816,046</u> | <u>123,486,428</u> | <u>127,379,342</u> |
| Total Assets | <u>\$ 767,410,357</u> | <u>\$ 720,253,816</u> | <u>\$ 132,093,779</u> | <u>\$ 136,969,250</u> |
| | <u>Liabilities and Net Assets</u> | | | |
| Current Liabilities: | | | | |
| Accounts payable and accrued liabilities (Note 7) | \$ 37,580,306 | \$ 26,383,823 | \$ 2,100,049 | \$ 763,050 |
| Compensated absences (Note 8) | 1,084,863 | 1,204,108 | - | - |
| Funds held for others | 1,204,328 | 844,738 | - | - |
| Deferred revenues | 15,595,273 | 15,266,518 | 14,551 | 11,927 |
| Current portion of capital lease obligations (Note 8) | 1,049,647 | 1,187,847 | - | - |
| Current portion of bonds and loans payable (Note 8) | 7,912,437 | 6,965,910 | - | - |
| Current portion of gift annuity payable | - | - | 155,750 | 120,000 |
| Total Current Liabilities | <u>64,426,854</u> | <u>51,852,944</u> | <u>2,270,350</u> | <u>894,977</u> |
| Noncurrent Liabilities: | | | | |
| Compensated absences (Note 8) | 18,370,374 | 18,191,303 | - | - |
| Capital lease obligations (Note 8) | 7,519,864 | 8,569,511 | - | - |
| Bonds and loans payable (Note 8) | 239,213,856 | 247,126,292 | - | - |
| Gift annuity payable | - | - | 622,917 | 749,374 |
| Grant refundable (Note 5) | 12,095,980 | 12,043,235 | - | - |
| Total Noncurrent Liabilities | <u>277,200,074</u> | <u>285,930,341</u> | <u>622,917</u> | <u>749,374</u> |
| Total Liabilities | <u>341,626,928</u> | <u>337,783,285</u> | <u>2,893,267</u> | <u>1,644,351</u> |
| Net Assets: | | | | |
| Invested in capital assets, net of related debt | 347,274,807 | 310,959,608 | 1,817,791 | 1,828,773 |
| Restricted: | | | | |
| Expendable (Note 9) | 3,777,057 | 4,055,103 | 37,492,476 | 46,075,892 |
| Nonexpendable | - | - | 81,649,955 | 79,323,121 |
| Unrestricted (Note 10) | 74,731,565 | 67,455,820 | 8,240,290 | 8,097,113 |
| Total Net Assets | <u>\$ 425,783,429</u> | <u>\$ 382,470,531</u> | <u>\$ 129,200,512</u> | <u>\$ 135,324,899</u> |

See accompanying notes to the 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

For the years ended June 30, 2012 and 2011

| | 2012 University of Rhode Island | 2011 University of Rhode Island | 2012 Component units | 2011 Component units |
|-----------------------------------------------------------------------|---------------------------------------|---------------------------------------|------------------------------|------------------------------|
| Operating Revenues: | | | | |
| Tuition and fees | \$ 245,772,146 | \$ 232,624,551 | \$ - | \$ - |
| Residence, dining, student union, and health fees | 68,039,741 | 65,338,595 | - | - |
| Less scholarship allowances | <u>(74,239,248)</u> | <u>(67,619,925)</u> | <u>-</u> | <u>-</u> |
| Net Student Fees | 239,572,639 | 230,343,221 | - | - |
| Federal, State, local, and private grants and contracts | 117,841,434 | 107,316,122 | - | - |
| Other auxiliary enterprises | 25,541,295 | 25,137,887 | - | - |
| Other sources | <u>19,994,596</u> | <u>18,830,359</u> | <u>3,392,729</u> | <u>3,497,683</u> |
| Total Operating Revenues | 402,949,964 | 381,627,589 | 3,392,729 | 3,497,683 |
| Operating Expenses (Note 12): | | | | |
| Instruction | 100,762,095 | 100,458,281 | - | - |
| Research | 85,294,791 | 79,827,233 | - | - |
| Academic support | 38,809,863 | 36,289,685 | - | - |
| Student services | 30,065,335 | 27,469,442 | 2,294,286 | 1,798,947 |
| Scholarships and fellowships | 18,124,678 | 17,501,757 | - | - |
| Public service | 8,700,321 | 7,660,305 | - | - |
| Operation and maintenance of plant | 35,184,623 | 34,192,866 | 345,871 | 391,676 |
| Depreciation and amortization | 27,682,501 | 23,366,089 | 108,210 | 81,309 |
| Institutional support | 44,975,379 | 41,006,127 | 5,756,135 | 5,184,979 |
| Auxiliary operations | <u>63,938,573</u> | <u>62,898,767</u> | <u>-</u> | <u>-</u> |
| Total Operating Expenses | 453,538,159 | 430,670,552 | 8,504,502 | 7,456,911 |
| Net Operating Loss | <u>(50,588,195)</u> | <u>(49,042,963)</u> | <u>(5,111,773)</u> | <u>(3,959,228)</u> |
| Nonoperating Revenues (Expenses): | | | | |
| State appropriation (Note 13) | 58,485,321 | 56,618,919 | - | - |
| Net investment income (loss) | 279,256 | 492,897 | (96,941) | 978,833 |
| Endowment income (loss) | - | - | (2,765,337) | 12,159,286 |
| Private gifts and contributions | - | - | 12,688,950 | 9,788,366 |
| Payments between the University and component units | 7,120,871 | 7,436,104 | (11,163,464) | (7,643,733) |
| Additions to permanent endowments | - | - | 2,326,834 | 3,682,545 |
| Miscellaneous receipts | - | - | 1,365,424 | 1,264,044 |
| Interest expense | (10,206,809) | (8,559,269) | - | - |
| Reversal of OPEB obligation (Note 15) | <u>-</u> | <u>4,095,553</u> | <u>-</u> | <u>-</u> |
| Net Nonoperating Revenues (Expenses) | <u>55,678,639</u> | <u>60,084,204</u> | <u>2,355,466</u> | <u>20,229,341</u> |
| Increase (decrease) in Net Assets Before Capital Contributions | <u>5,090,444</u> | <u>11,041,241</u> | <u>(2,756,307)</u> | <u>16,270,113</u> |
| Capital Contributions: | | | | |
| Capital appropriations (Note 13) | 34,629,374 | 31,060,624 | - | - |
| Capital gifts | <u>3,593,080</u> | <u>1,198,990</u> | <u>(3,368,080)</u> | <u>(1,198,990)</u> |
| Increase (decrease) in Net Assets | <u>43,312,898</u> | <u>43,300,855</u> | <u>(6,124,387)</u> | <u>15,071,123</u> |
| Net Assets, Beginning of the Year | <u>382,470,531</u> | <u>339,169,676</u> | <u>135,324,899</u> | <u>120,253,776</u> |
| Net Assets, End of Year | <u>\$ 425,783,429</u> | <u>\$ 382,470,531</u> | <u>\$ 129,200,512</u> | <u>\$ 135,324,899</u> |

See accompanying notes to the financial statements.

