

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

FINANCIAL STATEMENTS

JUNE 30, 2013 and 2012

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

Financial Statements

June 30, 2013 and 2012

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INDEPENDENT AUDITORS' REPORT

The Board of Education
State of Rhode Island and Providence Plantations
Providence, Rhode Island

Report on the Financial Statements

We have audited the accompanying financial statements of the University of Rhode Island (a component unit of the State of Rhode Island and Providence Plantations) (the "University") which comprise the statements of net position as of and for the years ended June 30, 2013 and 2012, and the related statements of revenues and expenses, changes in net position and cash flows for the years then ended, and the related notes to the financial statements, which collectively comprise the University's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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, Inc. (the "Foundation") and the Alumni Association University of Rhode Island (the "Alumni Association") of the as of June 30, 2013 and 2012 as discussed in Note 1. The financial statements of these component units were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the entity 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 audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness

of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of the University of Rhode Island as of June 30, 2013 and 2012, and the respective changes in net position, and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of a Matter

As discussed in Note 2 to the financial statements, the University restated prior balances with regards to the recognition of a bond liability. Our opinion is not modified with respect to that matter.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that management's discussion and analysis on pages 4-24 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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 30, 2013, on our consideration of University of Rhode Island's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering University of Rhode Island's internal control over financial reporting and compliance.

O'Connor and Drew, P.C.

Certified Public Accountants

Braintree, Massachusetts

September 30, 2013

UNIVERSITY OF RHODE ISLAND

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

Management's Discussion and Analysis (Unaudited)

June 30, 2013 and 2012

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, 2013 and the results of operations for the year then ended, with selected comparative information for the years ended June 30, 2012 and 2011. 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) was 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 ceased to exist as of January 1, 2013. The Office of Higher Education (OHE) will be abolished on July 1, 2014. The BOE established an Executive Commission of Education (Commission) consisting of the presidents of the University of Rhode Island, Rhode Island College, 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 vetted by the BOE for final action. BOE will submit a final plan for the administrative structure for higher education during Fall 2013 to the General Assembly and the Governor.

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, 2013 and 2012

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 16,688 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, 2013 shows an increase in net position before capital appropriations and gifts of \$11.78 million, compared to an increase of \$6.34 million in fiscal year 2012 and \$12.22 million in fiscal year 2011. The increase of \$5.44 million in fiscal year 2013 compared to fiscal year 2012 was due to an increase in total operating revenue of \$4.14 million; this was caused by an increase in tuition and fees as well as a decrease in grant and contract revenue.

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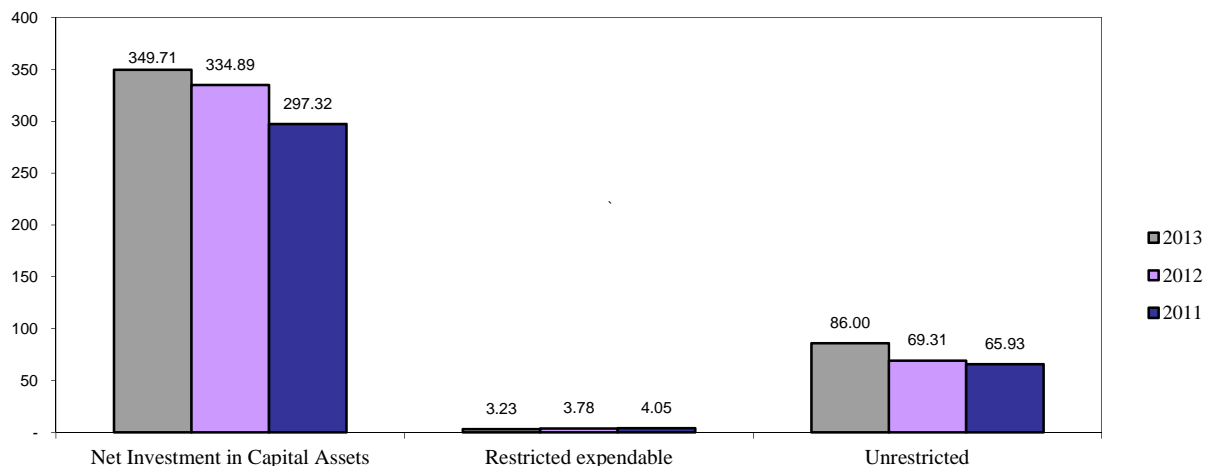
Management's Discussion and Analysis (Unaudited) - Continued

June 30, 2013 and 2012

Financial Highlights - Continued

The following chart displays the components of the University's net assets for the fiscal years ended June 30, 2013, 2012, and 2011.

Net Position
(Dollars in millions)



On June 30, 2013, 2012, and 2011, the University's total assets of \$794.51 million, \$771.22 million, and \$726.73 million, exceeded its total liabilities of \$355.57 million, \$363.24 million, and \$359.43 million resulting in net position of \$438.94 million, \$407.98 million and \$367.30 million, respectively. The resulting net position is summarized in the following categories (dollars in millions):

	2013	(Restated) 2012	(Restated) 2011
Net Investment in Capital Assets	\$ 349.71	334.89	297.32
Restricted expendable	3.23	3.78	4.05
Unrestricted	86.00	69.31	65.93
Total net position	\$ <u>438.94</u>	<u>407.98</u>	<u>367.30</u>

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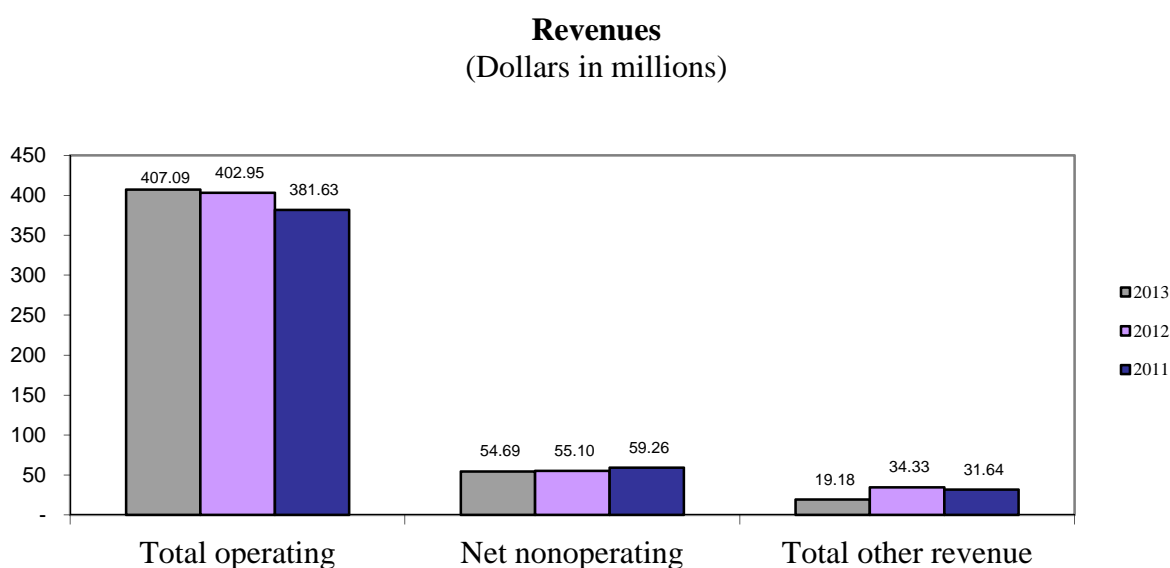
(a Component Unit of the State of Rhode Island and Providence Plantations)

Management's Discussion and Analysis (Unaudited) - Continued

June 30, 2013 and 2012

Financial Highlights - Continued

The following chart provides a graphical breakdown of total revenues by category for the fiscal years ending June 30, 2013, 2012, and 2011:



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, 2013 and 2012

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 four basic statements.

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

The *Statements of Revenues, Expenses and changes in Net Position* presents information showing how the University's net position changed during the most recent fiscal year. All changes in net position 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 25 to 28 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 position 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, 2013 and 2012

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 29 to 73 of this report.

Financial Analysis

As mentioned earlier, net position 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 \$438.94 million, \$407.98 million and \$367.30 million at the close of fiscal years 2013, 2012, and 2011, respectively.

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

		(Restated)	(Restated)
	2013	2012	2011
Current assets	\$ 157.56	141.37	125.43
Noncurrent assets	636.95	629.85	601.30
Total assets	\$ 794.51	771.22	726.73
Current liabilities	67.03	65.16	51.36
Noncurrent liabilities	288.54	298.08	308.07
Total liabilities	\$ 355.57	363.24	359.43
Net position:			
Net Investment in Capital Assets	\$ 349.71	334.89	297.32
Restricted, expendable	3.23	3.78	4.05
Unrestricted	86.00	69.31	65.93
Total net position	\$ 438.94	407.98	367.30

UNIVERSITY OF RHODE ISLAND

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Management's Discussion and Analysis (Unaudited) - Continued

June 30, 2013 and 2012

Financial Analysis - Continued

By far the largest portion of the University's net position, \$349.71 million, \$334.89 million, and \$297.32 million as of June 30, 2013, 2012, and 2011, 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 79%, 82%, and 81% net position, 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 0.7%, 0.9%, and 1.1% of the University's net position at June 30, 2013, 2012, and 2011, 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, 2013, 2012, and 2011, the University's unrestricted net assets represent 20%, 17%, and 18%, respectively, of the net position. At year end, this net position is 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: 2.35 to 1, 2.17 to 1, and 2.44 to 1 as of June 30, 2013, 2012, and 2011, respectively.

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Management's Discussion and Analysis (Unaudited) - Continued

June 30, 2013 and 2012

Financial Analysis - Continued

One of the components of the University's noncurrent assets are the funds on deposit with the bond trustee totaling \$27.19 million, \$42.81 million, and \$81.39 million of June 30, 2013, 2012, and 2011, respectively. The majority of the bond proceeds were from the 2009 A Bonds for \$3.50 million for utility upgrades, 2009 B Bonds for \$10.69 million for fire protection, 2010 A Bonds for \$10.10 million for the repaving and reconstruction of major parking facilities, 2010 B bonds for \$1.24 million for the construction of a new residence hall and demolition of the Terrance Apartments, and \$1.33 for Certificate of Participation – Energy Conservation.

