

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

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**FINANCIAL STATEMENTS**

**JUNE 30, 2014 And 2013**

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

**Financial Statements**

**June 30, 2014 and 2013**

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## **INDEPENDENT AUDITORS' REPORT**

The Board of Education of  
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, 2014 and 2013, 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. We also performed the audit of the Alumni Association of Rhode Island financial statements as of and for the year ended June 30, 2014.

### **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") as of June 30, 2014 and 2013 or the financial statements of the Alumni Association of the University of Rhode Island (the "Alumni Association") as of June 30, 2013. The component units of the University's financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for the entities not audited by us included in the discretely presented component units of the University, is based solely upon the report of the other auditors. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the 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, 2014 and 2013, 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 1, GASB Statement No. 68, Accounting and Financial Reporting for Pensions, is effective for fiscal 2015 and will require the University to restate beginning net position at July 1, 2014 to recognize its proportionate share of the net pension obligation determined for the State Employee's Retirement Plan. Our opinion is not modified with respect to that matter.

As discussed in Note 2 to the financial statements, the University restated prior balances with regards to the adoption of GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. 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 4-25 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, 2014, 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, 2014

# **UNIVERSITY OF RHODE ISLAND**

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

## **Management's Discussion and Analysis (Unaudited)**

**June 30, 2014 and 2013**

### **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, 2014 and the results of operations for the year then ended, with selected comparative information for the years ended June 30, 2013 and 2012. The purpose of the MD&A is to assist readers in understanding the accompanying financial statements by providing an objective and understandable analysis of the University's financial activities based on currently known facts, decisions, and conditions. This analysis has been prepared by management, which is responsible for the completeness and fairness of the information contained therein. The MD&A consists of highly summarized information, and it should be read in conjunction with the University's financial statements and notes thereto that follow this section.

The University is the only publicly supported research institution in the State of Rhode Island (the State) and is charged with providing state residents an opportunity for undergraduate and graduate studies at a Land Grant, Urban Grant and Sea Grant research university. As such, the University receives federal funding for land and sea research. The University had its beginning as the State Agricultural School chartered in 1888. The Morrill Act of 1862 provided the framework within which the school became the State's land-grant institution, and in 1892 the school became the Rhode Island College of Agriculture and Mechanic Arts. In 1909, the name of the University was changed to Rhode Island State College, and the program of study was revised and expanded. In 1951, the University became known as the University of Rhode Island by an act of the State's General Assembly. The Board of Governors for Higher Education became the governing body for the University in 1981.

The Rhode Island General Assembly established the Rhode Island Board of Education (BOE) effective January 1, 2013, to oversee the elementary, secondary, and postsecondary education for the state. In June 2014, the Rhode Island General Assembly approved the reorganization of the entire Rhode Island system of public education.

The legislation enlarged the Board of Education to seventeen (17) members in order for the Board to populate two Councils: Council for Elementary and Secondary Education and the Council for Post-Secondary Education. Each of the two councils will be responsible for the significant portion of the governance and regulation per RIGL 16-60-1 and 16-60-4 for Elementary/Secondary and per RIGL 16-59-1 and 16-59-4 for Post-Secondary.

# 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, 2014 and 2013

### Introduction – Continued

The mission of the full board of Education is to provide long-range planning and coordination and evaluation of policies and programs for the public education systems of the state and specifically:

- To develop and adopt educational, financial and operational goals for the education systems of the state that represent achievable benchmarks for a 10-year and 20-year time to be implemented by the two Councils and the commissioners.
- To ensure that the education systems of the state are aligned with the projected opportunities in workforce development and economic development and that the education systems are preparing students to participate in the future workforce of Rhode Island
- To coordinate programs and courses of study and promote collaboration between and among pre-kindergarten through higher education institutions and agencies
- To present strategic budget and finance recommendations to the council on elementary and secondary education and council on postsecondary education that are aligned with the long-range goals adopted by the board.

As of June 2014, Article 20 of the Budget Act was signed. Subsequently and within the same week, the Governor had appointed and the Senate had given its advice and consent to the full seventeen (17) member Board.

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 21<sup>st</sup> Century are: (1) create a 21<sup>st</sup> 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.

# **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, 2014 and 2013**

### **Introduction – Continued**

The University has a combined enrollment of 16,637 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, 2014 shows a decrease in net position before capital appropriations and gifts of \$8.89 million, compared to an increase of \$10.13 million in fiscal year 2013 and \$6.81 million in fiscal year 2012. Factors contributing to this decrease were the settlement of the AAUP contract relating to retro-active raises and a decrease in federal grants and contracts due to the federal sequestration.



# UNIVERSITY OF RHODE ISLAND

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

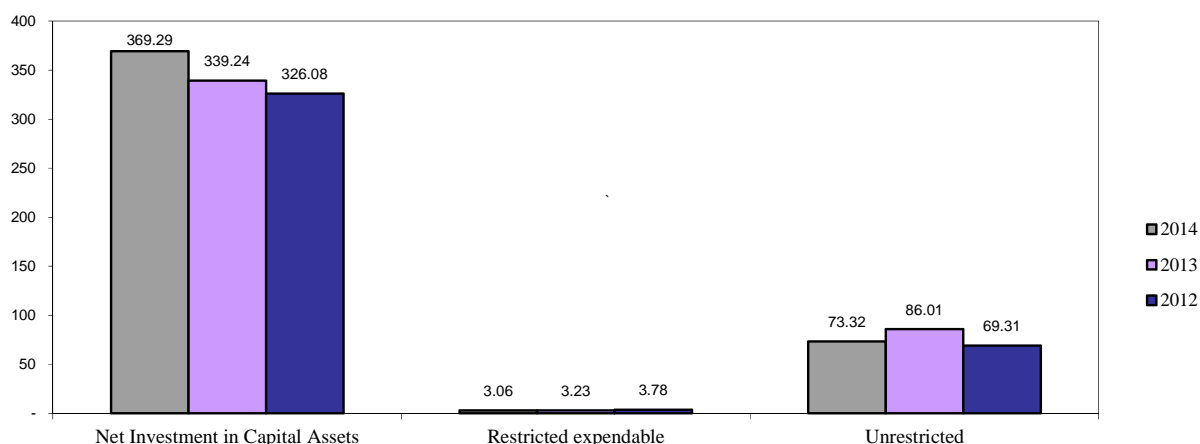
## Management's Discussion and Analysis (Unaudited) - Continued

June 30, 2014 and 2013

### Financial Highlights - Continued

The following chart displays the components of the University's net assets for the fiscal years ended June 30, 2014, 2013, and 2012.

**Net Position**  
(Dollars in millions)



On June 30, 2014, 2013, and 2012, the University's total assets of \$792.84 million, \$784.05 million, and \$762.41 million, exceeded its total liabilities of \$347.17 million, \$355.57 million, and \$363.24 million resulting in net position of \$445.67 million, \$428.48 million and \$399.17 million, respectively. The resulting net position is summarized in the following categories (dollars in millions):

	<b>2014</b>	<b>(Restated) 2013</b>	<b>(Restated) 2012</b>
Net Investment in Capital Assets	\$ <b>369.29</b>	339.24	326.08
Restricted expendable	<b>3.06</b>	3.23	3.78
Unrestricted	<b>73.32</b>	86.01	69.31
Total net position	<b>\$ 445.67</b>	428.48	399.17