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

Statements of Cash Flows

For the years ended June 30, 2012 and 2011

| | 2012 University of Rhode Island | 2011 University of Rhode Island |
|------------------------------------------------------------------------------------------|------------------------------------------------------------|------------------------------------------------------------|
| Cash Flows From Operating Activities: | | |
| Tuition and fees | \$ 240,555,548 | \$ 236,038,402 |
| Grants and contracts | 119,393,146 | 102,651,720 |
| Payments to suppliers | (115,298,227) | (123,138,297) |
| Payments to employees | (272,076,053) | (262,891,336) |
| Payments for scholarships, fellowships, and sponsored programs | (26,666,114) | (29,119,082) |
| Auxiliary enterprises | 25,452,140 | 25,031,289 |
| Other receipts | <u>19,050,160</u> | <u>21,579,733</u> |
| Net Cash Applied to Operating Activities | <u>(9,589,400)</u> | <u>(29,847,571)</u> |
| Cash Flows from Noncapital Financing Activities: | | |
| State appropriations | 58,485,321 | 56,618,919 |
| Gifts from component units | 7,120,871 | 7,436,104 |
| Funds held for others | <u>359,590</u> | <u>(811,793)</u> |
| Net Cash Provided by Non Capital Financing Activities | <u>65,965,782</u> | <u>63,243,230</u> |
| Cash Flows from Capital and Related Financing Activities: | | |
| Capital appropriations | 34,629,374 | 31,060,624 |
| Capital gifts | 3,593,080 | 1,198,990 |
| Purchase of capital assets | (94,214,936) | (56,105,834) |
| Principal paid on capital debt and leases | (8,153,756) | (7,719,067) |
| Interest paid on capital debt and leases | (9,847,209) | (8,431,301) |
| Deposit with trustee | <u>34,686,479</u> | <u>8,429,422</u> |
| Net Cash Used in Capital and Related Financing Activities | <u>(39,306,968)</u> | <u>(31,567,166)</u> |
| Cash Flows from Investing Activity: | | |
| Interest income | <u>279,256</u> | <u>492,897</u> |
| Net Cash Provided by Investing Activity | <u>279,256</u> | <u>492,897</u> |
| Net Increase in Cash and Cash Equivalents | <u>17,348,670</u> | <u>2,321,390</u> |
| Cash and Cash Equivalents, Beginning of the Year | <u>90,563,159</u> | <u>88,241,769</u> |
| Cash and Cash Equivalents, End of the Year | <u>\$ 107,911,829</u> | <u>\$ 90,563,159</u> |
| Reconciliation of Net Operating Loss to Net Cash Applied to Operating Activities: | | |
| Net operating loss | \$ (50,588,195) | \$ (49,042,963) |
| Adjustments to reconcile net operating loss to net cash used in operating activities: | | |
| Depreciation and amortization | 27,682,501 | 23,366,089 |
| Bad debts | (1,130,322) | 341,088 |
| Changes in assets and liabilities: | | |
| Accounts receivable | 3,049,895 | (4,795,936) |
| Inventory and other current assets | 41,527 | (822,390) |
| Loans receivable | (282,615) | 55,793 |
| Accounts payable and accrued liabilities | 11,196,483 | (268,902) |
| Deferred revenues | 328,755 | 460,510 |
| Compensated absences | 59,826 | 789,915 |
| Refundable grant | <u>52,745</u> | <u>69,225</u> |
| Net Cash Applied to Operating Activities | <u>\$ (9,589,400)</u> | <u>\$ (29,847,571)</u> |
| Supplemental Disclosure of Cash Flows Information: | | |
| Reversal of OPEB obligation | <u>\$ -</u> | <u>\$ 4,095,553</u> |

See accompanying notes to the financial statements.

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

Notes to the Financial Statements

June 30, 2012 and 2011

Note 1 - Summary of Significant Accounting Policies

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. 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). Matriculation agreements exist between the schools 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.

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. Articulation agreements exist between the schools for student transfer within the system.

In June 2012, the Rhode Island General Assembly approved a reorganization of the entire Rhode Island system of public education. The Rhode Island Board of Education (BOE) will be established, effective January 1, 2013, to assume all the powers and duties currently vested in the Board of Governors and in the Board of Regents for Elementary and Secondary Education (BOR). The Board of Governors

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

Notes to the Financial Statements - continued

June 30, 2012 and 2011

Note 1 - **Summary of Significant Accounting Policies – Continued**

Organization-Continued

and the BOR will cease to exist as of January 1, 2013. The Office of Higher Education will be abolished on July 1, 2014. The BOE will establish an Executive Commission of Education (Commission) consisting of the presidents of the University of Rhode Island, Rhode Island College, and the Community College of Rhode Island, as well as the Commissioner of Higher Education and the Commissioner of Elementary and Secondary Education to oversee public higher education. All recommendations by and information from the Commission will be forwarded to the BOE for final action. No later than July 1, 2013, the BOE will submit a final plan for the administrative structure for higher education.

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 non-operating activities. These non-operating activities include the University's operating and capital appropriations from the State of Rhode Island, net investment income, gifts, and interest expense.

The University has elected not to adopt Accounting Standards Codification issued by the Financial Accounting Standard Board (FASB) 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

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

Notes to the Financial Statements - continued

June 30, 2012 and 2011

Note 1 - Summary of Significant Accounting Policies - Continued

Basis of Presentation - Continued

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 revenue.

Component Units

The University of Rhode Island Foundation (the "Foundation") and the Alumni Association of the University of Rhode Island (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, 2012 and 2011, the Foundation distributed \$10,488,951, and \$8,635,094, respectively, to the University for both restricted and unrestricted purposes. The Foundation changed their year-end from March 31 to June 30, as a result the amounts shown on the fiscal year 2012 Statement of Activities reflect 15 months. The amounts paid by the Foundation, may not agree with the amounts received by the University. The Foundation's financial statements indicate that it distributed \$14,531,544 and \$8,842,723 in fiscal 2012 and 2011, respectively, to the University. The difference of \$4,042,593 in 2012 and \$207,629 in 2011 represents an additional three months of activity and timing differences in reimbursement and funding of various expenses in auxiliary enterprise operations, academic support and operation and maintenance of plant.

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

Notes to the Financial Statements - continued

June 30, 2012 and 2011

Note 1 - **Summary of Significant Accounting Policies - Continued**

Basis of Presentation – Continued

Component Units - Continued

During the years ended June 30, 2012 and 2011, the Alumni Association distributed \$2,294,286 and \$1,798,947, respectively, to the University for Scholarships and Athletic Club expenses.

The Foundation and the Alumni Associations are private not for profit organizations that reports under FASB standards, including ASC 958-205, *Presentation of Financial Statements for Not-for-Profit Entities*, and ASC 958-605, *Revenue Recognition for Not-for-Profit Entities*. Accordingly, 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
(a Component Unit of the State of Rhode Island and Providence Plantations)

Notes to the Financial Statements - continued

June 30, 2012 and 2011

Note 1 - Summary of Significant Accounting Policies - Continued

Basis of Presentation – Continued

Component Units - Continued

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

| | 2012 | | |
|----------------------------------------------------|-----------------------|---------------------------|-----------------------|
| | Foundation | Alumni Association | Total |
| Current assets | \$ 7,996,009 | \$ 611,342 | \$ 8,607,351 |
| Noncurrent assets | 119,402,136 | 4,084,292 | 123,486,428 |
| Total assets | <u>127,398,145</u> | <u>4,695,634</u> | <u>132,093,779</u> |
| Current liabilities | 1,544,135 | 726,215 | 2,270,350 |
| Noncurrent liabilities | 622,917 | - | 622,917 |
| Total liabilities | <u>2,167,052</u> | <u>726,215</u> | <u>2,893,267</u> |
| Net assets: | | | |
| Invested in capital assets, net of related debt | 1,817,791 | - | 1,817,791 |
| Restricted: | | | |
| Expendable | 36,763,385 | 729,091 | 37,492,476 |
| Nonexpendable | 81,649,955 | - | 81,649,955 |
| Unrestricted | 4,999,962 | 3,240,328 | 8,240,290 |
| Total net assets | <u>\$ 125,231,093</u> | <u>\$ 3,969,419</u> | <u>\$ 129,200,512</u> |

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

Notes to the Financial Statements - continued

June 30, 2012 and 2011

Note 1 - Summary of Significant Accounting Policies - Continued

Basis of Presentation – Continued

Component Units - Continued

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

| | 2011 | | |
|----------------------------------------------------|-----------------------|---------------------------|-----------------------|
| | Foundation | Alumni Association | Total |
| Current assets | \$ 8,854,292 | \$ 735,616 | \$ 9,589,908 |
| Noncurrent assets | 123,199,049 | 4,180,293 | 127,379,342 |
| Total assets | <u>132,053,341</u> | <u>4,915,909</u> | <u>136,969,250</u> |
| Current liabilities | 358,862 | 536,115 | 894,977 |
| Noncurrent liabilities | 749,374 | - | 749,374 |
| Total liabilities | <u>1,108,236</u> | <u>536,115</u> | <u>1,644,351</u> |
| Net assets: | | | |
| Invested in capital assets, net of related debt | 1,828,773 | - | 1,828,773 |
| Restricted: | | | |
| Expendable | 45,066,506 | 1,009,386 | 46,075,892 |
| Nonexpendable | 79,323,121 | - | 79,323,121 |
| Unrestricted | 4,726,705 | 3,370,408 | 8,097,113 |
| Total net assets | <u>\$ 130,945,105</u> | <u>\$ 4,379,794</u> | <u>\$ 135,324,899</u> |