During fiscal years 2013, 2012, and 2011, the University's net position increased by \$30.96 million, \$40.67 million, and \$43.86 million, respectively, which is largely due to capital and private funds received. The University closed fiscal years 2013, 2012, and 2011 with positive unrestricted net assets of \$87.33 million, \$69.31 million, and \$65.93 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, 2013 and 2012

Financial Analysis - Continued

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

	2013	(Restated) 2012	(Restated) 2011
Operating revenues:			
Tuition and fees, net of tuition waivers and remissions	\$ 255.97	239.57	230.34
Operating grants and contributions	104.40	117.84	107.32
Other sources	46.72	45.54	43.97
Total operating revenues	407.09	402.95	381.63
Operating expenses:			
Salaries and benefits	271.94	275.04	265.22
Operating expenses	57.06	58.27	53.24
Scholarships, grants and contracts	26.13	26.67	24.51
Auxiliaries	67.25	63.94	62.44
Depreciation and amortization	27.62	27.79	23.26
Total operating expenses	450.00	451.71	428.67
Net operating loss	(42.91)	(48.76)	(47.04)
Nonoperating revenues (expenses):			
State appropriation	58.86	58.48	56.62
Net investment income	0.23	0.28	0.49
Private gifts	8.01	7.12	7.43
Reversal of OPEB Obligation	-	-	4.10
Interest expense	(12.41)	(10.78)	(9.38)
Total nonoperating revenues	54.69	55.10	59.26
Income before other revenues, expenses, gains or losses	11.78	6.34	12.22
Capital appropriations	11.68	11.33	7.99
State contributed capital	3.90	19.42	22.45
Capital gifts	3.60	3.59	1.20
Increase in net assets	30.96	40.68	43.86
Net position – beginning of year	407.98	367.30	323.44
Net position – ending of year	\$ 438.94	407.98	367.30

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, 2013 and 2012

Operating Revenues

The total operating revenues increased by \$4.14 million or 1% in fiscal year 2013, compared to an increase of \$21.32 million or 5.6% in fiscal 2012, and an increase of \$11.72 million or 3.2% in fiscal 2011. The increase in 2013 is largely attributable to the tuition and fee rate increase, the increase in 2012 was also due to a tuition and fee increase and a slight increase in out of state students as well as an increase in Grants and Contracts, the increase in 2011 related to an increase in Grants and Contracts. Fiscal year 2013 instate tuition and fees increased by 9.5% and Out-of-State increased by 2.1%.

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

	<u>2012</u>	<u>2012</u>	<u>2011</u>
Tuition	\$ 255.17	236.71	223.98
Student service fees	18.05	18.56	16.82
Health service fees	6.38	6.09	6.07
Housing fees	34.99	32.62	30.62
Dining service fees	19.70	17.28	17.84
Miscellaneous student fees	<u>2.67</u>	<u>2.55</u>	<u>2.63</u>
Total	336.96	313.81	297.96
Tuition waived or remitted	<u>(80.99)</u>	<u>(74.24)</u>	<u>(67.62)</u>
Net	\$ <u>255.97</u>	<u>239.57</u>	<u>230.34</u>

UNIVERSITY OF RHODE ISLAND

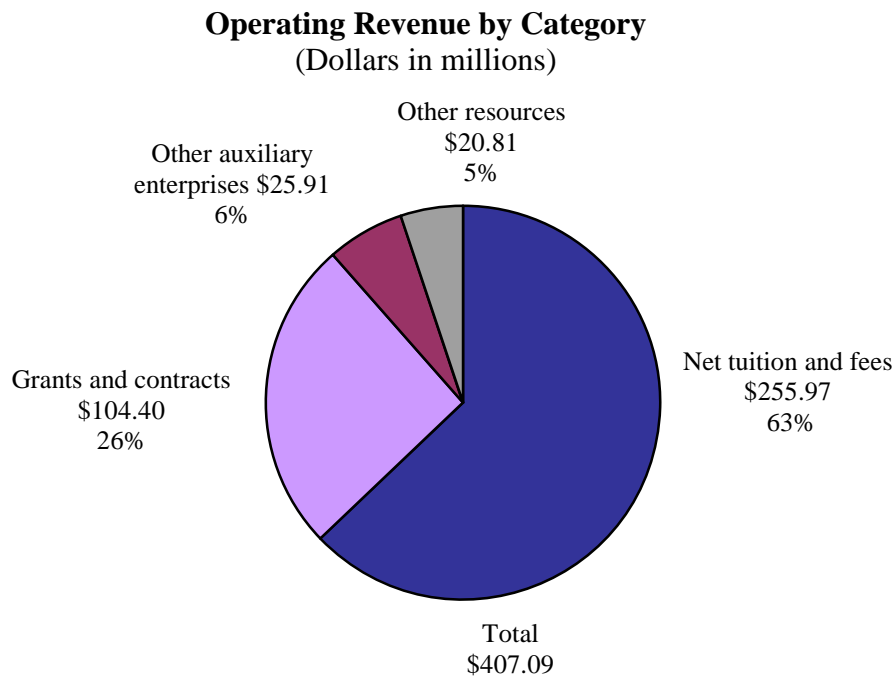
(a Component Unit of the State of Rhode Island and Providence Plantations)

Management's Discussion and Analysis (Unaudited) - Continued

June 30, 2013 and 2012

Operating Revenues - Continued

The following provides a graphical breakdown of operating revenues by category for the year ended June 30, 2013.



During fiscal years ended June 30, 2013, 2012, and 2011, the revenues from grants and contracts contributed 26%, 29%, and 28% respectively, of the total operating revenues.

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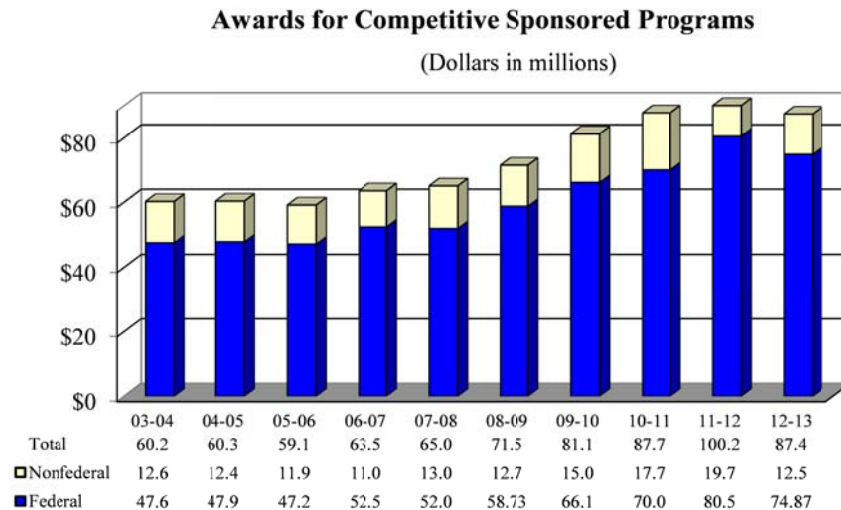
Management's Discussion and Analysis (Unaudited) - Continued

June 30, 2013 and 2012

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 revenues and expenses.

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 \$60.2 million in 2004 to \$87.4 million in 2013 or a 45.2% increase. This positive development is a reflection of the University's vision to pursue research and to enhance creative and entrepreneurial activities on campus. In fiscal year 2013, there was a decrease in awards from American Reinvestment and Recovery Act (ARRA).



UNIVERSITY OF RHODE ISLAND

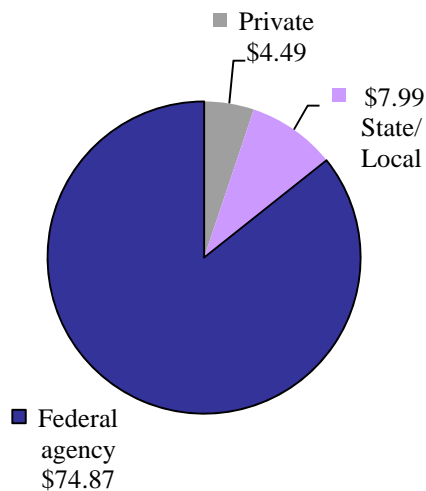
(a Component Unit of the State of Rhode Island and Providence Plantations)

Management's Discussion and Analysis (Unaudited) - Continued

June 30, 2013 and 2012

Grant and Contract Revenue - Continued

The following summary shows the breakdown of grants received from sponsoring agencies during fiscal 2013, with a pie chart for federal and nonfederal awards (dollars in millions).



Agency	Award
Department of Health and Human Services	\$ 21.32
National Science Foundation	18.57
Agency for International Development	8.91
Department of Agriculture	6.66
Department of Defense	5.69
National Oceanic and Atmospheric Admin	4.98
Other agencies	2.76
Department of Homeland Security	2.24
Department of Energy	2.06
Department of Interior	1.68
Federal agency	74.87
State/Local	7.99
Private	4.49
Total	\$ 87.35

Operating Expenses

The operating expenses for fiscal years 2013, 2012, and 2011 totaled \$450 million, \$451.71 million, and \$428.67 million, respectively, a decrease of \$1.71 million compared to an increase of \$23.04 million and \$9.54 million or a decrease of .38% and an increase of 5.37% and 2.28% over those of fiscal year 2013, 2012, and 2011. Although there was a net decrease in total operating expenses there was a decrease in research expenses due to ARRA funding completing as well as an increase in auxiliary operation resulting from a new Hillside resident dormitory opening in October 2012.