# UNIVERSITY OF RHODE ISLAND

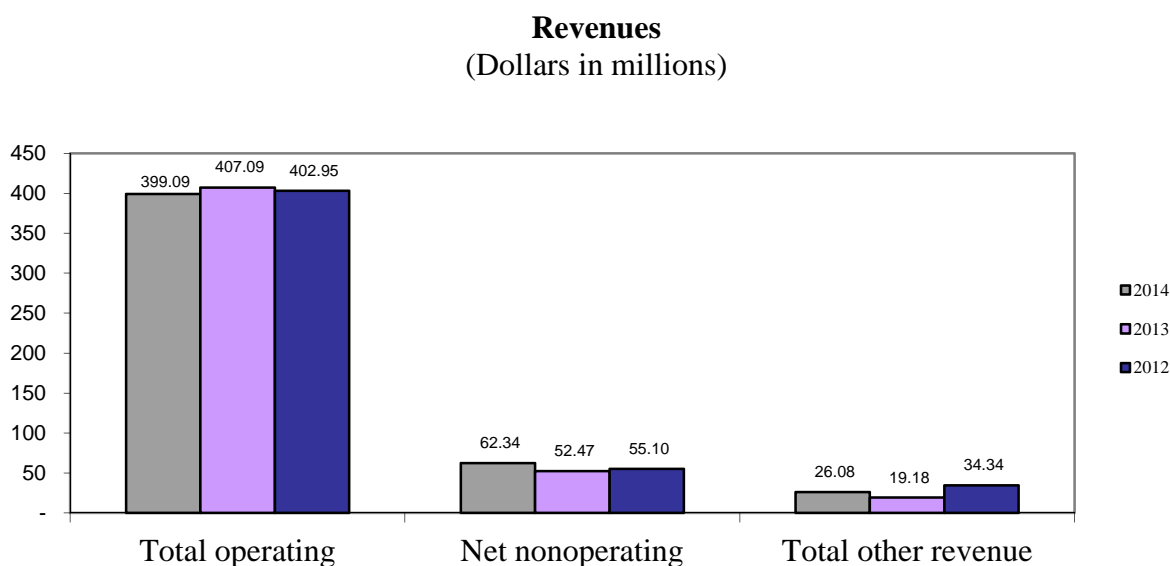
(a Component Unit of the State of Rhode Island and Providence Plantations)

## Management's Discussion and Analysis (Unaudited) - Continued

June 30, 2014 and 2013

### Financial Highlights - Continued

The following chart provides a graphical breakdown of total revenues by category for the fiscal years ending June 30, 2014, 2013, and 2012:



### 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, 2014 and 2013

### 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 26 to 29 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, 2014 and 2013

### 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 30 to 69 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 \$445.67 million, \$428.48 million and \$399.17 million at the close of fiscal years 2014, 2013, and 2012, respectively.

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

	<u>2014</u>	<u>(Restated) 2013</u>	<u>(Restated) 2012</u>
Current assets	\$ <b>158.80</b>	157.56	141.37
Noncurrent assets	<b>634.04</b>	626.49	621.04
Total assets	\$ <b>792.84</b>	784.05	762.41
Current liabilities	<b>70.53</b>	67.03	65.16
Noncurrent liabilities	<b>276.64</b>	288.54	298.08
Total liabilities	\$ <b>347.17</b>	355.57	363.24
Net position:			
Net investment in capital assets	\$ <b>369.29</b>	339.24	326.08
Restricted, expendable	<b>3.06</b>	3.23	3.78
Unrestricted	<b>73.32</b>	86.01	69.31
Total net position	\$ <b>445.67</b>	428.48	399.17

# UNIVERSITY OF RHODE ISLAND

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

## Management's Discussion and Analysis (Unaudited) - Continued

June 30, 2014 and 2013

### Financial Analysis - Continued

By far the largest portion of the University's net position, \$369.29 million, \$339.24 million, and \$326.08 million as of June 30, 2014, 2013, and 2012, 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 83%, 79%, and 82% 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%, 0.8%, and 0.9% of the University's net position at June 30, 2014, 2013, and 2012, 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, 2014, 2013, and 2012, the University's unrestricted net assets represent 17%, 20%, and 17%, 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 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: 2.25 to 1, 2.35 to 1, and 2.17 to 1 as of June 30, 2014, 2013, and 2012, 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, 2014 and 2013**

### **Financial Analysis - Continued**

One of the components of the University's noncurrent assets are the funds on deposit with the bond trustee totaling \$21.78 million, \$27.19 million, and \$42.81 million of June 30, 2014, 2013, and 2012, respectively. The majority of the bond proceeds were from the 2009 A Bonds for \$3.30 million for utility upgrades, 2009 B Bonds for \$10.00 million for fire protection, 2010 A Bonds for \$6.96 million for the repaving and reconstruction of major parking facilities.

During fiscal years 2014, 2013, and 2012, the University's net position increased by \$17.19 million, \$29.31 million, and \$41.15 million, respectively, which is largely due to capital and private funds received. The University closed fiscal years 2014, 2013, and 2012 with positive unrestricted net assets of \$73.32 million, \$86.01 million, and \$69.31 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, 2014 and 2013

### Financial Analysis - Continued

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

	<u>2014</u>	(Restated) <u>2013</u>	(Restated) <u>2012</u>
Operating revenues:			
Tuition and fees, net of tuition waivers and remissions	\$ 255.32	255.97	239.57
Operating grants and contributions	96.98	104.40	117.84
Other sources	46.79	46.72	45.54
Total operating revenues	<u>399.09</u>	<u>407.09</u>	<u>402.95</u>
Operating expenses:			
Salaries and benefits	284.00	271.94	275.04
Operating expenses	60.61	57.06	58.27
Scholarships, grants and contracts	25.81	26.13	26.67
Auxiliaries	69.97	67.25	63.94
Depreciation	29.93	27.05	27.32
Total operating expenses	<u>470.32</u>	<u>449.43</u>	<u>451.24</u>
Net operating loss	<u>(71.23)</u>	<u>(42.34)</u>	<u>(48.29)</u>
Nonoperating revenues (expenses):			
State appropriation	64.99	58.86	58.48
Net investment income	0.25	0.23	0.28
Private gifts	8.72	8.01	7.12
Bond issuance cost	-	(2.20)	-
Interest expense	(11.62)	(12.43)	(10.78)
Total nonoperating revenues	<u>62.34</u>	<u>52.47</u>	<u>55.10</u>
Income (loss) before other revenues, expenses, gains or losses	<u>(8.89)</u>	<u>10.13</u>	<u>6.81</u>
Capital appropriations	13.90	11.68	11.33
State contributed capital	9.37	3.90	19.42
Capital gifts	2.81	3.60	3.59
Increase in net assets	<u>17.19</u>	<u>29.31</u>	<u>41.15</u>
Net position – beginning of year	<u>428.48</u>	<u>399.17</u>	<u>358.02</u>
Net position – ending of year	<u>\$ 445.67</u>	<u>428.48</u>	<u>399.17</u>

# UNIVERSITY OF RHODE ISLAND

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

## Management's Discussion and Analysis (Unaudited) - Continued

June 30, 2014 and 2013

### Operating Revenues

The total operating revenues decreased by \$8.00 million or 2.0% in fiscal year 2014, compared to an increase of \$4.14 million or 1% in fiscal 20143, and an increase of \$21.32 million or 5.6% in fiscal 20132. The decrease in 2014 is largely attributable to federal, state, local, and private grants and contracts decreasing by \$7.43 million or 7.11% due to the federal sequestration. The other items included in total operating revenue had a net effect of decreasing total operating revenue Residential Life and Dining Service fees which both increased by 1.5% and the fact that more underclassman were living on campus. This was offset by an increase in scholarship allowance, centennial and admissions university scholarships.

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

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Tuition	\$ <b>256.17</b>	255.17	236.71
Student service fees	<b>18.37</b>	18.05	18.56
Health service fees	<b>6.40</b>	6.38	6.09
Housing fees	<b>36.65</b>	34.99	32.62
Dining service fees	<b>21.46</b>	19.70	17.28
Miscellaneous student fees	<b>2.78</b>	2.67	2.55
Total	<b>341.83</b>	336.96	313.81
Tuition waived or remitted	<b>(86.51)</b>	(80.99)	(74.24)
Net	<b>\$ 255.32</b>	255.97	239.57



# UNIVERSITY OF RHODE ISLAND

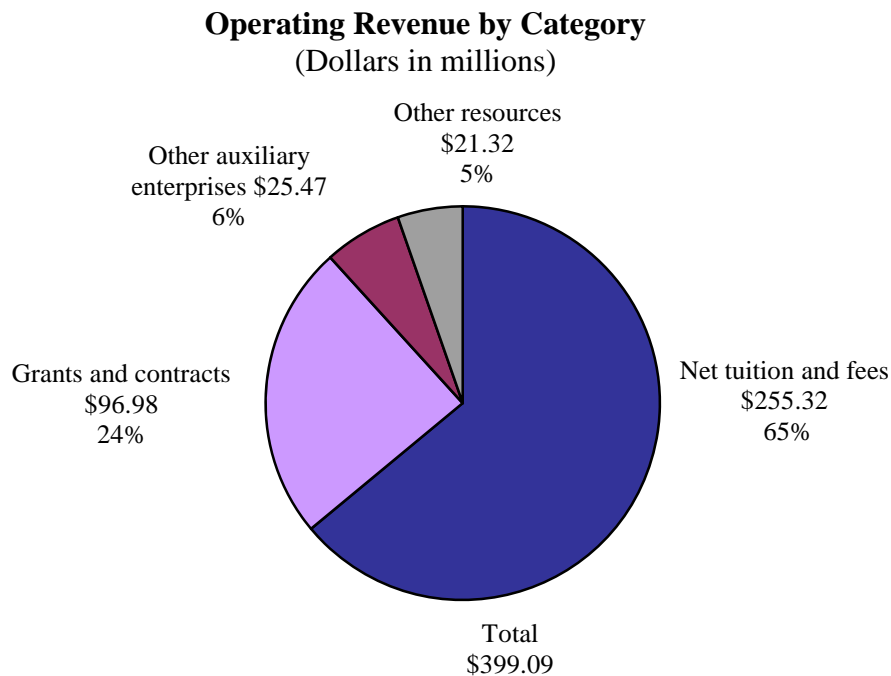
(a Component Unit of the State of Rhode Island and Providence Plantations)

## Management's Discussion and Analysis (Unaudited) - Continued

June 30, 2014 and 2013

### Operating Revenues - Continued

The following provides a graphical breakdown of operating revenues by category for the year ended June 30, 2014.