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

Notes to the Financial Statements - continued

June 30, 2012 and 2011

Note 1 - Summary of Significant Accounting Policies - Continued

Basis of Presentation – Continued

Component Units - Continued

The condensed statements of revenues, expenses and changes in net assets of the Foundation and Alumni Association for the period ended June 30 are as follows:

| | 2012 | | |
|------------------------------------|-----------------------|---------------------------|------------------------|
| | Foundation | Alumni Association | Component Units |
| Operating Revenues: | | | |
| Other sources | \$ - | \$ 3,392,729 | \$ 3,392,729 |
| Operating Expenses: | | | |
| Operation and maintenance of plant | - | 345,871 | 345,871 |
| Depreciation and amortization | 108,210 | - | 108,210 |
| Student Services | - | 2,294,286 | 2,294,286 |
| Institutional support | 3,744,886 | 2,011,249 | 5,756,135 |
| Total Operating Expenses | <u>3,853,096</u> | <u>4,651,406</u> | <u>8,504,502</u> |
| Net Operating Loss | <u>(3,853,096)</u> | <u>(1,258,677)</u> | <u>(5,111,773)</u> |
| Nonoperating Revenues (Expenses): | | | |
| Net investment income (loss) | 3,296 | (100,237) | (96,941) |
| Endowment loss | (2,765,337) | - | (2,765,337) |
| Private gifts | 11,740,411 | 948,539 | 12,688,950 |
| Gifts to the University | (11,163,464) | - | (11,163,464) |
| Additions to permanent endowments | 2,326,834 | - | 2,326,834 |
| Miscellaneous receipts | 1,365,424 | - | 1,365,424 |
| Net Nonoperating Revenues | <u>1,507,164</u> | <u>848,302</u> | <u>2,355,466</u> |
| Decrease Before Capital Gifts | <u>(2,345,932)</u> | <u>(410,375)</u> | <u>(2,756,307)</u> |
| Capital Gifts | <u>(3,368,080)</u> | <u>-</u> | <u>(3,368,080)</u> |
| Decrease in Net Assets | <u>(5,714,012)</u> | <u>(410,375)</u> | <u>(6,124,387)</u> |
| Net Assets, at Beginning of Year | <u>130,945,105</u> | <u>4,379,794</u> | <u>135,324,899</u> |
| Net Assets, at End of Year | <u>\$ 125,231,093</u> | <u>\$ 3,969,419</u> | <u>\$ 129,200,512</u> |

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

Notes to the Financial Statements - continued

June 30, 2012 and 2011

Note 1 - Summary of Significant Accounting Policies - Continued

Basis of Presentation – Continued

Component Units - Continued

The condensed statements of revenues, expenses and changes in net assets of the Foundation as of March 31 and Alumni Association as of June 30 are as follows:

| | 2011 | | |
|------------------------------------|-----------------------|---------------------------|------------------------|
| | Foundation | Alumni Association | Component Units |
| Operating Revenues: | | | |
| Other sources | \$ - | \$ 3,497,683 | \$ 3,497,683 |
| Operating Expenses: | | | |
| Operation and maintenance of plant | - | 391,676 | 391,676 |
| Depreciation and amortization | 81,309 | - | 81,309 |
| Student Services | - | 1,798,947 | 1,798,947 |
| Institutional support | 3,252,053 | 1,932,926 | 5,184,979 |
| Total Operating Expenses | <u>3,333,362</u> | <u>4,123,549</u> | <u>7,456,911</u> |
| Net Operating Loss | <u>(3,333,362)</u> | <u>(625,866)</u> | <u>(3,959,228)</u> |
| Nonoperating Revenues (Expenses): | | | |
| Net investment income | 351,895 | 626,938 | 978,833 |
| Endowment income | 12,159,286 | - | 12,159,286 |
| Private gifts | 8,830,631 | 957,735 | 9,788,366 |
| Gifts to the University | (7,643,733) | - | (7,643,733) |
| Additions to permanent endowments | 3,682,545 | - | 3,682,545 |
| Miscellaneous receipts | 1,264,044 | - | 1,264,044 |
| Net Nonoperating Revenues | <u>18,644,668</u> | <u>1,584,673</u> | <u>20,229,341</u> |
| Increase Before Capital Gifts | 15,311,306 | 958,807 | 16,270,113 |
| Capital Gifts | <u>(1,198,990)</u> | <u>-</u> | <u>(1,198,990)</u> |
| Increase in Net Assets | 14,112,316 | 958,807 | 15,071,123 |
| Net Assets, at Beginning of Year | 116,832,789 | 3,420,987 | 120,253,776 |
| Net Assets, at End of Year | <u>\$ 130,945,105</u> | <u>\$ 4,379,794</u> | <u>\$ 135,324,899</u> |

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

Notes to the Financial Statements - continued

June 30, 2012 and 2011

Note 1 - **Summary of Significant Accounting Policies - Continued**

Basis of Presentation – Continued

Component Units - Continued

Complete financial statements for the Foundation can be obtained from 79 Upper College Road, Kingston, RI 02881 and for the Alumni Association can be obtained from Alumni Relations, Room 105, 73 Upper College Road, Kingston, RI 02881.

Net Assets

Resources are classified for accounting purposes into the following four net asset categories:

Invested in Capital Assets, Net of Related Debt: Capital assets, net of accumulated depreciation, accounts payable, accrued expenses, 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.

Cash and Equivalents

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

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

Notes to the Financial Statements - continued

June 30, 2012 and 2011

Note 1 - Summary of Significant Accounting Policies - Continued

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.

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.

Compensated Absences and Salary Reduction Plan

University employees are granted vacation and sick leave in varying amounts. The University is committed to various union contracts containing different policies for the applicable employees. 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 non-union 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 compensation rates in effect as of the balance sheet date.

Included in this category are amounts related to Salary Reduction Plans adopted during fiscal years 1991, 1992 and 1993 that can be distributed in the form of paid leave, payment at the time of separation from the University or to an employee's estate.

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

Notes to the Financial Statements - continued

June 30, 2012 and 2011

Note 1 - Summary of Significant Accounting Policies - Continued

Compensated Absences and Salary Reduction Plan – Continued

Amounts related to a fiscal year 2009 plan can be received in the form of paid leave or payment between July 1, 2010 and June 15, 2012. Any leave not used or elected for payment before June 15, 2012 was lost.

Post Employment Benefits

GASB 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions* requires governments to account for other postemployment benefits (OPEB) on the accrual basis, rather than pay as you go (cash basis). Furthermore the determination of the OPEB liability is dependent upon the type of plan in which the employer participates. Effective July 1, 2011 the State of Rhode Island established an independent corporation titled the OPEB Board, to manage OPEB benefits for all state government employers including the University. A separate legal OPEB entity classified as a cost sharing multiple employer, as established by the State, assesses annually a contractual obligation based on the plan's parameters to each participating employer. In accordance with the requirements of GASB 45, the accumulated net OPEB obligation recorded in previous years has been reduced to zero. To the extent the employer does not pay the entire ARC or contractual obligation, they will have an OPEB related liability. However, in the case of a cost-sharing plan, the ultimate responsibility for OPEB liabilities remains with the OPEB entity.

Health Insurance

The State offers one state paid health plan to each of its participating agencies. The premiums for these plans are divided among the agencies based upon the number of eligible employees. All employees share in healthcare costs. The costs are automatically deducted through the payroll system on a bi-weekly basis. Employee co-pays ranged from 10% to 25% of healthcare premiums. Expenses incurred by the University for the 2012 and 2011 healthcare premiums amounted to \$34,504,773 and \$33,459,498, respectively. Employee contributions for the 2012 and 2011 were \$4,830,666, and \$4,483,409, respectively.

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

Notes to the Financial Statements - continued

June 30, 2012 and 2011

Note 1 - Summary of Significant Accounting Policies - Continued

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 based on biweekly payrolls of all State agencies. The fringe benefit assessment rate for fiscal 2012 and 2011 was 3.75% and 4.85%, respectively. The assessed fringe benefit cost for the University was \$5,622,101 for fiscal year 2012 and \$5,754,554 for fiscal year 2011.

Student Deposits and Unearned Revenue

Student 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.

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.

Funds Held for Others

The University holds funds for student and other organizations affiliated with the University. These funds are pooled with the University's funds and net returns are allocated to the University organizations' asset balances.

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.

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

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

Notes to the Financial Statements - continued

June 30, 2012 and 2011

Note 1 - **Summary of Significant Accounting Policies – Continued**

Use of Estimates - Continued

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.

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 \$25 million and a deductible of \$75,000, except for employee dishonesty which has a \$150,000 deductible. 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 \$200 million. A separate inland marine policy insures specifically listed property items such as computer equipment, valuable papers, fine arts, contractor's 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. The amount of settlements have not exceeded insurance coverage in each of the years ended June 30, 2012, 2011 and 2010.

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

Notes to the Financial Statements - continued

June 30, 2012 and 2011

Note 1 - Summary of Significant Accounting Policies – Continued

Risk Management Continued

All vehicles are owned by the State, which insures them for liability through an outside carrier. The policy is a loss retrospective program where premiums can be adjusted for claims incurred. Worker's compensation, unemployment, and employee health and life insurance claims are self-insured and managed by the State of Rhode Island.

Reclassifications

Certain amounts in the 2011 financial statements have been reclassified to conform to the 2012 presentation.