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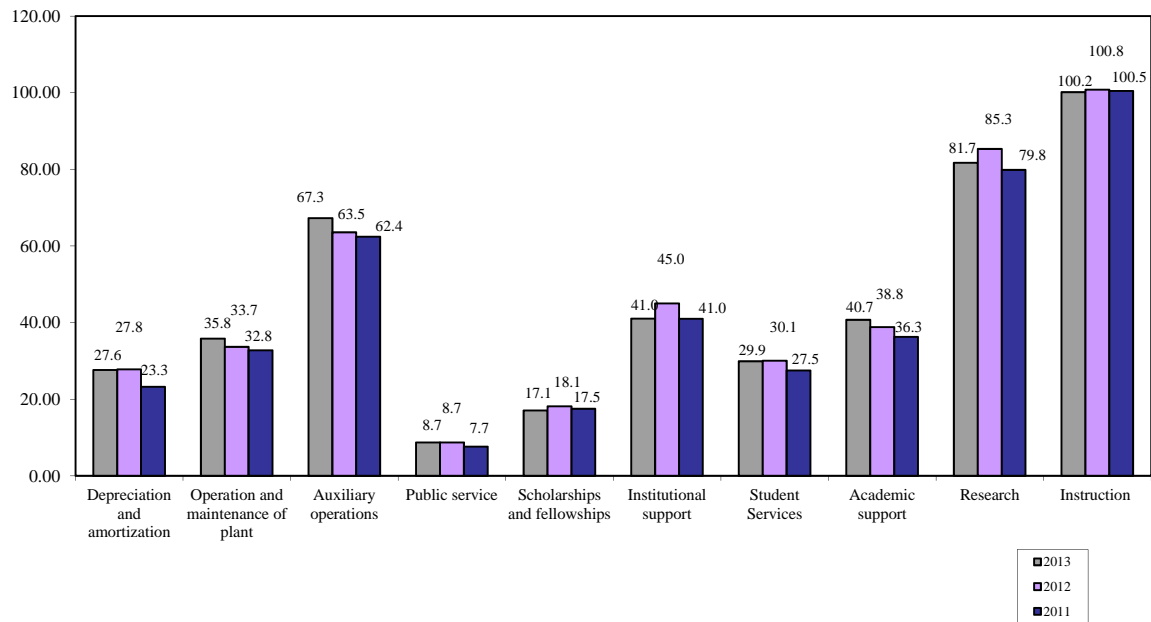
Management's Discussion and Analysis (Unaudited) - Continued

June 30, 2013 and 2012

Operating Expenses - Continued

The bar chart below illustrates the University's operating expenses by function for the fiscal years ended June 30, 2013, 2012, and 2011, 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, 2013 and 2012

Operating Expenses - Continued

The following summary shows where major grant and contract expenditures, including indirect cost charges, occurred during 2013, 2012 and 2011 (dollars in millions):

Agency	Amount		
	2013	2012	2011
Department of Health and Human Services	\$ 21.32	19.53	18.79
National Science Foundation	18.57	20.36	17.74
Agency for International Development	8.91	9.94	6.25
Department of Agriculture	6.66	7.01	6.23
Department of Defense	5.69	6.82	7.88
National Oceanic and Atmospheric Administration	4.98	5.55	5.61
Department of Homeland Security	2.24	3.31	-
Department of Energy	2.06	3.12	-
Department of Interior	1.68	1.25	1.14
National Aeronautic and Space Administration	0.64	0.72	0.78
Environmental Protection Agency	0.57	0.71	0.71
Other Federal Agencies	0.57	-	-
Department of Education	0.55	0.72	1.25
Department of Transportation	0.43	0.75	0.58

Nonoperating Revenues and Expenses

The State's unrestricted appropriation is the largest component of the University's nonoperating revenues. The amount requested for fiscal 2013 was \$59.02 million. However, the amount appropriated by the State was \$58.86 million resulting in an appropriation for fiscal 2013 that was \$160 thousand less than the amount requested.

UNIVERSITY OF RHODE ISLAND

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Management's Discussion and Analysis (Unaudited) - Continued

June 30, 2013 and 2012

Nonoperating Revenues and Expenses - Continued

The University has a long tradition of using the state appropriation to support its operating expenses. During fiscal years 2013, 2012, and 2011, the University received state appropriations of \$58.86 million, \$58.49 million, and \$56.62 million, respectively, which combined with operating revenue, was sufficient to cover operating expenses in excess of \$15.95 million in fiscal 2013, \$9.73 million in fiscal 2012, and \$9.58 million in fiscal 2011, 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 57% in fiscal years 2013, 53% in 2012 and 54% in 2011 of the University's operations (dollars in millions).

	<u>2013</u>	<u>Restated 2012</u>	<u>Restated 2011</u>
Net student fees	\$ 255.97	239.57	230.34
Other operating revenue	151.12	163.38	151.29
Operating expenses	<u>(450.00)</u>	<u>(451.71)</u>	<u>(428.67)</u>
Operating loss	(42.91)	(48.76)	(47.04)
State direct appropriations	<u>58.86</u>	<u>58.49</u>	<u>56.62</u>
Net income after state appropriation	\$ <u>15.95</u>	<u>9.73</u>	<u>9.58</u>

Investment income was down by \$45,892 or 16.4% in fiscal year 2013 due to the declining short-term rates of return and funds available for investment during the year.

UNIVERSITY OF RHODE ISLAND

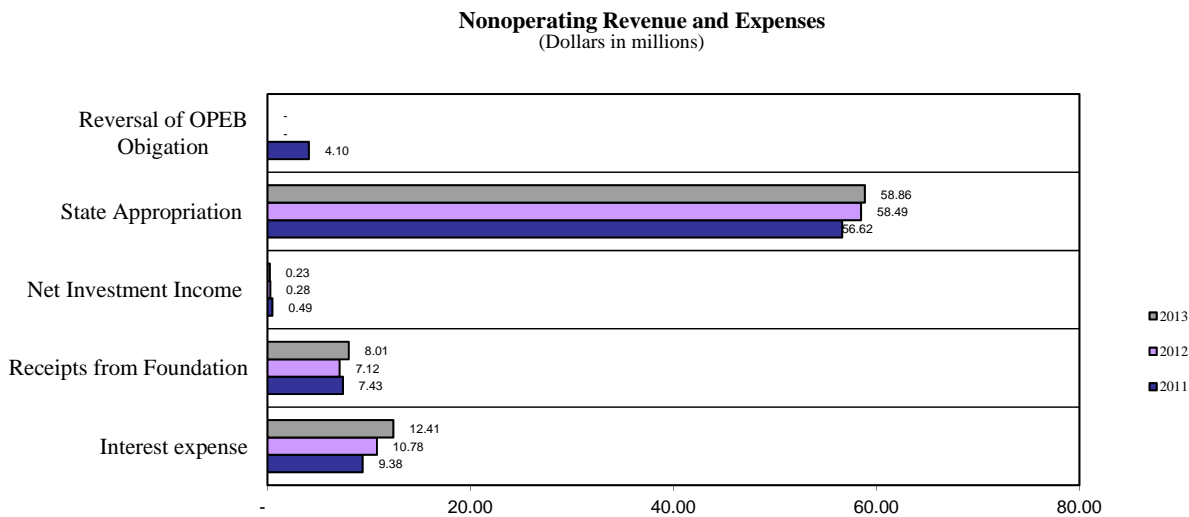
(a Component Unit of the State of Rhode Island and Providence Plantations)

Management's Discussion and Analysis (Unaudited) - Continued

June 30, 2013 and 2012

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, 2013 and 2012

Capital Assets and Debt Administration - Continued

Capital Plan - Continued

The Board of 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 2015-2019 for the University totals \$995 million, and it includes all continuing and planned projects, whether funded or not. This plan forms the basis for discussions on funding the various projects from all available funding sources.

Capital Assets

The University's investment in capital assets as of June 30, 2013, 2012, and 2011 net of accumulated depreciation, amounts to \$584.80 million, \$564.33 million, and \$497.61 million, respectively. This investment in capital assets includes land, buildings (including improvements), and furnishings and equipment (including capital leases). Capital assets increased during fiscal 2013 by \$20.47, 2012 by \$66.72 million, and \$33.16 million during fiscal 2011. Legal title to all land and real estate assets is vested in the Rhode Island Board of Education or the State of Rhode Island. A summary of net capital asset balances as of June 30, 2013, 2012, and 2011 is presented below (dollars in millions).

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Land and improvements	\$ 39.59	39.26	36.11
Major capital additions to building and improvements	494.44	387.51	378.56
Furnishings and equipment	25.20	24.57	25.64
Construction in progress	25.57	112.99	57.30
Total	\$ <u>584.80</u>	<u>564.33</u>	<u>497.61</u>

Major capital additions in fiscal 2013 included building and improvements included the Pharmacy Building (\$74 million) and Hillside Residence Hall (\$42 million).

Additional information about the University's capital assets can be found in note 7 to the financial statements.

UNIVERSITY OF RHODE ISLAND

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

Management's Discussion and Analysis (Unaudited) - Continued

June 30, 2013 and 2012

Capital Assets and Debt Administration - Continued

Debt

As of June 30, 2013, 2012 and 2011, the University had \$270.33 million, \$278.26 million, and \$287.24 million respectively, in outstanding debt, a decrease of \$7.93 million in 2013 and a decrease of \$8.98 million and \$1.76 million in 2012 and 2011. The University refinanced several bond issues during the fiscal year with a savings of \$5.6 million. The table below summarizes the types of debt instruments (dollars in millions).

	2013	Restated 2012	Restated 2011
Loans payable	\$ 1.07	1.33	1.57
Capital lease obligations	7.52	8.57	9.76
Due to Primary Government	18.91	20.40	-
Revenue bonds	242.83	247.96	275.91
Total	\$ 270.33	<u>278.26</u>	<u>287.24</u>

The University has no independent bonding authority. All revenue bonds must be approved by and arranged through the Rhode Island Health and Education Building Corporation. 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, 2013, the University of Rhode Island general revenue bonds are rated by Moody's as Aa3 and Standard and Poor's rating services have given rates of A+.