During fiscal years ended June 30, 2014, 2013, and 2012, the revenues from grants and contracts contributed 24%, 26%, and 29% respectively, of the total operating revenues.

# UNIVERSITY OF RHODE ISLAND

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

## Management’s Discussion and Analysis (Unaudited) - Continued

June 30, 2014 and 2013

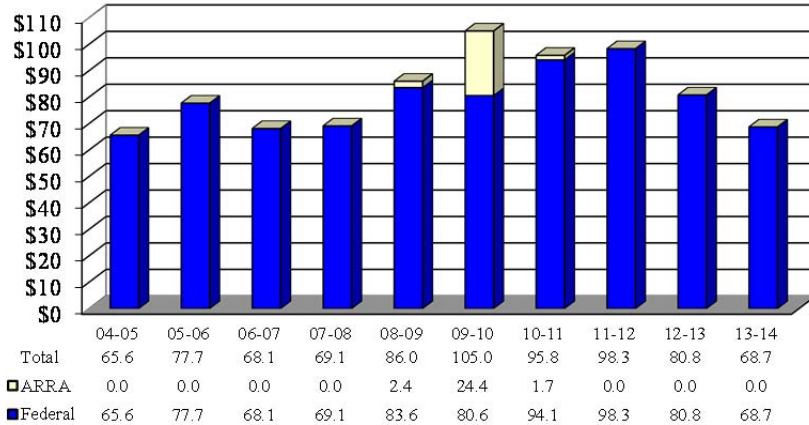
### Grant and Contract Revenue

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 the amount of grants awarded (not necessarily expensed) to the University during the last ten years, from a total of \$65.6 million in 2005 to \$68.7 million in 2014 or a 4.72% increase. The spike in fiscal year 2010, related to awards from American Reinvestment and Recovery Act (ARRA). The decrease in fiscal year 2014 relates to the federal sequestration and the loss of ARRA funding.

**Awards for Competitive Sponsored Programs**

(Dollars in millions)



# UNIVERSITY OF RHODE ISLAND

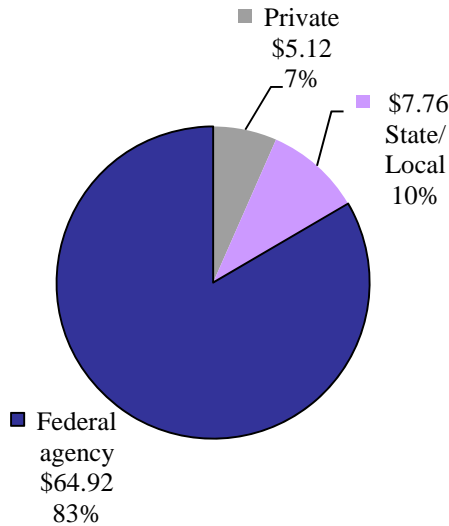
(a Component Unit of the State of Rhode Island and Providence Plantations)

## Management's Discussion and Analysis (Unaudited) - Continued

June 30, 2014 and 2013

### Grant and Contract Revenue - Continued

The following summary shows the breakdown of grants received from sponsoring agencies during fiscal 2014, with a pie chart for federal and nonfederal awards (dollars in millions).



<u>Agency</u>	<u>Award</u>
Department of Health and Human Services	\$ 19.84
National Science Foundation	17.49
Agency for International Development	5.54
Department of Agriculture	5.44
Department of Defense	5.31
National Oceanic and Atmospheric Admin	4.30
Other agencies	3.08
Department of Interior	2.00
Department of Energy	1.92
Federal agency	<u>64.92</u>
State/Local	7.76
Private	<u>5.12</u>
Total	<u>\$ 77.80</u>

### Operating Expenses

The operating expenses for fiscal years 2014, 2013, and 2012 totaled \$470.32 million, \$449.43 million, and \$451.24 million, respectively, an increase of \$20.90 million compared to an decrease of \$2.28 and an increase of \$23.04 million or an increase of 4.65% and an decrease of 0.51% and increase of 5.37% over those of fiscal year 2014, 2013, and 2012. The increase in 2014 expenses relates to the settlement of the AAUP union contract relating to a three year retro-active salary increases, new institutional initiatives, and depreciation related to new buildings being completed.

# UNIVERSITY OF RHODE ISLAND

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

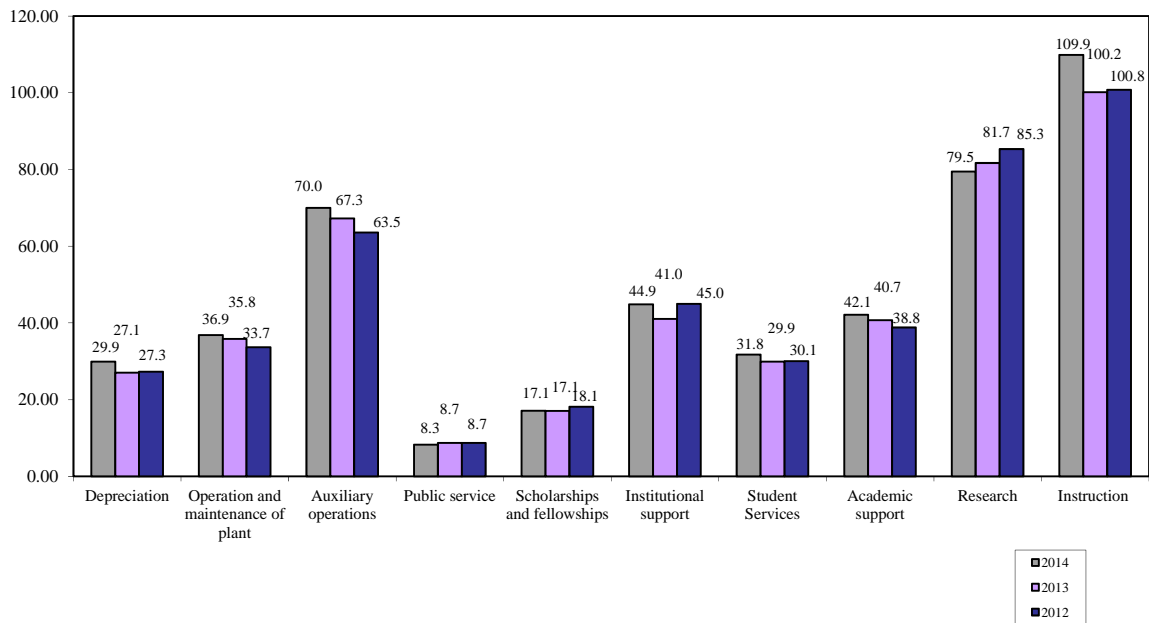
## Management's Discussion and Analysis (Unaudited) - Continued

June 30, 2014 and 2013

### Operating Expenses - Continued

The bar chart below illustrates the University's operating expenses by function for the fiscal years ended June 30, 2014, 2013, and 2012, 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, 2014 and 2013

### Operating Expenses - Continued

The following summary shows where major grant and contract expenditures, including indirect cost charges, occurred during 2014, 2013 and 2012 (dollars in millions):

Agency	Amount		
	2014	2013	2012
Department of Health and Human Services	\$ 19.84	21.32	19.53
National Science Foundation	17.49	18.57	20.36
Agency for International Development	5.54	8.91	9.94
Department of Agriculture	5.44	6.66	7.01
Department of Defense	5.31	5.69	6.82
National Oceanic and Atmospheric Administration	4.30	4.98	5.55
Department of Interior	2.00	1.68	1.25
Department of Energy	1.92	2.06	3.12
Department of Homeland Security	1.18	2.24	3.31
Other Federal Agencies	0.88	0.57	-
National Aeronautic and Space Administration	0.37	0.64	0.72
Department of Education	0.29	0.55	0.72
Environmental Protection Agency	0.24	0.57	0.71
Department of Transportation	0.12	0.43	0.75

### Nonoperating Revenues and Expenses

The State's unrestricted appropriation is the largest component of the University's nonoperating revenues. The amount requested for fiscal 2014 was \$70.40 million. However, the amount appropriated by the State was \$64.99 million resulting in an appropriation for fiscal 2014 that was \$5.41 less than the amount requested.