New Government Accounting Pronouncements

GASB 60, *Accounting and Financial Reporting for Service Concession Arrangements*, effective for periods beginning after December 15, 2011, establishes accounting requirements for arrangements between a transferor and operator (SCAs) in which (a) the transferor conveys to the operator the right and related obligation to provide services through the use of infrastructure or other public asset in exchange for significant consideration and (b) the operator collects and is compensated by fees from third parties. This statement applies only to arrangements meeting specific criteria determining whether a transferor retains control over the public asset. The University does not currently have any SCAs and therefore GASB 60 is not expected to have any impact on the financial statements.

GASB 61, *The Financial Reporting Entity: Omnibus an Amendment of GASB Statements 14 and 34*, effective for periods beginning after June 15, 2012, provides additional criteria for classifying entities as component units to better assess the accountability of officials by ensuring that the financial reporting entity includes only organizations for which the officials are financially accountable or that are determined by the government to be misleading to exclude. Management of the University does not expect implementation to affect the financial statements.

GASB 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, effective for periods beginning after December 15, 2011, incorporates into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in the following pronouncements issued on or before November 30, 1989, which does not

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

Notes to the Financial Statements - continued

June 30, 2012 and 2011

Note 1 - Summary of Significant Accounting Policies – Continued

New Government Accounting Pronouncements-Continued

conflict with or contradict GASB pronouncements: Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins of the American Institute of Certified Public Accountants' (AICPA) Committee on Accounting Procedure. Management expects this statement to have no affect on the financial statements.

GASB 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, effective for periods beginning after December 15, 2011, provides financial reporting guidance. Deferred outflows are the consumption of net assets and deferred inflows are the acquisition of net assets, applicable to future reporting periods. Net position is identified by Concepts Statement No. 4 as the residual of all other elements presented in a statement of financial position and requires the incorporation of deferred outflows and inflows into the required components of the residual measure and renaming that measure, known as net assets, as net position. An item is not considered a deferred outflow of resources or a deferred inflow of resources unless specifically required by a GASB pronouncement. Currently only GASB 53 *Accounting and Financial Reporting for Derivative Instruments* and GASB 60 contain this requirement. Management is in the process of reviewing this statement and its potential affect upon their financial reporting but does not expect any material impact.

GASB 64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions - an amendment of GASB Statement 53*, effective for periods beginning after June 15, 2011 provides clarification whether an effective hedging relationship continues after the replacement of the swap counterparty or swap counterparty's credit support provider and establishes criteria order to continue or discontinue hedge accounting and the resulting effects of recognition of the deferred outflows or inflows of resources as a component of investment income. The adoption of GASB 64 had no impact on the financial statements.

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

Notes to the Financial Statements - continued

June 30, 2012 and 2011

Note 1 - Summary of Significant Accounting Policies – Continued

New Government Accounting Pronouncements-Continued

GASB 65, *Items Previously Reported as Assets and Liabilities*, effective for periods beginning after December 15, 2012, establishes accounting and financial reporting standards for the reclassification of certain assets and liabilities in accordance with - GASB 63. Management expects this statement to have no affect on the financial statements.

GASB 66, *Technical Corrections - 2012 - an amendment of GASB Statements 10 and 62*, effective for periods beginning after December 15, 2012, resolves conflicts between recently issued and earlier GASB statements as well as modifying guidance related to accounting for certain operating leases. Management is in the process of reviewing this statement and its potential affect upon their financial reporting but does not expect any material impact.

Note 2 - Cash and Cash Equivalents and Investments

Cash and Equivalents

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.

At June 30, 2012 and 2011, the carrying amount of the University's cash deposits was \$98,818,479 and \$88,822,406 and the bank balance was \$108,111,999 and \$94,248,168, respectively. Deposits are exposed to custodial credit risk if they are not covered by depository insurance and the deposits are:

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

Notes to the Financial Statements - continued

June 30, 2012 and 2011

Note 2 - Cash and Cash Equivalents and Investments - Continued

Cash and Equivalents - Continued

- 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 \$62,056,535 and \$11,243,564 was covered by federal depository insurance and \$46,009,762 and \$75,421,535 was collateralized with securities held by the pledging financial institution, in the University's name as of June 30, 2012 and June 30, 2011, respectively. The remaining amount, \$45,703 for 2012 compared to \$7,583,069 in 2011 was uninsured and collateralized. The insured balance reflects FDIC insurance and guarantee programs in effect during 2012 and 2011.

None of the University's cash deposits were required to be collateralized by law since the deposits are not time deposits.

Funds on Deposit with Bond Trustee

The deposit with bond trustee is invested in money market funds with First American Treasury Obligation Fund. These funds are uninsured but invest exclusively in short-term U.S. Treasury obligations including repurchase agreements secured by U.S. Treasury obligations. As of June 30, 2012, the First American Treasury Obligation Fund had a rating of AAAm by Standard and Poor's and Aaa-mf by Moody's.

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.

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

Notes to the Financial Statements - continued

June 30, 2012 and 2011

Note 2 - Cash and Cash Equivalents and Investments - Continued

Investments - Continued

The Foundation investments and the Alumni Association investments at June 30, 2012 are reported at fair market value and are composed of the following:

| | 2012 | | |
|---------------------------|-----------------------|---------------------------|-----------------------|
| | Foundation | Alumni Association | Total |
| Common stocks | \$ 4,601,839 | \$ 2,771,859 | \$ 7,373,698 |
| Fixed Income | 4,584,313 | - | 4,584,313 |
| Government securities | 37,861,280 | - | 37,861,280 |
| Emerging Markets Equities | 3,909,584 | - | 3,909,584 |
| Domestic Equities | 14,189,350 | - | 14,189,350 |
| Marketable Alternatives | 35,854,534 | - | 35,854,534 |
| Corporate Bonds | - | 1,255,031 | 1,255,031 |
| REITS | 1,565,594 | - | 1,565,594 |
| Mutual Funds | 12,387,824 | - | 12,387,824 |
| | <u>\$ 114,954,318</u> | <u>\$ 4,026,890</u> | <u>\$ 118,981,208</u> |

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

Notes to the Financial Statements - continued

June 30, 2012 and 2011

Note 2 - Cash and Cash Equivalents and Investments - Continued

Investments - Continued

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

| | 2011 | | |
|---------------------------|-----------------------|---------------------------|-----------------------|
| | Foundation | Alumni Association | Total |
| Common stocks | \$ 6,583,702 | \$ 2,791,523 | \$ 9,375,225 |
| Fixed Income | 4,821,164 | - | 4,821,164 |
| Government securities | 28,882,082 | - | 28,882,082 |
| Emerging Markets Equities | 5,062,774 | - | 5,062,774 |
| Domestic Equities | 15,373,617 | - | 15,373,617 |
| Marketable Alternatives | 41,009,816 | - | 41,009,816 |
| Corporate Bonds | - | 1,222,827 | 1,222,827 |
| REITS | 1,602,129 | - | 1,602,129 |
| Mutual Funds | 14,726,200 | - | 14,726,200 |
| | <u>\$ 118,061,484</u> | <u>\$ 4,014,350</u> | <u>\$ 122,075,834</u> |

Promulgations of the Financial Accounting Standards Board have established a framework for measuring fair value of the investments, which provides a hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. Please refer to the financial statements of the respective component unit for more information regarding the investments.

Note 3 - Cash Held by State Treasurer

Accounts payable, accrued salaries and capital costs incurred but not reimbursed by the State to be funded from state-appropriated funds totaled \$9,093,350 and \$1,740,753 at June 30, 2012 and 2011, 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.

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

Notes to the Financial Statements - continued

June 30, 2012 and 2011

Note 4 - Accounts Receivable

Accounts receivable, which are anticipated to be collected within one year, include the following at June 30:

| | 2012 | 2011 |
|--------------------------------------|----------------------|----------------------|
| Student accounts receivable | \$ 10,216,629 | \$ 10,814,004 |
| Grants receivable | 5,105,798 | 4,876,131 |
| Unbilled grants receivables | 14,112,840 | 15,654,239 |
| Other receivables | 5,570,843 | 6,711,631 |
| | 35,006,110 | 38,056,005 |
| Less allowance for doubtful accounts | (5,302,172) | (6,432,494) |
| | \$ 29,703,938 | \$ 31,623,511 |

Note 5 - Loans Receivable and 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. The grant refundable is \$12,095,980 and \$12,043,235 at June 30, 2012 and 2011, respectively.