More detailed information about the University's long-term liabilities is presented in note 9 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, 2013 and 2012

Economic Factors that Will Affect the Future

The seasonally adjusted unemployment rate for the State of Rhode Island, from which the University draws a majority of its students, decreased from 10.9% in June of 2012 to 8.9% in June of 2013, according to the U.S. Bureau of Labor Statistics. This compares to a steady rate of 7.6% in June 2013, 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 Education took the following actions:

- Fiscal 2013 tuition and fees were increased by 9.5% for in-state undergraduate and graduate students, and 2.05% for all out-of-state students.
- 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, 2013 and 2012

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 2013-2012 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: Ms. Christina L. Valentino, 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 Position

June 30, 2013 and 2012

	<u>Assets</u>			
	2013 University of Rhode Island	(Restated) 2012 University of Rhode Island	2013 Component units	2012 Component units
Current Assets:				
Cash and equivalents (Note 3)	\$ 117,387,866	\$ 98,596,561	\$ 6,030,461	\$ 7,128,675
Cash held by State Treasurer (Note 4)	737,688	5,579,779	-	-
Accounts receivable, net (Note 5)	29,261,333	29,703,938	9,965	22,597
Due from primary government	6,198,142	4,221,325	-	-
Current portion of pledges receivable	-	-	869,300	967,527
Current portion of notes receivable	-	-	153,960	246,381
Inventory and other current assets	3,977,265	3,266,410	97,029	242,171
Total Current Assets	<u>157,562,294</u>	<u>141,368,013</u>	<u>7,160,715</u>	<u>8,607,351</u>
Noncurrent Assets:				
Cash and equivalents – restricted (Note 3)	744,625	221,918	-	-
Funds on deposit with bond trustee	27,193,768	42,810,927	-	-
Investments (Note 3)	-	-	129,805,415	118,981,208
Pledges receivable, net of current portion	-	-	1,900,491	2,227,073
Loans receivable, net (Note 6)	13,752,200	13,658,092	-	-
Charitable remainder trusts	-	-	606,315	460,356
Other deferred assets (Note 7)	10,462,837	8,829,555	-	-
Capital assets, net of accumulated depreciation (Note 7)	584,798,399	564,331,422	1,736,416	1,817,791
Total Noncurrent Assets	<u>636,951,829</u>	<u>629,851,914</u>	<u>134,048,637</u>	<u>123,486,428</u>
Total Assets	<u>\$ 794,514,123</u>	<u>\$ 771,219,927</u>	<u>\$ 141,209,352</u>	<u>\$ 132,093,779</u>
Liabilities and Net Position				
Current Liabilities:				
Accounts payable and accrued liabilities (Note 8)	\$ 36,432,347	\$ 36,628,463	\$ 2,706,601	\$ 2,100,049
Compensated absences (Note 9)	765,288	1,084,863	-	-
Funds held for others	1,668,840	1,204,328	-	-
Unearned revenue	16,379,486	15,595,273	9,037	14,551
Current portion of due to primary government (Note 9)	1,600,000	1,495,000	-	-
Current portion of capital lease obligations (Note 9)	954,864	1,049,647	-	-
Current portion of bonds and loans payable (Note 9)	9,231,114	8,103,233	-	-
Current portion of gift annuity payable	-	-	120,000	155,750
Total Current Liabilities	<u>67,031,939</u>	<u>65,160,807</u>	<u>2,835,638</u>	<u>2,270,350</u>
Noncurrent Liabilities:				
Compensated absences (Note 9)	17,789,002	18,370,374	-	-
Capital lease obligations (Note 9)	6,565,000	7,519,864	-	-
Due to primary government (Note 9)	17,305,000	18,905,000	-	-
Bonds and loans payable (Note 9)	234,669,304	241,188,212	-	-
Gift annuity payable	-	-	608,645	622,917
Grant refundable (Note 6)	12,206,329	12,095,980	-	-
Total Noncurrent Liabilities	<u>288,534,635</u>	<u>298,079,430</u>	<u>608,645</u>	<u>622,917</u>
Total Liabilities	<u>355,566,574</u>	<u>363,240,237</u>	<u>3,444,283</u>	<u>2,893,267</u>
Net Position:				
Net Investment in Capital Assets	349,706,938	334,889,079	1,736,416	1,817,791
Restricted:				
Expendable (Note 10)	3,232,925	3,777,057	51,884,578	37,492,476
Nonexpendable	-	-	74,527,549	81,649,955
Unrestricted (Note 11)	86,007,686	69,313,554	9,616,526	8,240,290
Total Net Position	<u>\$ 438,947,549</u>	<u>\$ 407,979,690</u>	<u>\$ 137,765,069</u>	<u>\$ 129,200,512</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 and Expenses

For the years ended June 30, 2013 and 2012

	2013 University of Rhode Island	(Restated) 2012 University of Rhode Island	2013 Component units	2012 Component units
Operating Revenues:				
Tuition and fees	\$ 264,709,436	\$ 245,772,146	\$ -	\$ -
Residence, dining, student union, and health fees	72,250,730	68,039,741	-	-
Less scholarship allowances	<u>(80,990,614)</u>	<u>(74,239,248)</u>	<u>-</u>	<u>-</u>
Net Student Fees	255,969,552	239,572,639	-	-
Federal, State, local, and private grants and contracts	104,398,733	117,841,434	-	-
Other auxiliary enterprises	25,914,386	25,541,295	-	-
Other sources	<u>20,809,931</u>	<u>19,994,596</u>	<u>3,900,123</u>	<u>3,392,729</u>
Total Operating Revenues	407,092,602	402,949,964	3,900,123	3,392,729
Operating Expenses (Note 13):				
Instruction	100,154,067	100,762,095	-	-
Research	81,710,485	85,294,791	-	-
Academic support	40,736,617	38,809,863	-	-
Student services	29,894,782	30,065,335	1,891,310	2,294,286
Scholarships and fellowships	17,079,632	18,124,678	-	-
Public service	8,725,224	8,700,321	-	-
Operation and maintenance of plant	35,797,179	33,651,770	391,886	345,871
Depreciation and amortization	27,617,679	27,788,099	81,375	108,210
Institutional support	41,028,648	44,975,379	6,321,765	5,756,135
Auxiliary operations	<u>67,253,543</u>	<u>63,539,089</u>	<u>-</u>	<u>-</u>
Total Operating Expenses	449,997,856	451,711,420	8,686,336	8,504,502
Net Operating Loss	<u>(42,905,254)</u>	<u>(48,761,456)</u>	<u>(4,786,213)</u>	<u>(5,111,773)</u>
Nonoperating Revenues (Expenses):				
State appropriation (Note 14)	58,859,376	58,485,321	-	-
Net investment income (loss)	233,364	279,256	208,953	(96,941)
Endowment income (loss)	-	-	10,260,034	(2,765,337)
Private gifts and contributions	-	-	11,092,980	12,688,950
Payments between the University and component units	8,009,709	7,120,871	(8,009,709)	(11,163,464)
Additions to permanent endowments	-	-	2,145,086	2,326,834
Miscellaneous receipts	-	-	991,227	1,365,424
Interest expense	<u>(12,410,289)</u>	<u>(10,783,548)</u>	<u>-</u>	<u>-</u>
Net Nonoperating Revenues (Expenses)	<u>54,692,160</u>	55,101,900	<u>16,688,571</u>	2,355,466
Increase (decrease) in Net Position Before Capital Contributions	<u>11,786,906</u>	<u>6,340,444</u>	<u>11,902,358</u>	<u>(2,756,307)</u>
Capital Contributions:				
Capital appropriations (Note 14)	15,576,552	30,741,417	-	-
Capital gifts	<u>3,604,401</u>	<u>3,593,080</u>	<u>(3,337,801)</u>	<u>(3,368,080)</u>
Increase (decrease) in Net Position	\$ 30,967,859	\$ 40,674,941	\$ 8,564,557	\$ (6,124,387)

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 Changes in Net Position

June 30, 2013 and 2012

	University				
	<u>Investment in Capital Assets</u>	<u>Restricted Expendable</u>	<u>Restricted Nonexpendable</u>	<u>Unrestricted</u>	<u>Total</u>
Balance June 30, 2011 as previously reported	\$ 310,959,608	\$ 4,055,103	\$ -	\$ 67,455,820	\$ 382,470,531
Correction for change in state capital contributions	<u>(13,635,728)</u>	<u>-</u>	<u>-</u>	<u>(1,530,054)</u>	<u>(15,165,782)</u>
Balance, June 30, 2011 as restated	<u>297,323,880</u>	<u>4,055,103</u>	<u>-</u>	<u>65,925,766</u>	<u>367,304,749</u>
Change in net position, as previously reported, 2012	36,315,199	(278,046)	-	7,275,745	43,312,898
Correction for change in state capital contributions	<u>1,250,000</u>	<u>-</u>	<u>-</u>	<u>(3,887,957)</u>	<u>(2,637,957)</u>
Changes in net position for 2012 as restated	<u>37,565,199</u>	<u>(278,046)</u>	<u>-</u>	<u>3,387,788</u>	<u>40,674,941</u>
Balance June 30, 2012 as restated	334,889,079	3,777,057	-	69,313,554	407,979,690
Changes in net position for 2013	<u>14,817,859</u>	<u>(544,132)</u>	<u>-</u>	<u>16,694,132</u>	<u>30,967,859</u>
Balance, June 30, 2013	<u><u>\$ 349,706,938</u></u>	<u><u>\$ 3,232,925</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 86,007,686</u></u>	<u><u>\$ 438,947,549</u></u>

	Component Units				
	<u>Investment in Capital Assets</u>	<u>Restricted Expendable</u>	<u>Restricted Nonexpendable</u>	<u>Unrestricted</u>	<u>Total</u>
Balance, June 30, 2011	\$ 1,828,773	\$ 46,075,892	\$ 79,323,121	\$ 8,097,113	\$ 135,324,899
Changes in net position for 2012	<u>(10,982)</u>	<u>(8,583,416)</u>	<u>2,326,834</u>	<u>143,177</u>	<u>(6,124,387)</u>
Balance, June 30, 2012	1,817,791	37,492,476	81,649,955	8,240,290	129,200,512
Changes in net position for 2013	<u>(81,375)</u>	<u>14,392,102</u>	<u>(7,122,406)</u>	<u>1,376,236</u>	<u>8,564,557</u>
Balance, June 30, 2013	<u><u>\$ 1,736,416</u></u>	<u><u>\$ 51,884,578</u></u>	<u><u>\$ 74,527,549</u></u>	<u><u>\$ 9,616,526</u></u>	<u><u>\$ 137,765,069</u></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, 2013 and 2012