# 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, 2014 and 2013

### Nonoperating Revenues and Expenses - Continued

The University has a long tradition of using the state appropriation to support its operating expenses. During fiscal years 2014, 2013, and 2012, the University received state appropriations of \$64.99 million, \$58.86 million, and \$58.48 million, respectively, which combined with operating revenue, was not sufficient to cover operating expenses, the University needed an additional \$6.24 million in fiscal 2014. However it was sufficient in fiscal 2013 and 2012, with an excess of \$16.52 million and \$ 10.19 million. The University has seen an increase in the state appropriation over the past few years, although it is still significantly less that what was received ten years ago by approximately \$20 million. Since the decline of the state appropriation, the student tuition and fees have played an increasingly important role in funding of the University's operations, 54% in fiscal years 2014, 57% in 2013 and 53% in 2012. A summary of net income after state appropriation is presented below (dollars in millions).

	<u>2014</u>	(Restated) <u>2013</u>	(Restated) <u>2012</u>
Net student fees	\$ 255.32	255.97	239.57
Other operating revenue	143.77	151.12	163.38
Operating expenses	<u>(470.32)</u>	<u>(449.43)</u>	<u>(451.24)</u>
Operating loss	(71.23)	(42.34)	(48.29)
State direct appropriations	<u>64.99</u>	<u>58.86</u>	<u>58.48</u>
Net income after state appropriation	\$ <u>(6.24)</u>	<u>16.52</u>	<u>10.19</u>

# UNIVERSITY OF RHODE ISLAND

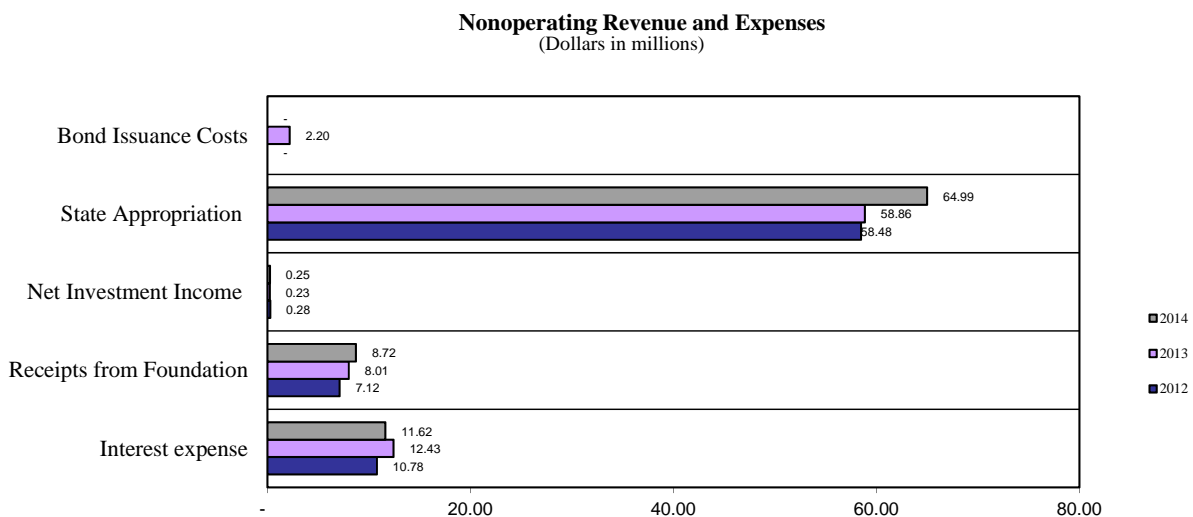
(a Component Unit of the State of Rhode Island and Providence Plantations)

## Management's Discussion and Analysis (Unaudited) - Continued

June 30, 2014 and 2013

### 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, 2014 and 2013

### 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 2016-2020 for the University totals \$1.0 billion, and it includes all continuing and planned projects, whether funded or not. This plan forms the basis for discussions on funding the various projects from all available funding sources.

#### Capital Assets

The University's investment in capital assets as of June 30, 2014, 2013, and 2012 net of accumulated depreciation, amounts to \$598.39 million, \$584.80 million, and \$564.33 million, respectively. This investment in capital assets includes land, buildings (including improvements), and furnishings and equipment (including capital leases). Capital assets increased during fiscal 2014 by \$13.59 million, 2013 by \$20.47 million and \$66.72 million during fiscal 2012. 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, 2014, 2013, and 2012 is presented below (dollars in millions).

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Land and improvements	\$ <b>42.68</b>	39.59	39.26
Major capital additions to building and improvements	<b>509.80</b>	494.44	387.51
Furnishings and equipment	<b>25.91</b>	25.20	24.57
Construction in progress	<b>20.00</b>	25.57	112.99
Total	\$ <b><u>598.39</u></b>	<u>584.80</u>	<u>564.33</u>

Major capital additions in fiscal 2014 included building and improvements included the Fascitelli Fitness & Wellness Center (\$11.1 million) and Student Athletic Development Center (\$4.2 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, 2014 and 2013

### Capital Assets and Debt Administration - Continued

#### Debt

As of June 30, 2014, 2013 and 2012, the University had \$258.75 million, \$270.33 million, and \$278.26 million respectively, in outstanding debt, a decrease of \$11.58 million in 2014 and a decrease of \$7.93 million and \$8.98 million in 2013 and 2012. The University refinanced several bond issues at the end of fiscal year 2013 with a savings of \$5.6 million. The table below summarizes the types of debt instruments (dollars in millions).

			(Restated)
	<u>2014</u>	<u>2013</u>	<u>2012</u>
Loans payable	\$ 1.04	1.07	1.33
Capital lease obligations	6.56	7.52	8.57
Due to Primary Government	17.31	18.91	20.40
Revenue bonds	<u>233.84</u>	<u>242.83</u>	<u>247.96</u>
Total	\$ <u>258.75</u>	<u>270.33</u>	<u>278.26</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, 2014, the University of Rhode Island general revenue bonds are rated by Moody's as Aaa-mf and Standard and Poor's rating services have given rates of AAAM.

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, 2014 and 2013

### 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 9.5% in June of 2013 to 7.9% in June of 2014, according to the U.S. Bureau of Labor Statistics. This compares to a steady rate of 6.1% in June 2014, 7.6% in June 2013 and 8.2% in 2012 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.

Negotiations are currently underway with multiple University unions. The outcomes of these negotiations and their potential financial impact on the University cannot be estimated at this time.

The effects on the University of the continuing implementation of the Affordable Health Care Act particularly the expansion of health care benefits to all eligible full time equivalent employees cannot be estimated at this time.

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

- Fiscal 2014 tuition and fees were not increased
- 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.
- 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, 2014 and 2013**

### **Economic Factors that Will Affect the Future - Continued**

In accordance with its strategic plan, the University continues to increase its freshman 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.