Loans receivable include the following at June 30:

| | 2012 | 2011 |
|--------------------------------------|----------------------|----------------------|
| Perkins loans | \$ 9,911,957 | \$ 9,782,813 |
| Nursing loans | 1,594,400 | 1,474,759 |
| Health profession loans | 1,899,537 | 1,863,868 |
| Other | 747,632 | 665,461 |
| | 14,153,526 | 13,786,901 |
| Less allowance for doubtful accounts | (495,434) | (411,424) |
| | \$ 13,658,092 | \$ 13,375,477 |

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

Notes to the Financial Statements - continued

June 30, 2012 and 2011

Note 6 - Capital Assets

Capital assets of the University consist of the following at June 30, 2012:

| | | 2012 | | | | |
|--------------------------------------------------------------------|----------------------------------|----------------------|---------------|--------------|------------------------|-------------------|
| | Estimated lives (in years) | Beginning balance | Additions | Reductions | Reclassifi- cations | Ending balance |
| Capital assets not depreciated: | | | | | | |
| Land | - | \$ 2,105,076 | \$ 1,880 | \$ - | \$ - | \$ 2,106,956 |
| Construction in progress | - | 57,304,207 | 87,191,480 | - | (31,508,608) | 112,987,079 |
| Total not depreciated | | 59,409,283 | 87,193,360 | - | (31,508,608) | 115,094,035 |
| Capital assets depreciated: | | | | | | |
| Land improvements | 15-25 | 52,261,339 | - | - | 5,448,524 | 57,709,863 |
| Buildings, including improvements | 10-50 | 573,831,203 | - | - | 26,060,084 | 599,891,287 |
| Furnishings and equipment (including cost of capital leases) | 5-15 | 85,448,702 | 7,107,057 | (5,175,704) | - | 87,380,055 |
| Total depreciated | | 711,541,244 | 7,107,057 | (5,175,704) | 31,508,608 | 744,981,205 |
| Less accumulated depreciation: | | | | | | |
| Land improvements | | 18,260,701 | 2,296,295 | - | - | 20,556,996 |
| Building, including improvements | | 195,271,812 | 17,103,278 | - | - | 212,375,090 |
| Furnishings and equipment | | 59,811,774 | 7,816,062 | (4,816,104) | - | 62,811,732 |
| Total accumulated depreciation | | 273,344,287 | 27,215,635 | (4,816,104) | - | 295,743,818 |
| Capital assets, net | | \$ 497,606,240 | \$ 67,084,782 | \$ (359,600) | \$ - | \$ 564,331,422 |

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

Notes to the Financial Statements - continued

June 30, 2012 and 2011

Note 6 - Capital Assets - Continued

Capital assets of the University consist of the following at June 30, 2011:

| | 2011 | | | | | |
|--------------------------------------------------------------------|----------------------------------|----------------------|---------------|--------------|------------------------|-------------------|
| | Estimated lives (in years) | Beginning balance | Additions | Reductions | Reclassifi- cations | Ending balance |
| Capital assets not depreciated: | | | | | | |
| Land | - | \$ 2,105,076 | \$ - | \$ - | \$ - | \$ 2,105,076 |
| Construction in progress | - | 25,596,247 | 50,072,637 | - | (18,364,677) | 57,304,207 |
| Total not depreciated | | 27,701,323 | 50,072,637 | - | (18,364,677) | 59,409,283 |
| Capital assets depreciated: | | | | | | |
| Land improvements | 15-25 | 46,994,781 | - | - | 5,266,558 | 52,261,339 |
| Buildings, including improvements | 10-50 | 561,296,609 | - | (563,525) | 13,098,119 | 573,831,203 |
| Furnishings and equipment (including cost of capital leases) | 5-15 | 81,101,979 | 6,118,674 | (1,771,951) | - | 85,448,702 |
| Total depreciated | | 689,393,369 | 6,118,674 | (2,335,476) | 18,364,677 | 711,541,244 |
| Less accumulated depreciation: | | | | | | |
| Land improvements | | 16,188,923 | 2,071,778 | - | - | 18,260,701 |
| Building, including improvements | | 179,329,053 | 16,471,062 | (528,303) | - | 195,271,812 |
| Furnishings and equipment | | 57,125,649 | 4,356,490 | (1,670,365) | - | 59,811,774 |
| Total accumulated depreciation | | 252,643,625 | 22,899,330 | (2,198,668) | - | 273,344,287 |
| Capital assets, net | | \$ 464,451,067 | \$ 33,291,981 | \$ (136,808) | \$ - | \$ 497,606,240 |

Other Deferred Assets

Other deferred assets of \$8,324,000 and \$8,876,347 at June 30, 2012 and 2011, respectively, consist of deferred financing fees, which are amortized by the straight-line method over the life of the respective bonds. Accumulated amortization was \$2,813,490 and \$2,366,624 as of June 30, 2012 and 2011, respectively. Amortization expense for the years ended June 30, 2012 and 2011 was \$466,866 and \$466,759, respectively.

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

Notes to the Financial Statements - continued

June 30, 2012 and 2011

Note 7 - Early Retirement Incentive Plan

The University established a University Retirement Incentive Program (URIP), offered in the Spring of 2012, for the purpose of providing an incentive for faculty and non-classified staff to retire. Eligible employees included faculty and non-classified staff employed for a minimum of twenty hours per week, age 62 or older and a minimum of ten years service with the University, and a participant in one of the Board of Governors' alternate retirement plans. Thirty-eight employees elected to participate in this program in March 2012. These employees will receive a one-time-only payment of 40% of current salary, with a minimum payout of \$20,000, an annual stipend of \$7,000 to offset health insurance up to age 65, and for those not eligible to receive BOG retiree health insurance a \$3,000 annual stipend to offset the cost of Medigap health insurance for a maximum of 5 years after age 65.

The University recorded a liability and expense for all employees who elected to participate in this program. The liability at June 30, 2012, and expense in the 2012 financial statements was \$2,104,342, which represents actual future payments to be made.

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

Notes to the Financial Statements - continued

June 30, 2012 and 2011

Note 8 - Long-Term Liabilities

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

| 2012 | | | | | |
|---------------------------------------|----------------------|--------------|--------------|-------------------|--------------------|
| | Beginning balance | Additions | Reductions | Ending balance | Current portion |
| Leases and bonds payable: | | | | | |
| Lease obligations | \$ 9,757,358 | \$ - | \$ 1,187,847 | \$ 8,569,511 | \$ 1,049,647 |
| Revenue bonds payable | 252,516,806 | - | 6,715,620 | 245,801,186 | 7,657,807 |
| Loans payable | 1,575,396 | - | 250,289 | 1,325,107 | 254,630 |
| Total leases and bonds payable | 263,849,560 | - | 8,153,756 | 255,695,804 | 8,962,084 |
| Other long-term liabilities: | | | | | |
| Compensated absences | 19,395,411 | 1,078,254 | 1,018,428 | 19,455,237 | 1,084,863 |
| Total Other long- term Liabilities | 19,395,411 | 1,078,254 | 1,018,428 | 19,455,237 | 1,084,863 |
| Total long-term Liabilities | \$ 283,244,971 | \$ 1,078,254 | \$ 9,172,184 | \$ 275,151,041 | \$ 10,046,947 |

| 2011 | | | | | |
|---------------------------------------|----------------------|--------------|---------------|-------------------|--------------------|
| | Beginning balance | Additions | Reductions | Ending balance | Current portion |
| Leases and bonds payable: | | | | | |
| Lease obligations | \$ 10,928,750 | \$ - | \$ 1,171,392 | \$ 9,757,358 | \$ 1,187,847 |
| Revenue bonds payable | 258,677,108 | - | 6,160,302 | 252,516,806 | 6,715,620 |
| Loans payable | 1,962,769 | - | 387,373 | 1,575,396 | 250,290 |
| Total leases and bonds payable | 271,568,627 | - | 7,719,067 | 263,849,560 | 8,153,757 |
| Other long-term liabilities: | | | | | |
| Other Post Employment Benefits | 4,104,395 | - | 4,104,395 | - | - |
| Compensated absences | 18,605,496 | 1,459,973 | 670,058 | 19,395,411 | 1,204,108 |
| Total Other long- term Liabilities | 22,709,891 | 1,459,973 | 4,774,453 | 19,395,411 | 1,204,108 |
| Total long-term Liabilities | \$ 294,278,518 | \$ 1,459,973 | \$ 12,493,520 | \$ 283,244,971 | \$ 9,357,865 |