	2013 University of Rhode Island	Restated 2012 University of Rhode Island
Cash Flows From Operating Activities:		
Tuition and fees	\$ 253,901,813	\$ 240,555,549
Grants and contracts	108,607,284	119,393,146
Payments to suppliers	(125,599,477)	(118,179,459)
Payments to employees	(274,421,270)	(272,076,053)
Payments for scholarships, fellowships, and sponsored programs	(26,126,839)	(26,666,114)
Auxiliary enterprises	24,945,831	25,452,140
Other receipts	<u>21,175,528</u>	<u>19,050,160</u>
Net Cash Applied to Operating Activities	<u>(17,517,130)</u>	<u>(12,470,631)</u>
Cash Flows from Noncapital Financing Activities:		
State appropriations	58,859,376	58,485,321
Gifts from component units	8,009,709	7,120,871
Funds held for others	<u>464,512</u>	<u>359,590</u>
Net Cash Provided by Non Capital Financing Activities	<u>67,333,597</u>	<u>65,965,782</u>
Cash Flows from Capital and Related Financing Activities:		
Capital appropriations	15,576,552	30,741,417
Capital gifts	3,604,401	3,593,080
Purchase of capital assets	(48,806,616)	(92,470,374)
Principal paid on capital debt and leases	(7,935,674)	(9,594,319)
Payments for bond issuance costs	(1,633,282)	-
Interest paid on capital debt and leases	(12,000,450)	(10,783,548)
Deposit with trustee	<u>15,617,159</u>	<u>38,574,436</u>
Net Cash Used in Capital and Related Financing Activities	<u>(35,577,910)</u>	<u>(39,939,308)</u>
Cash Flows from Investing Activity:		
Interest income	<u>233,364</u>	<u>279,256</u>
Net Cash Provided by Investing Activity	<u>233,364</u>	<u>279,256</u>
Net Increase in Cash and Cash Equivalents	<u>14,471,921</u>	<u>13,835,099</u>
Cash and Cash Equivalents, Beginning of the Year	<u>104,398,258</u>	<u>90,563,159</u>
Cash and Cash Equivalents, End of the Year	<u>\$ 118,870,179</u>	<u>\$ 104,398,258</u>
Reconciliation of Net Operating Loss to Net Cash Applied to Operating Activities:		
Net operating loss	\$ (42,905,254)	\$ (48,761,456)
Adjustments to reconcile net operating loss to net cash used in operating activities:		
Depreciation and amortization	27,617,679	27,788,099
Loss on disposal of assets	312,121	359,600
Bad debts	794,194	(1,130,322)
Changes in assets and liabilities:		
Accounts receivable	(351,589)	3,049,895
Due from primary government	(1,976,817)	(4,221,325)
Inventory and other current assets	(710,855)	41,527
Loans receivable	(94,108)	(282,615)
Accounts payable and accrued liabilities	(196,116)	10,244,640
Unearned revenues	784,213	328,755
Compensated absences	(900,947)	59,826
Refundable grant	<u>110,349</u>	<u>52,745</u>
Net Cash Applied to Operating Activities	<u>\$ (17,517,130)</u>	<u>\$ (12,470,631)</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 - continued

June 30, 2013 and 2012

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).

The University, a component unit of the State of Rhode Island and Providence Plantations, is governed by the Rhode Island Board of Education (BOE) (successor to the Board of Governors for Higher Education effective January 1, 2013), a body politic and corporate established under Chapter 97 of Title 16 of the General Laws of Rhode Island. The BOE consists of public members appointed by the Governor.

The Rhode Island Office of Higher Education (OHE), which operates under the direction of the Commissioner of Higher Education, is the administrative and research arm of the Board of Education. The BOE 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 three entities: the University of Rhode Island, Rhode Island College, and the Community College of Rhode Island. 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) was 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 and the BOR ceased to exist as of January 1, 2013. The Office of Higher Education will be abolished on July 1, 2014.

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

Notes to the Financial Statements - continued

June 30, 2013 and 2012

Note 1 - Summary of Significant Accounting Policies – Continued

Organization - Continued

The BOE established an Executive Committee (Committee) 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 determine the way in which public education in Rhode Island should be organized. All recommendations by and information from the Committee will be vetted by the BOE. The BOE will submit a final plan for the administrative structure for higher education during Fall 2013 to the General Assembly and the Governor.

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 position 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 accompanying statements of revenues, expenses, and changes in net position 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, 2013 and 2012

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, 2013 and 2012, the Foundation distributed \$11,024,459 and \$10,488,951, 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, do not agree with the amounts received by the University. The Foundation's financial statements indicate that it distributed \$11,024,459 and \$14,531,544 in fiscal 2013 and 2012, respectively, to the University. The difference of \$4,042,593 in 2013 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
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Notes to the Financial Statements - continued

June 30, 2013 and 2012

Note 1 - Summary of Significant Accounting Policies - Continued

Component Units - Continued

During the years ended June 30, 2013 and 2012, the Alumni Association distributed \$1,891,310 and \$2,294,286, 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.

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

	2013		
	Alumni		
	Foundation	Association	Total
Current assets	\$ 6,680,917	\$ 479,798	\$ 7,160,715
Noncurrent assets	129,294,075	4,754,562	134,048,637
Total assets	<u>135,974,992</u>	<u>5,234,360</u>	<u>141,209,352</u>
Current liabilities	2,225,883	609,755	2,835,638
Noncurrent liabilities	608,645	-	608,645
Total liabilities	<u>2,834,528</u>	<u>609,755</u>	<u>3,444,283</u>
Net position:			
Net Investment in Capital Assets	1,736,416	-	1,736,416
Restricted:			
Expendable	50,952,650	931,928	51,884,578
Nonexpendable	74,527,549	-	74,527,549
Unrestricted	5,923,849	3,692,677	9,616,526
Total net position	<u>\$ 133,140,464</u>	<u>\$ 4,624,605</u>	<u>\$ 137,765,069</u>

UNIVERSITY OF RHODE ISLAND
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Notes to the Financial Statements - continued

June 30, 2013 and 2012

Note 1 - Summary of Significant Accounting Policies - Continued

Component Units - Continued

The condensed statements of net position 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		127,398,145	4,695,634	132,093,779
Current liabilities		1,544,135	726,215	2,270,350
Noncurrent liabilities		622,917	-	622,917
Total liabilities		2,167,052	726,215	2,893,267
Net position:				
Net Investment in Capital Assets		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 position	\$	125,231,093	\$ 3,969,419	\$ 129,200,512

UNIVERSITY OF RHODE ISLAND
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Notes to the Financial Statements - continued

June 30, 2013 and 2012

Note 1 - Summary of Significant Accounting Policies - Continued

Component Units - Continued

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

	2013		
	Foundation	Alumni Association	Component Units
Operating Revenues:			
Other sources	\$ -	\$ 3,900,123	\$ 3,900,123
Operating Expenses:			
Operation and maintenance of plant	-	391,886	391,886
Depreciation and amortization	81,375	-	81,375
Student Services	-	1,891,310	1,891,310
Institutional support	4,318,035	2,003,730	6,321,765
Total Operating Expenses	4,399,410	4,286,926	8,686,336
Net Operating Loss	(4,399,410)	(386,803)	(4,786,213)
Nonoperating Revenues (Expenses):			
Net investment income (loss)	(179,408)	388,361	208,953
Endowment income	10,260,034	-	10,260,034
Private gifts	10,116,301	976,679	11,092,980
Gifts to the University	(8,009,709)	-	(8,009,709)
Additions to permanent endowments	2,145,086	-	2,145,086
Miscellaneous receipts	991,227	-	991,227
Net Nonoperating Revenues	15,323,531	1,365,040	16,688,571
Increase Before Capital Gifts	10,924,121	978,237	11,902,358
Capital Gifts	(3,014,750)	(323,051)	(3,337,801)
Increase in Net Position	7,909,371	655,186	8,564,557
Net Position, at Beginning of Year	125,231,093	3,969,419	129,200,512
Net Position, at End of Year	\$ 133,140,464	\$ 4,624,605	\$ 137,765,069

UNIVERSITY OF RHODE ISLAND
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Notes to the Financial Statements - continued

June 30, 2013 and 2012

Note 1 - Summary of Significant Accounting Policies - Continued

Component Units - Continued

The condensed statements of revenues, expenses and changes in net position of the Foundation and Alumni Association as of 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	3,853,096	4,651,406	8,504,502
Net Operating Loss	(3,853,096)	(1,258,677)	(5,111,773)
Nonoperating Revenues (Expenses):			
Net investment income	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	1,507,164	848,302	2,355,466
Decrease Before Capital Gifts	(2,345,932)	(410,375)	(2,756,307)
Capital Gifts	(3,368,080)	-	(3,368,080)
Decrease in Net Position	(5,714,012)	(410,375)	(6,124,387)
Net Position, at Beginning of Year	130,945,105	4,379,794	135,324,899
Net Position, at End of Year	\$ 125,231,093	\$ 3,969,419	\$ 129,200,512

UNIVERSITY OF RHODE ISLAND
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Notes to the Financial Statements - continued

June 30, 2013 and 2012

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

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

Net Investment in Capital Assets: 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 position subject to externally imposed conditions that the University must maintain them in perpetuity.

Restricted – Expendable: Net position 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 position. Unrestricted net position 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
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Notes to the Financial Statements - continued

June 30, 2013 and 2012

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 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. In the event of termination, an employee is paid for those accumulated vacation and sick days allowable in accordance with the applicable union contract or in the case of non-union personnel, according to State of 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.