### **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, 2014 and 2013**

	<b>Assets</b>			
	<b>2014</b>	(Restated) <b>2013</b>	<b>2014</b>	<b>2013</b>
	<b>University of Rhode Island</b>	<b>University of Rhode Island</b>	<b>Component units</b>	<b>Component units</b>
<b>Current Assets:</b>				
Cash and equivalents (Note 3)	\$ 120,352,476	\$ 117,387,866	\$ 7,430,401	\$ 6,030,461
Cash held by State Treasurer (Note 4)	153,564	737,688	-	-
Accounts receivable, net (Note 5)	30,158,847	29,261,333	-	9,965
Due from primary government	3,906,574	6,198,142	-	-
Current portion of pledges receivable	-	-	3,408,587	869,300
Current portion of notes receivable	-	-	257,972	153,960
Inventory and other current assets	4,226,791	3,977,265	38,808	97,029
<b>Total Current Assets</b>	<b>158,798,252</b>	<b>157,562,294</b>	<b>11,135,768</b>	<b>7,160,715</b>
<b>Noncurrent Assets:</b>				
Cash and equivalents – restricted (Note 3)	345,881	744,625	-	-
Funds on deposit with bond trustee	21,775,952	27,193,768	-	-
Investments (Note 3)	-	-	142,587,930	129,805,415
Pledges receivable, net of current portion	-	-	14,273,952	1,900,491
Loans receivable, net (Note 6)	13,528,684	13,752,200	-	-
Charitable remainder trusts	-	-	424,366	606,315
Capital assets, net of accumulated depreciation (Note 7)	598,394,416	584,798,399	1,990,461	1,736,416
<b>Total Noncurrent Assets</b>	<b>634,044,933</b>	<b>626,488,992</b>	<b>159,276,709</b>	<b>134,048,637</b>
<b>Total Assets</b>	<b>\$ 792,843,185</b>	<b>\$ 784,051,286</b>	<b>\$ 170,412,477</b>	<b>\$ 141,209,352</b>
	<b>Liabilities and Net Position</b>			
<b>Current Liabilities:</b>				
Accounts payable and accrued liabilities (Note 8)	\$ 41,525,051	\$ 36,432,347	\$ 1,141,180	\$ 2,706,601
Compensated absences (Note 9)	944,055	765,288	-	-
Funds held for others	1,056,624	1,668,840	-	-
Unearned revenue	15,328,988	16,379,486	30,323	9,037
Current portion of due to primary government (Note 9)	1,715,000	1,600,000	-	-
Current portion of capital lease obligations (Note 9)	965,000	954,864	-	-
Current portion of bonds and loans payable (Note 9)	8,996,153	9,230,981	-	-
Current portion of gift annuity payable	-	-	80,000	120,000
<b>Total Current Liabilities</b>	<b>70,530,871</b>	<b>67,031,806</b>	<b>1,251,503</b>	<b>2,835,638</b>
<b>Noncurrent Liabilities:</b>				
Compensated absences (Note 9)	17,272,751	17,789,002	-	-
Capital lease obligations (Note 9)	5,600,000	6,565,000	-	-
Due to primary government (Note 9)	15,590,000	17,305,000	-	-
Bonds and loans payable (Note 9)	225,878,865	234,669,437	-	-
Gift annuity payable	-	-	616,906	608,645
Grant refundable (Note 6)	12,295,371	12,206,329	-	-
<b>Total Noncurrent Liabilities</b>	<b>276,636,987</b>	<b>288,534,768</b>	<b>616,906</b>	<b>608,645</b>
<b>Total Liabilities</b>	<b>347,167,858</b>	<b>355,566,574</b>	<b>1,868,409</b>	<b>3,444,283</b>
<b>Net Position:</b>				
Net Investment in Capital Assets	369,292,112	339,244,101	2,714,262	1,736,416
Restricted:				
Expendable (Note 10)	3,064,675	3,232,925	76,762,903	52,097,205
Nonexpendable	-	-	79,328,797	74,527,549
Unrestricted (Note 11)	73,318,540	86,007,686	9,738,106	9,403,899
<b>Total Net Position</b>	<b>\$ 445,675,327</b>	<b>\$ 428,484,712</b>	<b>\$ 168,544,068</b>	<b>\$ 137,765,069</b>

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, 2014 and 2013**

	2014 University of Rhode Island	(Restated) 2013 University of Rhode Island	2014 Component units	2013 Component units
<b>Operating Revenues:</b>				
Tuition and fees	\$ 265,950,069	\$ 264,709,436	\$ -	\$ -
Residence, dining, student union, and health fees	75,881,620	72,250,730	-	-
Less scholarship allowances	<u>(86,508,273)</u>	<u>(80,990,614)</u>	<u>-</u>	<u>-</u>
Net Student Fees	255,323,416	255,969,552	-	-
Federal, state, local, and private grants and contracts	96,973,468	104,398,733	-	-
Other Auxiliary enterprises	25,469,601	25,914,386	-	-
Other sources	<u>21,326,582</u>	<u>20,809,931</u>	<u>3,801,186</u>	<u>3,900,123</u>
<b>Total Operating Revenues</b>	<u><b>399,093,067</b></u>	<u><b>407,092,602</b></u>	<u><b>3,801,186</b></u>	<u><b>3,900,123</b></u>
<b>Operating Expenses (Note 13):</b>				
Instruction	109,870,556	100,154,067	-	-
Research	79,492,210	81,710,485	-	-
Academic support	42,138,515	40,736,617	-	-
Student services	31,767,800	29,894,782	2,058,380	1,891,310
Scholarships and fellowships	17,096,893	17,079,632	-	-
Public service	8,298,858	8,725,224	-	-
Operation and maintenance of plant	36,870,964	35,797,179	426,306	391,886
Depreciation	29,933,340	27,045,215	91,227	81,375
Institutional support	44,882,853	41,028,648	5,298,284	6,321,765
Auxiliary operations	<u>69,969,266</u>	<u>67,253,543</u>	<u>-</u>	<u>-</u>
<b>Total Operating Expenses</b>	<u><b>470,321,255</b></u>	<u><b>449,425,392</b></u>	<u><b>7,874,197</b></u>	<u><b>8,686,336</b></u>
<b>Net Operating Loss</b>	<u><b>(71,228,188)</b></u>	<u><b>(42,332,790)</b></u>	<u><b>(4,073,011)</b></u>	<u><b>(4,786,213)</b></u>
<b>Nonoperating Revenues (Expenses):</b>				
State appropriation (Note 14)	64,987,247	58,859,376	-	-
Net investment income	253,345	233,364	827,399	208,953
Endowment income	-	-	14,362,060	10,260,034
Private gifts and contributions	-	-	25,107,305	11,092,980
Payments between the University and component units	8,720,013	8,009,709	(8,720,013)	(8,009,709)
Additions to permanent endowments	-	-	4,801,248	2,145,086
Miscellaneous receipts	-	-	1,279,643	991,227
Bond issuance costs	-	(2,205,746)	-	-
Interest expense	<u>(11,626,312)</u>	<u>(12,430,406)</u>	<u>-</u>	<u>-</u>
<b>Net Nonoperating Revenues</b>	<u><b>62,334,293</b></u>	<u><b>52,466,297</b></u>	<u><b>37,657,642</b></u>	<u><b>16,688,571</b></u>
<b>Increase (Decrease) in Net Position Before Capital Contributions</b>	<u><b>(8,893,895)</b></u>	<u><b>10,133,507</b></u>	<u><b>33,584,631</b></u>	<u><b>11,902,358</b></u>
<b>Capital Contributions:</b>				
Capital appropriations (Note 14)	23,278,878	15,576,552	-	-
Capital gifts	<u>2,805,632</u>	<u>3,604,401</u>	<u>(2,805,632)</u>	<u>(3,337,801)</u>
<b>Increase in Net Position</b>	<u><b>\$ 17,190,615</b></u>	<u><b>\$ 29,314,460</b></u>	<u><b>\$ 30,778,999</b></u>	<u><b>\$ 8,564,557</b></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 Changes in Net Position**

**June 30, 2014 and 2013**

	University				
	<u>Investment in Capital Assets</u>	<u>Restricted Expendable</u>	<u>Restricted Nonexpendable</u>	<u>Unrestricted</u>	<u>Total</u>
<b>Balance June 30, 2012 as previously reported</b>	\$ 334,889,079	\$ 3,777,057	\$ -	\$ 69,313,554	\$ 407,979,690
Prior Period Adjustment - Change in Accounting Principles (Note 2)	<u>(8,809,438)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(8,809,438)</u>
Balance, June 30, 2012 as restated	<u>326,079,641</u>	<u>3,777,057</u>	<u>-</u>	<u>69,313,554</u>	<u>399,170,252</u>
Changes in net position as previously reported, 2013	14,817,859	(544,132)	-	16,694,132	30,967,859
Prior Period Adjustment - Change in Accounting Principles (Note 2)	<u>(1,653,399)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(1,653,399)</u>
Changes in net position for 2013 as restated	<u>13,164,460</u>	<u>(544,132)</u>	<u>-</u>	<u>16,694,132</u>	<u>29,314,460</u>
Balance, June 30, 2013 as restated	339,244,101	3,232,925	-	86,007,686	428,484,712
Changes in net position as for 2014	30,048,011	(168,250)	-	(12,689,146)	17,190,615
<b>Balance, June 30, 2014</b>	<u>\$ 369,292,112</u>	<u>\$ 3,064,675</u>	<u>\$ -</u>	<u>\$ 73,318,540</u>	<u>\$ 445,675,327</u>