UNIVERSITY OF RHODE ISLAND

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

Notes to the Financial Statements - continued

June 30, 2012 and 2011

Note 8 - Long-Term Liabilities - Continued

Bonds Payable

The revenue bonds payable totaling \$245,801,186 and \$252,516,806 as of June 30, respectively, consist of the following:

| | <u>2012</u> | <u>2011</u> |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------|-----------------------|
| 1997 Series Higher Education Revenue Bonds - University of Rhode Island Issue, 4% to 5.3%, due semiannually through 2023 | \$ 1,305,000 | \$ 1,385,000 |
| Series 2002 University of Rhode Island Educational and General Revenue Issue, 3% to 5.0%, due semiannually through 2022 | 5,545,000 | 5,930,000 |
| Series 2003 A University of Rhode Island Educational and General Revenue Issue, 2% to 5%, due semiannually through 2013 | 780,000 | 1,140,000 |
| Series 2003 B Facility Revenue Refunding Bonds, Auxiliary Enterprise Revenue Issue, 2% to 5%, due semiannually through 2023 | 8,956,360 | 9,529,242 |
| Series 2003 C Facility Revenue Refunding Bonds, Educational and General Revenue Issue, 2% to 5%, due semiannually through 2023 | 5,919,826 | 6,297,564 |
| Series 2004 A University of Rhode Island Auxiliary Enterprise Revenue Issue, 2.5% to 5.5%, due semiannually through 2024 | 26,820,000 | 28,325,000 |
| Series 2005 A University of Rhode Island Educational and General Revenue Issue, 3% to 4.25%, due semiannually through 2020 | 1,820,000 | 1,985,000 |
| Series 2005 B University of Rhode Island Educational and General Revenue Issue, 3% to 4.25%, due semiannually through 2025 | 1,540,000 | 1,620,000 |
| Series 2005 C University of Rhode Island Auxiliary Enterprise Revenue Issue, 3% to 4.625%, due semiannually through 2025 | 12,235,000 | 12,530,000 |
| Series 2005 D University of Rhode Island Auxiliary Enterprise Revenue Refunding Issue, 3% to 4.25%, due semiannually through 2029 | 17,085,000 | 17,720,000 |
| Series 2005 F University of Rhode Island Educational and General Revenue Issue, 3% to 4.50%, due semiannually through 2025 | 2,520,000 | 2,655,000 |
| Series 2005 G University of Rhode Island Educational and General Revenue Refunding Issue, 4% to 5%, due semiannually through 2030 | 39,685,000 | 40,990,000 |
| Series 2008 A University of Rhode Island Auxiliary Enterprise Revenue Refunding Issue, 6.25% to 6.50%, interest due semiannually through 2034, principal commences in 2028 through 2036 | 34,105,000 | 34,105,000 |
| Series 2008 B University of Rhode Island Auxiliary Enterprise Revenue Issue, 8%, interest due semiannually through 2024, all principal is due 2024 | 3,830,000 | 3,830,000 |
| Series 2009 A University of Rhode Island Educational and General Revenue Issue, 3.4% to 4.75%, due semiannually through 2034 | 10,250,000 | 10,280,000 |
| Series 2009 B University of Rhode Island Auxiliary Revenue Issue, 3% to 5.25%, due semiannually through 2029 | 17,320,000 | 17,775,000 |
| Series 2010 A University of Rhode Island Educational and General Revenue Issue, 3% to 5%, due semiannually through 2041 | 13,390,000 | 13,725,000 |
| Series 2010 B University of Rhode Island Auxiliary Enterprise Revenue Issue, 3% to 5%, due semiannually through 2041 | 42,695,000 | 42,695,000 |
| | <u>\$ 245,801,186</u> | <u>\$ 252,516,806</u> |

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

Notes to the Financial Statements - continued

June 30, 2012 and 2011

Note 8 - Long-Term Liabilities - Continued

Bonds Payable - Continued

The bonds issued by the Rhode Island Health and Education Building Corporation (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.

On September 1, 1997, the Corporation issued the \$2,125,000 University of Rhode Island Educational and General Revenue Issue, Series 1997 Bonds. 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.

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 Auxiliary Enterprise Revenue Issue, Series 2003 B Bonds, par amount \$20,785,000 and the 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 relative to the previous Series A and Series B issues of 1993.

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

Notes to the Financial Statements - continued

June 30, 2012 and 2011

Note 8 - Long-Term Liabilities - Continued

Bonds Payable - Continued

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 were used for the construction of a 440-bed apartment unit and a 360-suite-style residence hall.

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 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 University of Rhode Island 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 Corporation also issued the University of Rhode Island Educational and General Revenue Refunding 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.

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

Notes to the Financial Statements - continued

June 30, 2012 and 2011

Note 8 - Long-Term Liabilities - Continued

Bonds Payable - Continued

On November 14, 2008, the Corporation issued \$34,105,000 of Series 2008 A the University of Rhode Island Auxiliary Enterprise Revenue Issue. These bonds were used to refund the \$33,000,000 outstanding from Series 2004 B Bonds. The proceeds from the issuance were deposited into the Series 2004 B Redemption Account and were used to pay principal and interest on the Series 2004 B Bonds through their redemption date, at a price of 100%. The Corporation also issued the University of Rhode Island Auxiliary Enterprise Revenue Issue Series 2008 B, par amount of \$3,830,000 to pay expenses relating to the 2004 B swap termination. The refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$1,105,000. This difference, reported in the accompanying financial statements as an increase in bonds payable and is being amortized through the year 2034. There was an economic gain (difference between the present value of the old and new debt service payments) of approximately \$2,617,133.

On June 18, 2009, the Corporation issued the University of Rhode Island Educational and General Revenue Issue, Series 2009 A with a par amount of \$10,315,000. The proceeds of the Series 2009 A Bonds were used to finance site and utility infrastructure relating to the "North District" of the Kingston Campus. The Corporation also issued the University of Rhode Island Auxiliary Enterprise Revenue Issue, Series 2009 B with a par amount of \$18,205,000. The proceeds of the Series 2009 B bonds were used to finance fire protection and life safety improvements.

On February 17, 2010, the Corporation issued the University of Rhode Island Educational and General Revenue Issue, Series 2010 A with a par amount of \$13,725,000. The proceeds of the Series 2010 A Bonds were used to repave and reconstruct major parking facilities, internal roadways and walkways across three of its four campuses.

On May 27, 2010, the Corporation issued the University of Rhode Island Educational and General Revenue Issue, Series 2010 B with a par amount of \$42,695,000. The proceeds of the Series 2010 B Bond were used for the design, construction, equipping and furnishing of a new multi-story residence hall and demolition of the present Terrace Apartments.

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

Notes to the Financial Statements - continued

June 30, 2012 and 2011

Note 8 - Long-Term Liabilities - Continued

Bonds Payable - Continued

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: | | | | | |
| 2013 | \$ 7,657,807 | \$ | 11,903,027 | \$ | 19,560,834 |
| 2014 | 7,938,123 | | 11,620,966 | | 19,559,089 |
| 2015 | 8,235,469 | | 11,322,006 | | 19,557,475 |
| 2016 | 8,564,930 | | 10,990,820 | | 19,555,750 |
| 2017 | 8,935,159 | | 10,617,986 | | 19,553,145 |
| 2018-2022 | 51,237,666 | | 46,554,487 | | 97,792,153 |
| 2023-2027 | 60,057,032 | | 32,686,619 | | 92,743,651 |
| 2028-2032 | 55,245,000 | | 17,064,284 | | 72,309,284 |
| 2033-2037 | 27,465,000 | | 5,613,291 | | 33,078,291 |
| 2038-2041 | 10,465,000 | | 1,079,125 | | 11,544,125 |
| | <u>\$ 245,801,186</u> | \$ | <u>159,452,611</u> | \$ | <u>405,253,797</u> |

Interest costs on all debt for the years ended June 30, 2012 and 2011 were \$12,174,034 and \$12,283,921, respectively. Of these amounts, \$1,967,225 and \$3,724,652 were capitalized in 2012 and 2011, respectively.

Loans Payable

The University has a loan with an original amount 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 ranging from \$140,000 to \$107,000 that includes interest at 6.0% through 2013.

The University also obtained a loan from Rhode Island Health & Educational Building Corporation, in May 2006 in the amount of \$800,000 for financing the acquisition and renovations of the Chi Phi fraternity house for use as student housing for the International Engineering Program. The loan is payable in monthly installments of \$8,387 that includes interest at 4.75% through April 20, 2016.

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

Notes to the Financial Statements - continued

June 30, 2012 and 2011

Note 8 - Long-Term Liabilities - Continued

Loans Payable - Continued

The University obtained a loan from the Rhode Island Alpha Chapter of Sigma Alpha Epsilon fraternity, in November 2009 for the amount of \$850,000 for the financing of the acquisition and renovations of Sigma Alpha Epsilon fraternity house for the use as student housing for the International Engineering Program. The loan is payable in monthly installments of \$7,173 that includes interest at 6.0% through September 15, 2024.