Amounts related to Salary Reduction Plans adopted during fiscal years 1991, 1992 and 1993 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
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Notes to the Financial Statements - continued

June 30, 2013 and 2012

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 of Rhode Island. A separate legal OPEB entity classified as a cost sharing multiple employer plan, as established by the State, assesses the annual required contribution (ARC) of each participating entity based on the plan's parameters to each participating employer. 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 2013 and 2012 healthcare premiums amounted to \$37,830,166 and \$34,504,773, respectively. Employee contributions for the 2013 and 2012 were \$4,972,126 and \$4,830,666, respectively.

UNIVERSITY OF RHODE ISLAND
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Notes to the Financial Statements - continued

June 30, 2013 and 2012

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 2013 and 2012 was 3.75%, respectively. The assessed fringe benefit cost for the University was \$5,607,481 for fiscal year 2013 and \$5,622,101 for fiscal year 2012.

Student Deposits and Unearned Revenue

Student deposits and advance payments received for tuition and fees for the following academic year are recorded as unearned 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
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Notes to the Financial Statements - continued

June 30, 2013 and 2012

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, including the Endeavor. This policy has a limit of \$15 million. The hull limits vary by vessel with various deductibles. 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, 2013, 2012 and 2011.

UNIVERSITY OF RHODE ISLAND
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Notes to the Financial Statements - continued

June 30, 2013 and 2012

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 2012 financial statements have been reclassified to conform to the 2013 presentation.

New Government Accounting Pronouncements

GASB 60, *Accounting and Financial Reporting for Service Concession Arrangements*, effective for periods beginning after December 15, 2011, established accounting requirements for arrangements between a transferor and operator (SCAs) in which (a) 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 did not have a material impact 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 previously as net assets, as net position. The University implemented the financial reporting guidance included in this statement.

UNIVERSITY OF RHODE ISLAND
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Notes to the Financial Statements - continued

June 30, 2013 and 2012

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

New Government Accounting Pronouncements - Continued

GASB 68, *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27* is required for periods beginning after June 15, 2014. The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for pensions with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency. Management is in the process of reviewing this statement and its potential effect upon their financial reporting.

GASB 69, *Government Combinations and Disposals of Government Operations* is required for periods ending after December 15, 2013. This Statement establishes accounting and financial reporting standards related to government combinations and disposals of government operations. As used in this Statement, the term *government combinations* includes a variety of transactions referred to as mergers, acquisitions, and transfers of operations. Management is in the process of reviewing this statement and its potential effect upon their financial reporting. It does not expect any material impact.

GASB 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*, is required for periods beginning after June 15, 2013. This Statement requires a state or local government guarantor that offers a nonexchange financial guarantee to another organization or government to recognize a liability on its financial statements when it is *more likely than not* that the guarantor will be required to make a payment to the obligation holders under the agreement. Management does not believe the statement will have a material effect on the financial statements.

UNIVERSITY OF RHODE ISLAND
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Notes to the Financial Statements - continued

June 30, 2013 and 2012

Note 2 - Restatement of Prior Year Balances

In 2008, the University participated with the State of Rhode Island 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 prior years, the proceeds expended from these contracts were recorded on the University's financial statements as "State Contributed Capital" and the State of Rhode Island reported the liability. The State of Rhode Island is now requiring the component units to report the outstanding liabilities on their financial statements. The adjustment represents original debt issued under the due to primary government - Certificate of Participation (COP) Energy Conservation of \$21,795,000 (Note 9).

Accordingly, for the University as a component unit to comply and to conform with the accounting policies of the State, net investment in capital assets have been reduced by \$13.6 million and unrestricted net assets by \$1.5 million as of June 30, 2011, representing the decrease in "State Contributed Capital" as previously recorded by the University between June 30, 2008 and June 30, 2011.

	<u>As originally reported*</u>	<u>As restated</u>
<u>As of June 30, 2012</u>		
Statement of Net Assets		
Funds on deposit with bond trustee	\$ 40,214,666	\$ 42,810,927
Current portion of due to primary government	-	1,495,000
Due to primary government	-	18,905,000
Net investment in capital assets	347,274,807	334,889,079
Unrestricted net assets	74,731,565	69,313,554
Statement of Revenue, Expenses, and		
Changes in Net Position		
Operations and maintenance of plant	35,184,623	33,651,770
Auxiliary support	63,938,573	63,539,089
Interest Expense *	10,101,211	10,783,548
Capital appropriation	34,629,374	30,741,417

* with reclassification to conform with 2013 presentation

UNIVERSITY OF RHODE ISLAND
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Notes to the Financial Statements - continued

June 30, 2013 and 2012

Note 3 - 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, 2013 and 2012, the carrying amount of the University's cash deposits was \$118,132,491 and \$98,818,479 and the bank balance was \$123,809,081 and \$107,856,423, respectively. Deposits are exposed to custodial credit risk if they are not covered by depository insurance and the deposits are:

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

Of the bank balance \$11,959,943 and \$61,800,958 was covered by federal depository insurance and \$48,031,932 and \$46,009,762 was collateralized with securities held by the pledging financial institution, in the University's name as of June 30, 2013 and June 30, 2012, respectively. The remaining amount, \$63,817,206 for 2013 compared to \$45,703 for 2012 was uninsured and collateralized. The insured balance reflects FDIC insurance and guarantee programs in effect during 2013 and 2012. The University places funds with the Ocean State Investment Pool (OSIP). OSIP is an instrumentality of the Treasurer of the State of Rhode Island and Providence Plantations and therefore not covered by FDIC insurance.

UNIVERSITY OF RHODE ISLAND
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Notes to the Financial Statements - continued

June 30, 2013 and 2012

Note 3 - Cash and Cash Equivalents and Investments - Continued

Investments - Continued

It is designed as a legal means to temporarily invest available cash in safe, liquid and low cost investment vehicles by offering participation in a diversified portfolio of high quality money market instruments.

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 Obligations 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, 2013 and June 30, 2012, the First American Treasury Obligations Fund had a rating of AAAm by Standard and Poor's and Aaa-mf by Moody's.

Investments

The Rhode Island Board of 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
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Notes to the Financial Statements - continued

June 30, 2013 and 2012

Note 3 - Cash and Cash Equivalents and Investments - Continued

Investments - Continued

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

	2013		
	Foundation	Alumni Association	Total
Common stocks	\$ 5,756,725	\$ 3,327,564	\$ 9,084,289
Fixed Income	4,765,841	-	4,765,841
Government securities	38,210,127	-	38,210,127
Emerging Markets Equities	6,129,535	-	6,129,535
Domestic Equities	16,838,967	-	16,838,967
Marketable Alternatives	36,791,132	-	36,791,132
Corporate Bonds	-	1,301,794	1,301,794
REITS	1,762,181	-	1,762,181
Mutual Funds	14,921,549	-	14,921,549
	<u>\$ 125,176,057</u>	<u>\$ 4,629,358</u>	<u>\$ 129,805,415</u>

	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
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Notes to the Financial Statements - continued

June 30, 2013 and 2012

Note 3 - Cash and Cash Equivalents and Investments - Continued

Investments - Continued

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 4 - 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 \$737,688 and \$5,579,779 at June 30, 2013 and 2012, 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.

Note 5 - Accounts Receivable

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

	<u>2013</u>	<u>2012</u>
Student accounts receivable	\$ 9,723,204	\$ 10,216,629
Grants receivable	4,750,190	5,105,798
Unbilled grants receivables	12,362,443	14,112,840
Other receivables	8,521,862	5,570,843
	<u>35,357,699</u>	<u>35,006,110</u>
Less allowance for doubtful accounts	<u>(6,096,366)</u>	<u>(5,302,172)</u>
	<u>\$ 29,261,333</u>	<u>\$ 29,703,938</u>

UNIVERSITY OF RHODE ISLAND
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Notes to the Financial Statements - continued

June 30, 2013 and 2012

Note 6 - 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 \$12,206,329 and \$12,095,980 at June 30, 2013 and 2012, respectively.

Loans receivable include the following at June 30:

	2013	2012
Perkins loans	\$ 10,015,294	\$ 9,911,957
Nursing loans	1,614,798	1,594,400
Health profession loans	1,942,131	1,899,537
Other	<u>792,816</u>	<u>747,632</u>
	14,365,039	14,153,526
Less allowance for doubtful accounts	<u>(612,839)</u>	<u>(495,434)</u>
	\$ <u>13,752,200</u>	\$ <u>13,658,092</u>

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Notes to the Financial Statements - continued

June 30, 2013 and 2012

Note 7 - Capital Assets

Capital assets of the University consist of the following at June 30, 2013:

		2013				
	Estimated lives (in years)	Beginning balance	Additions	Reductions	Reclassifi- cations	Ending balance
Capital assets not depreciated:						
Land	-	\$ 2,106,956	\$ 205,505	\$ (125,340)	\$ -	\$ 2,187,121
Construction in progress	-	112,987,079	41,310,250	-	(128,721,806)	25,575,523
Total not depreciated		115,094,035	41,515,755	(125,340)	(128,721,806)	27,762,644
Capital assets depreciated:						
Land improvements	15-25	57,709,863	-	-	2,702,118	60,411,981
Buildings, including improvements	10-50	599,891,287	244,016	-	126,019,687	726,154,990
Furnishings and equipment (including cost of capital leases)	5-15	87,380,055	6,064,543	(2,716,083)	-	90,728,515
Total depreciated		744,981,205	6,308,559	(2,716,083)	128,721,805	877,295,486
Less accumulated depreciation:						
Land improvements		20,556,996	2,451,943	-	-	23,008,939
Building, including improvements		212,375,090	19,344,088	-	-	231,719,178
Furnishings and equipment		62,811,732	5,249,184	(2,529,302)	-	65,531,614
Total accumulated depreciation		295,743,818	27,045,215	(2,529,302)	-	320,259,731
Capital assets, net		\$ 564,331,422	\$ 20,779,099	\$ (312,121)	\$ -	\$ 584,798,399

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Notes to the Financial Statements - continued

June 30, 2013 and 2012

Note 7 - Capital Assets - Continued

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

	Estimated lives (in years)	2012				
		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

Other Deferred Assets

Other deferred assets of \$10,462,837 and \$8,829,555 at June 30, 2013 and 2012, respectively, consist of deferred financing fees, which are amortized by the straight-line method over the life of the respective bonds. Accumulated amortization was \$3,345,711 and \$2,773,247 as of June 30, 2013 and 2012, respectively. Amortization expense for the years ended June 30, 2013 and 2012 was \$572,464. In accordance with GASB 65, *Items Previously Reported as Assets and Liabilities*, the unamortized balance at June 30, 2013 will be charged against net position as of July 1, 2013.