	Component Units				
	<u>Investment in Capital Assets</u>	<u>Restricted Expendable</u>	<u>Restricted Nonexpendable</u>	<u>Unrestricted</u>	<u>Total</u>
<b>Balance, June 30, 2012</b>	\$ 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>14,604,729</u>	<u>(7,122,406)</u>	<u>1,163,609</u>	<u>8,564,557</u>
<b>Balance, June 30, 2013</b>	1,736,416	52,097,205	74,527,549	9,403,899	137,765,069
Changes in net position for 2014	977,846	24,665,698	4,801,248	334,207	30,778,999
<b>Balance, June 30, 2014</b>	<u>\$ 2,714,262</u>	<u>\$ 76,762,903</u>	<u>\$ 79,328,797</u>	<u>\$ 9,738,106</u>	<u>\$ 168,544,068</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, 2014 and 2013**

	<b>2014</b>	<b>(Restated)</b>
	<b>University of</b>	<b>2013</b>
	<b>Rhode Island</b>	<b>University of</b>
	<b>Rhode Island</b>	<b>Rhode Island</b>
<b>Cash Flows From Operating Activities:</b>		
Tuition and fees	\$ 256,798,923	\$ 253,901,813
Federal, state, local, and private grants	93,946,427	108,607,284
Payments to suppliers	(135,434,732)	(125,599,477)
Payments to employees	(274,659,659)	(274,421,270)
Payments for scholarships, fellowships, and sponsored programs	(25,810,714)	(26,126,839)
Other auxiliary enterprises	25,419,527	24,945,831
Other sources	<u>24,377,224</u>	<u>21,175,528</u>
<b>Net Cash Applied to Operating Activities</b>	<u><b>(35,363,004)</b></u>	<u><b>(17,517,130)</b></u>
<b>Cash Flows from Noncapital Financing Activities:</b>		
State appropriations	64,987,247	58,859,376
Payments between the University and component units	8,720,013	8,009,709
Funds held for others	<u>(612,216)</u>	<u>464,512</u>
<b>Net Cash Provided by Non Capital Financing Activities</b>	<u><b>73,095,044</b></u>	<u><b>67,333,597</b></u>
<b>Cash Flows from Capital and Related Financing Activities:</b>		
Capital appropriations	23,278,878	15,576,552
Capital gifts	2,805,632	3,604,401
Purchase of capital assets	(44,299,393)	(48,806,616)
Proceeds from issuance of loans	205,581	-
Principal paid on capital debt and leases	(11,785,845)	(7,935,674)
Payments for bond issuance costs	-	(1,633,282)
Interest paid on capital debt and leases	(11,626,312)	(12,000,450)
Deposit with trustee	<u>5,417,816</u>	<u>15,617,159</u>
<b>Net Cash Used in Capital and Related Financing Activities</b>	<u><b>(36,003,643)</b></u>	<u><b>(35,577,910)</b></u>
<b>Cash Flows from Investing Activity:</b>		
Net investment income	<u>253,345</u>	<u>233,364</u>
Net Cash Provided by Investing Activity	<u>253,345</u>	<u>233,364</u>
<b>Net Increase in Cash and Equivalents</b>	<u><b>1,981,742</b></u>	<u><b>14,471,921</b></u>
Cash and Equivalents, Beginning of the Year	<u>118,870,179</u>	<u>104,398,258</u>
<b>Cash and Equivalents, End of the Year</b>	<u><b>\$ 120,851,921</b></u>	<u><b>\$ 118,870,179</b></u>
<b>Reconciliation of Net Operating Loss to Net Cash Applied to Operating Activities:</b>		
Net operating loss	\$ (71,228,188)	\$ (42,332,790)
Adjustments to reconcile net operating loss to net cash used in operating activities:		
Depreciation	29,933,340	27,045,215
Loss on disposal of assets	770,036	312,121
Bad debts	363,426	794,194
Changes in assets and liabilities:		
Accounts receivable	(1,260,940)	(351,589)
Due from primary government	2,291,568	(1,976,817)
Inventory and other current assets	(249,526)	(710,855)
Loans receivable	223,516	(94,108)
Accounts payable and accrued liabilities	5,092,704	(196,116)
Unearned revenues	(1,050,498)	784,213
Compensated absences	(337,484)	(900,947)
Refundable grant	<u>89,042</u>	<u>110,349</u>
<b>Net Cash Applied to Operating Activities</b>	<u><b>\$ (35,363,004)</b></u>	<u><b>\$ (17,517,130)</b></u>

See accompanying notes to the financial statements.

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

**Notes to the Financial Statements**

**June 30, 2014 and 2013**

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 Postsecondary Education, 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.



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

**Notes to the Financial Statements - Continued**

**June 30, 2014 and 2013**

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 submitted 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 and 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 and expenses, and changes in net position demonstrate the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable within a specific function. Program revenues primarily include charges to students or others who enroll or directly benefit from services that are provided by a particular function. Items not meeting the definition of program revenues are instead reported as general revenue.

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

**Notes to the Financial Statements - Continued**

**June 30, 2014 and 2013**

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

*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, 2014 and 2013, the Foundation distributed \$11,434,275 and \$11,024,459, respectively, to the University for both restricted and unrestricted purposes.

During the years ended June 30, 2014 and 2013, the Alumni Association distributed \$1,982,831 and \$1,891,310, respectively, to the University for Scholarships and Athletic Club expenses.

As of June 30, 2014 and 2013, the Component Units have a liability due to the University of \$261,025 and \$401,404, respectively, which is reflected in accounts payable and accrued liabilities.

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

**Notes to the Financial Statements - Continued**

**June 30, 2014 and 2013**

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

*Component Units – Continued*

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:

	<b>2014</b>		
	<b>Foundation</b>	<b>Alumni Association</b>	<b>Total</b>
Current assets	\$ 10,535,471	\$ 600,297	\$ 11,135,768
Noncurrent assets	153,900,536	5,376,173	159,276,709
Total assets	<u>164,436,007</u>	<u>5,976,470</u>	<u>170,412,477</u>
Current liabilities	859,662	391,841	1,251,503
Noncurrent liabilities	616,906	-	616,906
Total liabilities	<u>1,476,568</u>	<u>391,841</u>	<u>1,868,409</u>
Net position:			
Net investment in capital assets	2,714,262	-	2,714,262
Restricted:			
Expendable	75,881,434	881,469	76,762,903
Nonexpendable	79,328,797	-	79,328,797
Unrestricted	5,034,946	4,703,160	9,738,106
Total net position	<u>\$ 162,959,439</u>	<u>\$ 5,584,629</u>	<u>\$ 168,544,068</u>

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

**Notes to the Financial Statements - Continued**

**June 30, 2014 and 2013**

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

*Component Units – Continued*

	2013		
	Foundation	Alumni 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	51,165,277	931,928	52,097,205
Nonexpendable	74,527,549	-	74,527,549
Unrestricted	5,711,222	3,692,677	9,403,899
Total net position	<u>\$ 133,140,464</u>	<u>\$ 4,624,605</u>	<u>\$ 137,765,069</u>

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

**Notes to the Financial Statements - Continued**

**June 30, 2014 and 2013**

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:

	2014		
	Foundation	Alumni Association	Component Units
Operating Revenues:			
Other sources	\$ -	\$ 3,801,186	\$ 3,801,186
Operating Expenses:			
Student services	-	2,058,380	2,058,380
Operation and maintenance of plant	-	426,306	426,306
Depreciation	91,227	-	91,227
Institutional support	3,437,401	1,860,883	5,298,284
Total Operating Expenses	<u>3,528,628</u>	<u>4,345,569</u>	<u>7,874,197</u>
Net Operating Loss	<u>(3,528,628)</u>	<u>(544,383)</u>	<u>(4,073,011)</u>
Nonoperating Revenues (Expenses):			
Net investment income	219,729	607,670	827,399
Endowment income	14,362,060	-	14,362,060
Private gifts	24,119,198	988,107	25,107,305
Gifts to the University	(8,720,013)	-	(8,720,013)
Additions to permanent endowments	4,801,248	-	4,801,248
Miscellaneous receipts	1,279,643	-	1,279,643
Net Nonoperating Revenues	<u>36,061,865</u>	<u>1,595,777</u>	<u>37,657,642</u>
Increase in Net Position Before Capital Gifts	32,533,237	1,051,394	33,584,631
Capital Gifts	<u>(2,714,262)</u>	<u>(91,370)</u>	<u>(2,805,632)</u>
Increase in Net Position	29,818,975	960,024	30,778,999
Net Position, at Beginning of Year	<u>133,140,464</u>	<u>4,624,605</u>	<u>137,765,069</u>
Net Position, at End of Year	<u>\$ 162,959,439</u>	<u>\$ 5,584,629</u>	<u>\$ 168,544,068</u>