Principal and interest of loans payable are as follows:

| | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|----------------------|---------------------|-------------------|---------------------|
| Year ending June 30: | | | |
| 2013 | \$ 254,630 | \$ 72,098 | \$ 326,728 |
| 2014 | 236,297 | 57,731 | 294,028 |
| 2015 | 142,220 | 44,507 | 186,727 |
| 2016 | 132,946 | 37,007 | 169,953 |
| 2017 | 54,002 | 32,072 | 86,074 |
| 2018-2022 | 324,273 | 106,095 | 430,368 |
| 2023-2025 | 180,739 | 12,925 | 193,664 |
| | \$ <u>1,325,107</u> | \$ <u>362,435</u> | \$ <u>1,687,542</u> |

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

Notes to the Financial Statements - continued

June 30, 2012 and 2011

Note 8 - Long-Term Liabilities - Continued

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

The Seller is responsible for the costs of operating this facility and for making such additional repairs to the steam/condensate distribution system as directed by the University at a cost of up to \$1.5 million.

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

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

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

Notes to the Financial Statements - continued

June 30, 2012 and 2011

Note 8 - Long-Term Liabilities - Continued

Lease Obligations - Continued

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

On January 29, 2010, the University entered into a lease-purchase agreement with Lighthouse Computer Services, Inc (the vendor) for an IBM Tape Drive. Under the terms of the agreement the vendor is authorized to assign its right to payments, which commence on April 1, 2010 until March 1, 2014 or for 3 years, the estimated life of the tape drive. The agreement also provides the University with the option to purchase the central server at the end of the lease term for \$1. The University accounted for this lease as a capital lease and recorded the tape drive at \$436,525, the present value of minimum lease payments.

The University also entered into a lease-purchase agreement with Lighthouse Computer Services, Inc (the vendor) for an IBM Central Server. Under the terms of the agreement the vendor is authorized to assign its right to payments, which commence on February 1, 2010 until January 1, 2014 or for 4 years, the estimated life of the central server. The agreement also provides the University with the option to purchase the central server at the end of the lease term for \$1. The University accounted for this lease as a capital lease and recorded the central server at \$238,820, the present value of minimum lease payments.

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

Notes to the Financial Statements - continued

June 30, 2012 and 2011

Note 8 - Long-Term Liabilities - Continued

Lease Obligations - Continued

The following schedule summarizes future minimum payments under all non-cancelable leases at June 30, 2012:

| | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|----------------------|---------------------|---------------------|----------------------|
| Year ending June 30: | | | |
| 2013 | \$ 1,049,647 | \$ 405,205 | \$ 1,454,852 |
| 2014 | 954,864 | 353,225 | 1,308,089 |
| 2015 | 965,000 | 331,000 | 1,296,000 |
| 2016 | 1,015,000 | 281,000 | 1,296,000 |
| 2017 | 1,065,000 | 231,000 | 1,296,000 |
| 2018-2020 | 3,520,000 | 368,000 | 3,888,000 |
| | <u>\$ 8,569,511</u> | <u>\$ 1,969,430</u> | <u>\$ 10,538,941</u> |

Note 9 - Restricted Net Assets

The University is the recipient of funds that are subject to various external constraints upon their use, either as to purpose or time. These funds are composed of the following at June 30:

| | <u>2012</u> | <u>2011</u> |
|--------------------------|---------------------|---------------------|
| Restricted – expendable: | | |
| Student Loans | \$ 3,105,770 | \$ 3,179,883 |
| Capital programs | 671,287 | 875,220 |
| | <u>\$ 3,777,057</u> | <u>\$ 4,055,103</u> |

Note 10 - Unrestricted Net Assets

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

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

Notes to the Financial Statements - continued

June 30, 2012 and 2011

Note 11 - **Contingencies**

Environmental Remediation

Hazardous waste found at a former drum storage site on property owned by the University polluted the ground and water in the area. The University entered into a "Consent Decree" agreement with the United States District Court on behalf of the US Environmental Protection Agency (EPA), the US Justice Department, and the Rhode Island Department of Environmental Management (RIDEM) on July 2, 2008 with regards to the West Kingston Town Dump/URI Disposal Area Superfund Site. A cap was placed to cover the URI disposal area site and parties are now monitoring the ground water over an extend period of time through a system of monitoring wells. The University shares fiscal responsibility with two other parties, the towns of South Kingstown and Narragansett. The University has accrued a liability of \$897,000 relating to the remediation project, operation and maintenance costs, and site reviews.

Other

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, 2012 and 2011, the University is a guarantor of loans to fraternities and sororities in the amount of \$250,000 and \$285,561, respectively.

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

A contract between a union representing University employees and the BOG was negotiated but remains un-ratified. The bargaining unit has filed a lawsuit against the BOG for unfair labor practices. As of the report date the outcome is unknown.

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

Notes to the Financial Statements - continued

June 30, 2012 and 2011

Note 12 - Operating Expenses

The University's operating expenses, as presented on a natural classification basis, as follows for the year ended June 30:

| | <u>2012</u> | <u>2011</u> |
|-------------------------------|------------------------------|------------------------------|
| Compensation and benefits | \$ 275,036,247 | \$ 265,221,982 |
| Supplies and services | 124,153,297 | 117,573,285 |
| Depreciation and amortization | 27,682,501 | 23,366,089 |
| Scholarships and fellowships | 26,666,114 | 24,509,196 |
| | <u>\$ 453,538,159</u> | <u>\$ 430,670,552</u> |

Note 13 - State Appropriation

Direct Appropriations

Pursuant to the Rhode Island General Law 16-59-9, the legislative-enacted budget reflects the budget passed by the General Assembly and signed by the Governor as well as any subsequent re-appropriations. 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. 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.

State Capital Plan Funds

The Rhode Island Capital Plan Fund was modeled on a financial technique originating in the State of Delaware. In fiscal year 2012 the State reserved 2.8% of its general revenues to fund a Budget Reserve and Cash Stabilization Fund. If the fund reaches a maximum threshold (4.6% of total resources in fiscal year 2012), the excess revenues are transferred to a Capital Plan Fund. This Capital Plan 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.

UNIVERSITY OF RHODE ISLAND

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

Notes to the Financial Statements - continued

June 30, 2012 and 2011

Note 13 - State Appropriation - Continued

State Capital Plan Funds-Continued

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

| | 2012 | 2011 |
|---------------------------------|----------------------|---------------------|
| Asset Protection | \$ 7,042,364 | \$ 5,327,980 |
| New Chemistry Building | 1,377,872 | 2,189,438 |
| Nursing & Assoc Health Building | 18,966 | 149,533 |
| Biotechnology Center | 2,888,935 | 320,165 |
| | <u>\$ 11,328,137</u> | <u>\$ 7,987,116</u> |

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 the general obligation bonds issue, the University spent \$83,000 and \$21,000 on the renovations of these two buildings at the Kingston Campus during fiscal years 2012 and 2011, 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 2012 and 2011, the University spent \$203,000 and \$123,000, 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 for the construction of the College of Pharmacy Building. During fiscal years 2012 and 2011 the University spent \$18.8 million and \$21.1 million, respectively.

In November 2008, the Rhode Island voters approved the issuance of \$61 million General Obligations Bonds for higher education facilities. The bond provides

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

Notes to the Financial Statements - continued

June 30, 2012 and 2011

Note 13 - **State Appropriation - Continued**

State Contributed Capital - Continued

funding for the construction of the Chemistry Building. During fiscal year 2012 the University spent \$299,000.

In 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 12 years. During the fiscal years 2012 and 2011 the University expended \$3.9 million and \$620,000, on capital improvements associated with the contract. Total amount of the contract was approximately \$24.1 million. As of June 30, 2012 the University has expended approximately \$20.6 million for these capital improvements.

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 years 2012 and 2011 the University has spent \$34,000 and \$1.2 million.

The expenditures funded from the proceeds of the above-mentioned general obligation bonds and capitalized as fixed assets during fiscal years 2012 and 2011 totaled \$23.3 million and \$23.1 million, respectively.

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

| | <u>2012</u> | | <u>2011</u> |
|---------------------------|-----------------------------|----|--------------------------|
| Direct Appropriations | \$ 58,485,321 | \$ | 56,618,919 |
| State Capital Plan Funds | 11,328,137 | | 7,987,116 |
| State Contributed Capital | <u>23,301,237</u> | | 23,073,508 |
| | \$ <u>93,114,695</u> | \$ | <u>87,679,543</u> |

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

Notes to the Financial Statements - continued

June 30, 2012 and 2011

Note 13 - **State Appropriation - Continued**

State Contributed Capital - Continued

In accordance with Rhode Island State law, unexpended capital plan appropriations lapse after June 30th of the fiscal year in which appropriated. Such funds may be applied for the subsequent fiscal year.