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Notes to the Financial Statements - continued

June 30, 2013 and 2012

Note 8 - 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 Education alternate retirement plans. Thirty-eight employees elected to participate in this program in March 2012. These employees received 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 Board 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.

As required by generally accepted accounting principles applicable to governmental entities the University recorded the full liability of approximately \$2,104,000 as an expense as of June 30, 2012. As of June 30, 2013 the remaining liability is approximately \$710,000.

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Notes to the Financial Statements - continued

June 30, 2013 and 2012

Note 9 - Long-Term Liabilities

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

2013					
	Restated Beginning balance	Additions	Reductions	Ending balance	Current portion
Leases and bonds payable:					
Lease obligations	\$ 8,569,511	\$ -	\$ 1,049,647	\$ 7,519,864	\$ 954,864
Revenue bonds payable	245,801,186	42,892,475	53,191,186	235,502,475	8,310,098
Premium on bonds payable	2,165,152	5,267,911	105,597	7,327,466	684,719
Due to primary government					
Certificate of participation					
(COP) energy conservation	20,400,000	-	1,495,000	18,905,000	1,600,000
Loans payable	1,325,107	-	254,630	1,070,477	236,297
Total leases and bonds payable	278,260,956	48,160,386	56,096,060	270,325,282	11,785,978
Other long-term liabilities:					
Compensated absences	19,455,237	869,385	1,770,332	18,554,290	765,288
Total Other long-term Liabilities	19,455,237	869,385	1,770,332	18,554,290	765,288
Total long-term Liabilities	\$ 297,716,193	\$ 49,029,771	\$ 57,866,392	\$ 288,879,572	\$ 12,551,266

2012					
	Restated Beginning balance	Additions	Restated Reductions	Restated Ending balance	Restated 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
Premium on bonds payable	2,355,715		190,563	2,165,152	190,796
Due to primary government					
Certificate of participation					
(COP) energy conservation	21,795,000	-	1,395,000	20,400,000	1,495,000
Loans payable	1,575,396	-	250,289	1,325,107	254,630
Total leases and bonds payable	288,000,275	-	9,739,319	278,260,956	10,647,880
Other long-term liabilities:					
Other Post Employment Benefits					
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	\$ 307,395,686	\$ 1,078,254	\$ 10,757,747	\$ 297,716,193	\$ 11,732,743

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Notes to the Financial Statements - continued

June 30, 2013 and 2012

Note 9 - Long-Term Liabilities - Continued

Bonds Payable

The revenue bonds consist of the following:

	<u>2013</u>	<u>2012</u>
1997 Series Higher Education Revenue Bonds - University of Rhode Island Issue, 4% to 5.3%, due semiannually through 2023	\$ -	\$ 1,305,000
Series 2002 University of Rhode Island Educational and General Revenue Issue, 3% to 5.0%, due semiannually through 2022	-	5,545,000
Series 2003 A University of Rhode Island Educational and General Revenue Issue, 2% to 5%, due semiannually through 2013	400,000	780,000
Series 2003 B Facility Revenue Refunding Bonds, Auxiliary Enterprise Revenue Issue, 2% to 5%, due semiannually through 2023	-	8,956,360
Series 2003 C Facility Revenue Refunding Bonds, Educational and General Revenue Issue, 2% to 5%, due semiannually through 2023	-	5,919,826
Series 2004 A University of Rhode Island Auxiliary Enterprise Revenue Issue, 2.5% to 5.5%, due semiannually through 2024	-	26,820,000
Series 2005 A University of Rhode Island Educational and General Revenue Issue, 3% to 4.25%, due semiannually through 2020	1,645,000	1,820,000
Series 2005 B University of Rhode Island Educational and General Revenue Issue, 3% to 4.25%, due semiannually through 2025	1,455,000	1,540,000
Series 2005 C University of Rhode Island Auxiliary Enterprise Revenue Issue, 3% to 4.625%, due semiannually through 2025	11,930,000	12,235,000
Series 2005 D University of Rhode Island Auxiliary Enterprise Revenue Refunding Issue, 3% to 4.25%, due semiannually through 2029	16,425,000	17,085,000
Series 2005 F University of Rhode Island Educational and General Revenue Issue, 3% to 4.50%, due semiannually through 2025	2,380,000	2,520,000
Series 2005 G University of Rhode Island Educational and General Revenue Refunding Issue, 4% to 5%, due semiannually through 2030	38,325,000	39,685,000
Series 2008 A University of Rhode Island Auxiliary Enterprise Revenue Refunding Issue, 6.25% to 6.50%, interest due semiannually through 2035, principal commences in 2028 through 2035	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	10,210,000	10,250,000
Series 2009 B University of Rhode Island Auxiliary Revenue Issue, 3% to 5.25%, due semiannually through 2029	16,850,000	17,320,000
Series 2010 A University of Rhode Island Educational and General Revenue Issue, 3% to 5%, due semiannually through 2041	13,055,000	13,390,000
Series 2010 B University of Rhode Island Auxiliary Enterprise Revenue Issue, 3% to 5%, due semiannually through 2031 principal commences in 2012 through 2031	42,000,000	42,695,000
Series 2013 A University of Rhode Island Educational and General Revenue Refunding Issue, 2% to 3%, due semiannually through 2024	6,195,000	-
Series 2013 B University of Rhode Island Educational and General Revenue Refunding Issue, 2% to 3%, due semiannually through 2024	5,464,231	-
Series 2013 C University of Rhode Island Auxiliary Revenue Issue, 2% to 5%, due semiannually through 2025	23,695,000	-
Series 2013 D University of Rhode Island Auxiliary Revenue Issue, 2% to 5%, due semiannually through 2024	7,538,244	-
	\$ 235,502,475	\$ 245,801,186

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Notes to the Financial Statements - continued

June 30, 2013 and 2012

Note 9 - 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 Education acting on behalf of the University. The refunding and general and educational bonds are secured by all available revenues of the Board of Education 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 Revenue 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.

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Notes to the Financial Statements - continued

June 30, 2013 and 2012

Note 9 - 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. 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.

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Notes to the Financial Statements - continued

June 30, 2013 and 2012

Note 9 - 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 Refunding 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%. Payments will be made September 2026 through September 2034. 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. Payment on this bond will be made September 2025.

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.

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Notes to the Financial Statements - continued

June 30, 2013 and 2012

Note 9 - Long-Term Liabilities - Continued

Bonds Payable - Continued

On June 18, 2013, the Corporation issued the Higher Education Facility Revenue Bonds, University of Rhode Island Educational and General Revenue Refunding Issue, Series 2013 A with a par amount of \$6,195,000. The proceeds of the Series 2013 A Bond were used to refund all Higher Education Facility Revenue Bonds, University of Rhode Island, Series 1997 and to refund all University of Rhode Island Educational & General Revenue, Series 2002 bonds. There was an economic gain (difference between the present value of the old and new debt service payments) of \$902,315.

On June 18, 2013, the Corporation issued the Higher Education Facility Revenue Bonds, University of Rhode Island Educational and General Revenue Refunding Issue, Series 2013 B with a par amount of \$5,464,231. The proceeds of the Series 2013 B Bond were used to refund all Higher Education Facility Revenue Bonds, University of Rhode Island, Series 2003 C bonds. There was an economic gain (difference between the present value of the old and new debt service payments) of \$704,998.

On June 18, 2013, the Corporation issued the Higher Education Facility Revenue Bonds, University of Rhode Island Auxiliary Enterprise Revenue Refunding Issue, Series 2013 C with a par amount of \$23,695,000. The proceeds of the Series 2013 C Bond were used to advance refund all Higher Education Facility Revenue Bonds, University of Rhode Island, Series 2004 A bonds. There was an economic gain (difference between the present value of the old and new debt service payments) of \$3,024,046.

On June 18, 2013, the Corporation issued the Higher Education Facility Revenue Bonds, University of Rhode Island Auxiliary Enterprise Revenue Refunding Issue, Series 2013 D with a par amount of \$7,538,244. The proceeds of the Series 2013 D Bond were used to refund all Higher Education Facility Revenue Bonds, University of Rhode Island, Series 2003 B bonds. There was an economic gain (difference between the present value of the old and new debt service payments) of \$1,033,774.

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Notes to the Financial Statements - continued

June 30, 2013 and 2012

Note 9 - 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:					
2014	\$ 8,310,098	\$	10,691,938	\$	19,002,036
2015	8,132,391		10,870,570		19,002,961
2016	8,436,083		10,563,594		18,999,677
2017	8,766,560		10,225,525		18,992,085
2018	9,142,282		9,860,995		19,003,277
2019-2023	51,950,515		43,056,424		95,006,939
2024-2028	59,519,546		29,528,024		89,047,570
2029-2033	50,250,000		14,224,675		64,474,675
2034-2038	22,955,000		4,219,719		27,174,719
2039-2041	8,040,000		616,500		8,656,500
	\$ 235,502,475	\$	143,857,964	\$	379,360,439

Interest costs on all debt for the years ended June 30, 2013 and 2012 were \$12,820,128 and \$12,750,773, respectively. Of these amounts, \$409,839 and \$1,967,225 were capitalized in 2013 and 2012, respectively.