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

**Notes to the Financial Statements - Continued**

**June 30, 2014 and 2013**

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

*Component Units – Continued*

	2013		
	Foundation	Alumni Association	Component Units
Operating Revenues:			
Other sources	\$ -	\$ 3,900,123	\$ 3,900,123
Operating Expenses:			
Student services	-	1,891,310	1,891,310
Operation and maintenance of plant	-	391,886	391,886
Depreciation	81,375	-	81,375
Institutional support	4,318,035	2,003,730	6,321,765
Total Operating Expenses	<u>4,399,410</u>	<u>4,286,926</u>	<u>8,686,336</u>
Net Operating Loss	<u>(4,399,410)</u>	<u>(386,803)</u>	<u>(4,786,213)</u>
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	<u>15,323,531</u>	<u>1,365,040</u>	<u>16,688,571</u>
Increase in Net Position Before Capital Gifts	10,924,121	978,237	11,902,358
Capital Gifts	<u>(3,014,750)</u>	<u>(323,051)</u>	<u>(3,337,801)</u>
Increase in Net Position	7,909,371	655,186	8,564,557
Net Position, at Beginning of Year	<u>125,231,093</u>	<u>3,969,419</u>	<u>129,200,512</u>
Net Position, at End of Year	<u>\$ 133,140,464</u>	<u>\$ 4,624,605</u>	<u>\$ 137,765,069</u>

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.

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

**Notes to the Financial Statements - Continued**

**June 30, 2014 and 2013**

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

*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 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.

*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.

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

**Notes to the Financial Statements - Continued**

**June 30, 2014 and 2013**

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

*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 or University policy.

Amounts of vested and accumulated vacation and sick leave are reported as accrued compensation and benefits. Amounts are determined based upon the compensation rates in effect as of the balance sheet date.

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.

Amounts related to a State Payroll Reduction Plan adopted during fiscal years 2010 and 2011 plan can be received in the form of paid leave, payment at the time of separation from the University or to an employee's estate. The amount of payment is limited to four days for each year.



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

**Notes to the Financial Statements - Continued**

**June 30, 2014 and 2013**

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

*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 of Rhode Island (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 contribution ranged from 10% to 25% of healthcare premiums. Expenses incurred by the University for the 2014 and 2013 healthcare premiums amounted to \$38,871,784 and \$37,830,166, respectively. Employee contributions for the 2014 and 2013 were \$5,097,348 and \$4,972,126, respectively.

*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 2014 was 4.25% for non-faculty and 3.77% for faculty, and for 2013 was 3.75% for non-faculty and 3.30% for faculty. The assessed fringe benefit cost for the University was \$6,600,660 for fiscal year 2014 and \$5,607,481 for fiscal year 2013.

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

**Notes to the Financial Statements - Continued**

**June 30, 2014 and 2013**

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

*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 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 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 claims.

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

**Notes to the Financial Statements - Continued**

**June 30, 2014 and 2013**

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

*Risk Management – Continued*

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 that 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, 2014, 2013 and 2012.

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 2013 financial statements have been reclassified to conform to the 2014 presentation.

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

**Notes to the Financial Statements - Continued**

**June 30, 2014 and 2013**

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

*New Government Accounting Pronouncements*

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. As discussed in Note 15, management is anticipating a restatement of balances during the upcoming fiscal year to include the effect of this statement.

GASB 69, *Government Combinations and Disposals of Government Operations* is required for periods beginning 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 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date- an amendment of GASB 68* 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 inter-period equity, and creating additional transparency. Management is in the process of reviewing this statement and its potential effect upon their financial reporting.

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

**Notes to the Financial Statements - Continued**

**June 30, 2014 and 2013**

Note 2 - **Restatement of Prior Year Balances**

As a result of implementing GASB Statement No. 65, Items Previously Reported As Assets and Liabilities, the University has restated net position by \$1,653,399 and \$8,809,438 at June 2013 and 2012, respectively. The decrease results from no longer reflecting the unamortized balance of bond issuance costs on the Statement of Net Assets.

	<b>As originally reported</b>	<b>As restated</b>
<u>As of June 30, 2013</u>		
Statement of Net Position:		
Other deferred assets	\$ 10,462,837	\$ -
Net investment in capital assets	349,706,938	339,244,101
Statement of Revenue, Expenses, and		
Changes in Net Position:		
Depreciation and amortization	27,597,562	27,045,215
Bond issuance costs	-	2,205,746

Note 3 - **Cash and 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. None of the University's cash deposits were required to be collateralized by law since there are no time deposits that exceed 60 days.

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

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

**Notes to the Financial Statements - Continued**

**June 30, 2014 and 2013**

Note 3 - **Cash and Equivalents and Investments – Continued**

*Cash and Equivalents – Continued*

At June 30, 2014 and 2013, the carrying amount of the University's cash deposits was \$110,580,604 and \$108,022,886, respectively, and the bank balance was \$116,944,574 and \$113,699,475, 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, \$83,621,267 and \$11,959,943 was covered by federal depository insurance, and \$17,496,353 and \$48,031,932 was collateralized with securities held by the pledging financial institution in the University's name as of June 30, 2014 and June 30, 2013, respectively. The remaining amount, \$15,826,953 for 2014 compared to \$53,707,600 for 2013 was uninsured and collateralized. The insured balance reflects FDIC insurance and guarantee programs in effect during 2014 and 2013

At June 30, 2014, the University had investments (cash equivalents) consisting of \$10,117,753 in the Ocean State Investment Pool Trust (OSIP), an investment pool established by the State General Treasurer. The University's investment accounted for 2.2% of the total investment in OSIP at June 30, 2014. Agencies, authorities, commissions, boards, municipalities, political subdivisions, and other public units of the State may invest in OSIP. OSIP operates in a manner consistent with SEC Rule 2a-7 like pools and thus, reports all investments at maturity of investments held in the pool, by policy, is not to exceed 60 days. OSIP issues a publicly available financial report that can be obtained by writing to the Office of the General Treasurer, Finance Department, 50 Service Avenue – 2<sup>nd</sup> Floor, Warwick, RI 02886.

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

**Notes to the Financial Statements - Continued**

**June 30, 2014 and 2013**

Note 3 - **Cash and Equivalents and Investments – Continued**

*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, 2014 and 2013, 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.

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

	<b>2014</b>		
	<b>Foundation</b>	<b>Alumni Association</b>	<b>Total</b>
Common Stocks	\$ 3,622,198	\$ 3,796,506	\$ 7,418,704
Fixed Income	5,153,083	-	5,153,083
Government Securities	35,632,383	396,484	36,028,867
Emerging Markets Equities	6,930,815	-	6,930,815
Domestic Equities	21,140,276	-	21,140,276
Marketable Alternatives	40,848,731	-	40,848,731
Corporate Bonds	-	1,013,678	1,013,678
REITS	2,009,909	-	2,009,909
Mutual Funds	22,043,867	-	22,043,867
	\$ 137,381,262	\$ 5,206,668	\$ 142,587,930

**UNIVERSITY OF RHODE ISLAND**  
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**Notes to the Financial Statements - Continued**

**June 30, 2014 and 2013**

Note 3 - **Cash and Equivalents and Investments – Continued**

*Investments – Continued*

	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
	\$ 125,176,057	\$ 4,629,358	\$ 129,805,415

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 \$153,564 and \$737,688 at June 30, 2014 and 2013, respectively. The University has recorded a comparable dollar amount of cash held by the State Treasurer for the benefit of the University, which was subsequently utilized to pay for such liabilities.