Note 14 - **Pension and Retirement Plans**

Rhode Island Board of Governors for Higher Education Alternate Retirement Plan

Plan Description

Certain employees of the University, (principally faculty and administrative personnel) are covered by individual annuity contracts under a defined contribution retirement plan, Alternate 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 (TIAA), 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.

Funding Policy

The University contributes 9% of the employee's gross biweekly earnings. Total expenditures by the University for such 403(b) annuity contracts amounted to \$9,855,328 and \$9,650,577 during 2012 and 2011, respectively. The employee contribution amounted to \$5,475,182 and \$5,361,430 during 2012 and 2011, respectively.

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

Notes to the Financial Statements - continued

June 30, 2012 and 2011

Note 14 - **Pension and Retirement Plan – Continued**

State of Rhode Island Employees Retirement System (ERS)

Plan Description

Other employees of the University (principally civil service personnel) participate in the Employees' Retirement System of the State of Rhode Island (ERSRI), a multiple-employer, cost-sharing, public employee retirement system. The plan provides retirement and disability benefits, annual cost-of-living adjustments (COLA), 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, 50 Service Ave., Warwick, RI 02886.

Funding Policy

The funding policy, as set forth in the General Laws, Section 36-10-2, provides for actuarially determined periodic contributions to the plan. University employees in the System are required to contribute 8.75% of their annual covered salary. The University is required to contribute at an actuarial determined rate: the rate was 22.98% of the annual covered for the years ending June 30, 2012. Employees contributed \$3,429,669 and \$3,126,520, and \$3,056,751, respectively, and the University's contribution to the System for the years ended June 30, 2012, 2011, and 2010 were \$9,007,291 and \$7,425,039, and \$5,069,043, respectively, representing 100% of the required contribution.

Pension Reform Impacting Future Periods:

In November 2011, the Rhode Island General Assembly enacted comprehensive pension reform legislation which included implementing a supplemental defined contribution plan and other benefit and eligibility changes including suspending COLAs. The above changes and other provisions of the reform enacted are effective July 1, 2012.

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

Notes to the Financial Statements - continued

June 30, 2012 and 2011

Note 15 - **Other Post Employment Benefits (OPEB)**

Rhode Island Retiree Health Care Benefit Plan

Plan Description

The University of Rhode Island contributes (for certain employees) to the State Employees' defined benefit post-employment health care plan, a cost sharing multiple employer plan administered through the Rhode Island State Employees' and Electing Teachers OPEB System (OPEB System). The State of Rhode Island OPEB Board (Board) was authorized, created and established under Chapter 36-12.1 of the RI General Laws. The Board was established to independently hold and administer, in trust, the funds of the OPEB system. The plan provides medical benefits to certain retired employees of participating employers including the University of Rhode Island.

Pursuant to legislation enacted by the General Assembly, a trust has been established to accumulate assets and pay benefits and other costs associated with the system.

The OPEB system issues a stand-alone, publically available financial report that includes the financial statements and required supplementary information. A copy of the report can be obtained from the State Controller's Office, 1 Capitol Hill, Providence, RI 02903.

Funding Policy

RIGL Sections 36-12.1, 36-12-2.2, and 36-12-4 govern the provisions of the OPEB System. The contribution requirements of plan members, the State, and other participating employers are established and may be amended by the General Assembly. Active employees make no contribution to the OPEB plan. Employees who retired after October 1, 2008 must contribute 20% of the annual estimated benefit cost (working rate) or annual premium for Medicare supplemental coverage. Employees retiring before October 1, 2008 have varying co-pay percentages ranging from 0% to 50% based on age and years of service at retirement. Further information about the contributions of plan members can be found in the financial report of the OPEB System.

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

Notes to the Financial Statements - continued

June 30, 2012 and 2011

Note 15 - Other Post Employment Benefits – Continued

Rhode Island Retiree Health Care Benefit Plan – Continued

Funding Policy -Continued

All participating employers are required by law to fund the actuarially determined annual required contribution (ARC), which for fiscal year 2012 was 6.86% of covered payroll. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The University's contribution to the plan for the year ended June 30, 2012 and 2011 were \$2,615,084 and \$2,420,050, respectively, which represents 100% of the ARC.

Rhode Island Board of Governors for Higher Education Health Care Insurance Retirement Program

Plan Description

The University contributes (for certain employees) 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 a defined benefit healthcare plan effective July 1, 1998 for employees of the Office of Higher Education, University of Rhode Island (URI), Rhode Island College (RIC) and Community College of Rhode Island (CCRI). The Board's ARP is considered a cost-sharing multiple employer plan. Rhode Island State law established the "Rhode Island State Employees' and Electing Teachers OPEB System" (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 State of Rhode Island OPEB Board (Board) was authorized, created and established under Chapter 36-12.1 of the RI General Laws.

The Board was established to independently hold and administer, in trust, the funds of the OPEB system. The plan provides medical benefits to certain retired employees of participating employers including University of Rhode Island.

Pursuant to legislation enacted by the General Assembly, a trust was established in fiscal year 2011 to accumulate assets and pay benefits and other costs associated with the system.

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

Notes to the Financial Statements - continued

June 30, 2012 and 2011

Note 15 - Other Post Employment Benefits – Continued

Rhode Island Board of Governors for Higher Education Health Care Insurance Retirement Program-Continued

Funding Policy-Continued

The OPEB system issues a stand-alone, publically available financial report that includes the financial statements and required supplementary information. A copy of the report can be obtained from the State Controller's Office, 1 Capitol Hill, Providence, RI 02903. RIGL Sections 36-12.1, 36-12-2.2, and 36-12-4 govern the provisions of the OPEB System. The contribution requirements of plan members and the University are established and may be amended by the Board. Effective in fiscal year 2011, all participating employers are required by law to fund the actuarially required contribution (ARC) which for fiscal year 2011 and 2012 was 2.69% of payroll covered by the Board Plan. Active employees contribute 0.9% of payroll to the OPEB plan. Retired employees have varying co-pay percentages ranging from 0% to 50% based on age and years of service at retirement. Further information about the contributions of plan members can be found in the financial report of the OPEB System.

For fiscal year 2012 the University of Rhode Island contribution to the plan was \$1,239,082 and active employees contributed 0.9% of covered payroll of \$414,563. The University of Rhode Island contribution to the plan for the year ended June 30, 2011 was \$1,137,007 and active employees contributed 0.9% of covered payroll \$380,411. In prior years, the University of Rhode Island contributed to the State Employees' OPEB plan, which consistent with GASB 45 provisions, was administered as an agent multiple employer plan because no separate legal trust had been created. The transition by the State of its OPEB plan in fiscal 2011 to an OPEB Trust resulted in the State Employees' Plan being redefined as a cost sharing multiple employer plan. In accordance with the requirements of GASB 45, as of June 30, 2011 the component unit's net OPEB obligation recorded in previous years has been reduced to zero.

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

Notes to the Financial Statements - continued

June 30, 2012 and 2011

Note 16 - Joint Venture

Municipal joint ventures pool resources to share the costs, risks, and rewards of providing services to their participants, the general public, or others. The University, in coordination with the Towns of South Kingstown and 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 2012 and 2011 share of capital expenditures amounted to \$71,053 and \$84,712, respectively

In addition to capital costs, the University is responsible for its proportionate share of the total operating costs of the regional waste water system. Its share of the operating costs is in proportion to its share of the total flow into the common facilities as determined by metering devices and a predetermined percentage of operating costs of certain other facilities. The University's share of operating costs amounted to \$619,752 in 2012 and \$650,714 in 2011. Financial information may be obtained at the Town of South Kingstown, 180 High Street, Wakefield, Rhode Island 02879.

Note 17 - Pass Through Grants

The University distributed \$101,048,499 and \$103,534,565 during fiscal 2012 and 2011, 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.



**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***

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

We have audited the financial statements of the University of Rhode Island (the "University") as of and for the year ended June 30, 2012, and have issued our report thereon dated September 30, 2012, which included a reference to the report of the other auditors who audited the discretely presented component units. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Our consideration of internal control over financial reporting and our test of compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters did not include the discretely presented component units audited by the other auditors referred to in the previous paragraph. The findings, if any, of the other auditors are not included herein.

Internal Control Over Financial Reporting

Management of the University is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the University of Rhode Island's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion of the effectiveness of the University of Rhode Island'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 deficiency in internal control 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 and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the University's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, 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 of Rhode Island's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the University in a separate letter dated September 30, 2012.

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

O'Connor & Drew, P.C.

Certified Public Accountants

Braintree, Massachusetts

September 30, 2012