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Notes to the Financial Statements - continued

June 30, 2013 and 2012

Note 9 - Long-Term Liabilities - Continued

Due to primary government -Certificate of Participation (COP) Energy Conservation

Principal and interest on Certificate of Participation 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:					
2014	\$ 1,600,000	\$	804,200	\$	2,404,200
2015	1,715,000		745,719		2,460,719
2016	1,840,000		680,156		2,520,156
2017	1,970,000		605,081		2,575,081
2018	2,120,000		522,006		2,642,006
2019-2023	7,670,000		1,213,650		8,883,650
2024-2028	1,990,000		181,075		2,171,075
	<u>\$ 18,905,000</u>	<u>\$</u>	<u>4,751,887</u>	<u>\$</u>	<u>23,656,887</u>

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Notes to the Financial Statements - continued

June 30, 2013 and 2012

Note 9 - Long-Term Liabilities - Continued

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 September 25, 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.

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:					
2014	\$ 236,297	\$	57,731	\$	294,028
2015	142,220		44,507		186,727
2016	132,947		37,007		169,954
2017	54,002		32,072		86,074
2018	57,332		28,741		86,073
2019-2023	344,272		86,095		430,367
2024-2025	103,407		4,184		107,591
	\$ 1,070,477	\$	290,337	\$	1,360,814

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Notes to the Financial Statements - continued

June 30, 2013 and 2012

Note 9 - 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.

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Notes to the Financial Statements - continued

June 30, 2013 and 2012

Note 9 - 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
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Notes to the Financial Statements - continued

June 30, 2013 and 2012

Note 9- Long-Term Liabilities - Continued

Lease Obligations - Continued

The following schedule summarizes future minimum payments under all non-cancelable leases at June 30, 2013:

	<u>Principal</u>		<u>Interest</u>		<u>Total</u>
Year ending June 30:					
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	1,115,000		143,479		1,258,479
2019-2020	2,405,000		111,604		2,516,604
	<u>\$ 7,519,864</u>	<u>\$</u>	<u>1,451,308</u>	<u>\$</u>	<u>8,971,172</u>

Note 10 - Restricted Net Position

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>2013</u>		<u>2012</u>
Restricted – expendable:			
Student Loans	\$ 3,003,808	\$	3,105,770
Capital programs	<u>229,117</u>		<u>671,287</u>
	<u>\$ 3,232,925</u>	<u>\$</u>	<u>3,777,057</u>

Note 11 - Unrestricted Net Position

The University's unrestricted net position 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.

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Notes to the Financial Statements - continued

June 30, 2013 and 2012

Note 12 - 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 \$845,000 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, 2013 and 2012, the University is a guarantor of loans to fraternities and sororities in the amount of \$200,000 and \$250,000, 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 Board was negotiated but remains un-ratified. The bargaining unit has filed a lawsuit against the Board for unfair labor practices. As of the report date the outcome in unknown.

UNIVERSITY OF RHODE ISLAND
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Notes to the Financial Statements - continued

June 30, 2013 and 2012

Note 13 - Operating Expenses

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

	2013	2012
Compensation and benefits	\$ 271,939,890	\$ 275,036,247
Supplies and services	124,313,448	122,220,960
Depreciation and amortization	27,617,679	27,788,099
Scholarships and fellowships	26,126,839	26,666,114
	\$ <u>449,997,856</u>	\$ <u>451,711,420</u>

Note 14 - 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 2013 the State reserved 3.0% of its general revenues to fund a Budget Reserve and Cash Stabilization Fund. If the fund reaches a maximum threshold (5% of total resources in fiscal year 2013), 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
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Notes to the Financial Statements - continued

June 30, 2013 and 2012

Note 14 - 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:

	<u>2013</u>	<u>2012</u>
Asset Protection	\$ 9,404,000	\$ 7,042,364
New Chemistry Building	317,489	1,377,872
Nursing & Assoc Health Building	-	18,966
Biotechnology Center	1,620,679	2,888,935
Fine Arts Center	344,769	-
	<u>\$ 11,686,937</u>	<u>\$ 11,328,137</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 on the renovations of these two buildings at the Kingston Campus during fiscal year 2012.

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 2013 and 2012, the University spent \$125,000 and \$203,000, 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 2013 and 2012 the University spent \$3.7 million and \$18.8 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 funding

UNIVERSITY OF RHODE ISLAND
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Notes to the Financial Statements - continued

June 30, 2013 and 2012

Note 14 - State Appropriation - Continued

State Contributed Capital - Continued

for the construction of the Chemistry Building. During fiscal year 2013 and 2012 the University spent \$9,600 and \$299,000, respectively.

The expenditures funded from the proceeds of the above-mentioned general obligation bonds and capitalized as fixed assets during fiscal years 2013 and 2012 totaled \$5.2 million and \$23.3 million, respectively.

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

	2013	Restated 2012
Direct Appropriations	\$ <u>58,859,376</u>	\$ 58,485,321
State Capital Plan Funds	<u>11,686,937</u>	11,328,137
State Contributed Capital	<u>3,889,615</u>	19,413,280
	<u>\$ <u>74,435,928</u></u>	<u>\$ 89,226,738</u>

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 again in the subsequent fiscal year.

Note 15 - Pension and Retirement Plans

Rhode Island Board of 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 Education (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

UNIVERSITY OF RHODE ISLAND
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Notes to the Financial Statements - continued

June 30, 2013 and 2012

Note 15 - Pension and Retirement Plans - Continued

Rhode Island Board of Education Alternate Retirement Plan - Continued

Plan Description - Continued

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 \$9,747,543, \$9,855,328, and \$9,650,577 during 2013, 2012, and 2011 respectively. The employee contribution amounted to \$5,415,302, \$5,475,182, and \$5,361,430 during 2013, 2012, and 2011 respectively.

State of Rhode Island Employees Retirement System (ERS)

Effective July 1, 2012, the State administered retirement system was modified to include both defined benefit and defined contribution plan components.

Defined Benefit Plan Description:

Other employees of the University (principally civil service personnel) participate in a cost-sharing multiple-employer defined benefit pension plan administered by the State of Rhode Island Employees' Retirement System (ERS). The plan provides retirement and disability benefits 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.

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Notes to the Financial Statements - continued

June 30, 2013 and 2012

Note 15 - Pension and Retirement Plan – Continued

Funding Policy: - Continued

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 are required to contribute 3.75% of their annual covered salary. The University is required to contribute at an actuarially determined rate; the rate was 21.18% of annual covered payroll for the fiscal year ended June 30, 2013. The University contributed \$8,030,413, \$9,007,291, and \$7,425,039 for the fiscal years ended June 30, 2013, 2012 and 2011, respectively, equal to 100% of the required contributions for each year.

Defined Contribution Plan Description:

Employees participating in the defined benefit plan, as described above, also participate in a defined contribution plan of the Employees' Retirement System as authorized by General Law Chapter 36-10.3. The defined contribution plan is established under IRS section 401(a) and is administered by TIAA-CREF. Employees may choose among various investment options available to plan participants. Employees contribute 5% of their annual covered salary and employers contribute 1% of annual covered salary. Employee contributions are immediately vested while employer contributions are vested after three years of contributory service. Contributions required under the plan by both the employee and employer are established by the General Laws, which are subject to amendment by the General Assembly.

Amounts in the defined contribution plan are available to participants in accordance with Internal Revenue Service guidelines for such plans.

The University contributed \$349,452 for the fiscal year ended June 30, 2013 (which was the first year of the defined contribution plan), equal to 100% of the required contributions for that year.

The ERS 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 of Rhode Island, 50 Service Avenue, Warwick, RI 02886.

UNIVERSITY OF RHODE ISLAND
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Notes to the Financial Statements - continued

June 30, 2013 and 2012

Note 16 - 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, publicly 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
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Notes to the Financial Statements - continued

June 30, 2013 and 2012

Note 16 - Other Post Employment Benefits (OPEB) - 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 2013 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, 2013, 2012, and 2011 were \$2,583,051, \$2,615,084, and \$2,420,050 respectively, which represents 100% of the ARC.

Rhode Island Board of Education Health Care Insurance Retirement Program

Plan Description

The University contributes (for certain employees) to the Rhode Island Board of 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.

UNIVERSITY OF RHODE ISLAND
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Notes to the Financial Statements - continued

June 30, 2013 and 2012

Note 16 - Other Post Employment Benefits – Continued

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

Plan Description – Continued

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.

The OPEB system issues a stand-alone, publicly 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 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, 2012, and 2013 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.

The University of Rhode Island contributions to the plan were \$1,221,171, \$1,239,082, and \$1,137,007 and active employees contributed 0.9 % of covered payroll of \$408,570, \$414,563, and \$380,411, during 2013, 2012, and 2011 respectively. 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.

UNIVERSITY OF RHODE ISLAND
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Notes to the Financial Statements - continued

June 30, 2013 and 2012

Note 17 - Joint Venture

Municipal joint ventures pool resources to share the costs, risks, and rewards of providing services to their participants, the general public, or others. The University, in coordination with the 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 2013 and 2012 share of capital expenditures amounted to \$51,709 and \$71,053, 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 \$647,596 in 2013 and \$619,752 in 2012. Financial information may be obtained at the Town of South Kingstown, 180 High Street, Wakefield, Rhode Island 02879.

Note 18 - Pass Through Grants

The University distributed \$99,042,505 and \$101,048,499 during fiscal 2013 and 2012, 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.

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



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

The Board of Education
State of Rhode Island and Providence Plantations
Providence, Rhode Island

We have audited, 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, the financial statements of the University of Rhode Island (the "University"), which comprise the statements of net position as of June 30, 2013 and 2012, and the related statements of revenues, expenses and changes in net position, and cash flows for the years then ended, and the related notes to the financial statements, which collectively comprise University of Rhode Island's basic financial statements and have issued our report thereon dated September 30, 2013. Our report includes a reference to other auditors who audited the financial statements of the University of Rhode Island Foundation, Inc. and the Alumni Association University of Rhode Island, as described in our report on the University's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered University of Rhode Island's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the University's internal control. Accordingly, we do not express an opinion on the effectiveness of the University's internal control.

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 a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be

material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the University of Rhode Island's financial statements are free from 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*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

J. Connor and Drew P. C.

Certified Public Accountants

Braintree, Massachusetts

September 30, 2013