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**Notes to the Financial Statements - Continued**

**June 30, 2014 and 2013**

Note 5 - **Accounts Receivable**

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

	<u>2014</u>	<u>2013</u>
Student accounts receivable	\$ <b>10,890,914</b>	\$ 9,723,204
Grants receivable	<b>4,140,256</b>	4,750,190
Unbilled grants receivables	<b>14,337,717</b>	12,362,443
Other receivables	<u><b>7,249,752</b></u>	<u>8,521,862</u>
	<b>36,618,639</b>	35,357,699
Less: allowance for doubtful accounts	<u><b>(6,459,792)</b></u>	<u>(6,096,366)</u>
	<u><b>\$ 30,158,847</b></u>	<u>\$ 29,261,333</u>

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 \$12,295,371 and \$12,206,329 at June 30, 2014 and 2013, respectively.

Loans receivable include the following at June 30:

	<u>2014</u>	<u>2013</u>
Perkins loans	\$ <b>9,664,175</b>	\$ 10,015,294
Nursing loans	<b>1,622,030</b>	1,614,798
Health profession loans	<b>1,947,251</b>	1,942,131
Other	<u><b>822,850</b></u>	<u>792,816</u>
	<b>14,056,306</b>	14,365,039
Less: allowance for doubtful accounts	<u><b>(527,622)</b></u>	<u>(612,839)</u>
	<u><b>\$ 13,528,684</b></u>	<u>\$ 13,752,200</u>

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**Notes to the Financial Statements - Continued**

**June 30, 2014 and 2013**

Note 7 - **Capital Assets**

Capital assets of the University consist of the following at June 30, 2014:

	Estimated lives (in years)	2014				Reclassifi- cations	Ending balance
		Beginning balance	Additions	Reductions			
Capital assets not depreciated:							
Land	-	\$ 2,187,121	\$ -	\$ -	\$ -	\$ -	\$ 2,187,121
Construction in progress	-	25,575,524	37,514,224	-	(43,084,782)	-	20,004,966
Total not depreciated		<u>27,762,645</u>	<u>37,514,224</u>	<u>-</u>	<u>(43,084,782)</u>		<u>22,192,087</u>
Capital assets depreciated:							
Land improvements	15-25	60,411,981	-	-	5,712,527	-	66,124,508
Buildings, including improvements	10-50	726,154,990	-	-	37,372,255	-	763,527,245
Furnishings and equipment (including cost of capital leases)	5-15	90,728,514	6,785,169	(3,077,174)	-	-	94,436,509
Total depreciated		<u>877,295,485</u>	<u>6,785,169</u>	<u>(3,077,174)</u>	<u>43,084,782</u>		<u>924,088,262</u>
Less accumulated depreciation:							
Land improvements		23,008,939	2,617,329	-	-	-	25,626,268
Building, including improvements		231,719,178	22,010,464	-	-	-	253,729,642
Furnishings and equipment		65,531,614	5,305,547	(2,307,138)	-	-	68,530,023
Total accumulated depreciation		<u>320,259,731</u>	<u>29,933,340</u>	<u>(2,307,138)</u>	<u>-</u>		<u>347,885,933</u>
Capital assets, net		<u>\$ 584,798,399</u>	<u>\$ 14,366,053</u>	<u>\$ (770,036)</u>	<u>\$ -</u>		<u>\$ 598,394,416</u>

**UNIVERSITY OF RHODE ISLAND**  
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**Notes to the Financial Statements - Continued**

**June 30, 2014 and 2013**

**Note 7 - Capital Assets – Continued**

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

	2013					Ending balance
	Estimated lives (in years)	Beginning balance	Additions	Reductions	Reclassifi- cations	
Capital assets not depreciated:						
Land	-	\$ 2,106,956	\$ 205,505	\$ (125,340)	-	\$ 2,187,121
Construction in progress	-	112,987,079	41,310,250	-	(128,721,805)	25,575,524
Total not depreciated		<u>115,094,035</u>	<u>41,515,755</u>	<u>(125,340)</u>	<u>(128,721,805)</u>	<u>27,762,645</u>
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	(2,716,084)	-	90,728,514
Total depreciated		<u>744,981,205</u>	<u>6,308,559</u>	<u>(2,716,084)</u>	<u>128,721,805</u>	<u>877,295,485</u>
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		<u>295,743,818</u>	<u>27,045,215</u>	<u>(2,529,302)</u>	<u>-</u>	<u>320,259,731</u>
Capital assets, net		<u>\$ 564,331,422</u>	<u>\$ 20,779,099</u>	<u>\$ (312,122)</u>	<u>\$ -</u>	<u>\$ 584,798,399</u>

**UNIVERSITY OF RHODE ISLAND**  
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**Notes to the Financial Statements - Continued**

**June 30, 2014 and 2013**

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 of June 30, 2014 the remaining liability is \$228,219.

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**Notes to the Financial Statements - Continued**

**June 30, 2014 and 2013**

**Note 9 - Long-Term Liabilities**

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

	<u>2014</u>				
	<u>Beginning balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending balance</u>	<u>Current portion</u>
Leases and bonds payable:					
Lease obligations	\$ 7,519,864	\$ -	\$ 954,864	\$ 6,565,000	\$ 965,000
Revenue bonds payable	235,502,475	-	8,310,098	227,192,377	8,132,390
Premium on bonds payable	7,327,466	-	684,586	6,642,880	669,992
Due to primary government					
Certificate of participation (COP) energy conservation	18,905,000	-	1,600,000	17,305,000	1,715,000
Loans payable	1,070,477	205,581	236,297	1,039,761	193,771
Total leases and bonds payable	<u>270,325,282</u>	<u>205,581</u>	<u>11,785,845</u>	<u>258,745,018</u>	<u>11,676,153</u>
Other long-term liabilities:					
Compensated absences	<u>18,554,290</u>	<u>869,925</u>	<u>1,207,409</u>	<u>18,216,806</u>	<u>944,055</u>
Total long-term liabilities	<u>\$ 288,879,572</u>	<u>\$ 1,075,506</u>	<u>\$ 12,993,254</u>	<u>\$ 276,961,824</u>	<u>\$ 12,620,208</u>
	<u>2013</u>				
	<u>Beginning balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending balance</u>	<u>Current portion</u>
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	684,586
Due to primary government					
Certificate of participation	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	<u>278,260,956</u>	<u>48,160,386</u>	<u>56,096,060</u>	<u>270,325,282</u>	<u>11,785,845</u>
Other long-term liabilities:					
Compensated absences	<u>19,455,237</u>	<u>869,385</u>	<u>1,770,332</u>	<u>18,554,290</u>	<u>765,288</u>
Total long-term liabilities	<u>\$ 297,716,193</u>	<u>\$ 49,029,771</u>	<u>\$ 57,866,392</u>	<u>\$ 288,879,572</u>	<u>\$ 12,551,133</u>

**UNIVERSITY OF RHODE ISLAND**  
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**Notes to the Financial Statements - Continued**

**June 30, 2014 and 2013**

Note 9 - **Long-Term Liabilities – Continued**

*Bonds Payable*

The revenue bonds consist of the following:

	<b>2014</b>	<b>2013</b>
Series 2003 A University of Rhode Island Educational and General Revenue Issue, 2% to 5%, due semiannually through 2013	\$ -	\$ 400,000
Series 2005 A University of Rhode Island Educational and General Revenue Issue, 3% to 4.25%, due semiannually through 2020	<b>1,465,000</b>	1,645,000
Series 2005 B University of Rhode Island Educational and General Revenue Issue, 3% to 4.25%, due semiannually through 2025	<b>1,365,000</b>	1,455,000
Series 2005 C University of Rhode Island Auxiliary Enterprise Revenue Issue, 3% to 4.625%, due semiannually through 2025	<b>11,615,000</b>	11,930,000
Series 2005 D University of Rhode Island Auxiliary Enterprise Revenue Refunding Issue, 3% to 4.25%, due semiannually through 2029	<b>15,740,000</b>	16,425,000
Series 2005 F University of Rhode Island Educational and General Revenue Issue, 3% to 4.50%, due semiannually through 2025	<b>2,235,000</b>	2,380,000
Series 2005 G University of Rhode Island Educational and General Revenue Refunding Issue, 4% to 5%, due semiannually through 2030	<b>36,905,000</b>	38,325,000
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	<b>34,105,000</b>	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	<b>3,830,000</b>	3,830,000
Series 2009 A University of Rhode Island Educational and General Revenue Issue, 3.4% to 4.75%, due semiannually through 2034	<b>10,175,000</b>	10,210,000
Series 2009 B University of Rhode Island Auxiliary Revenue Issue, 3% to 5.25%, due semiannually through 2029	<b>16,360,000</b>	16,850,000
Series 2010 A University of Rhode Island Educational and General Revenue Issue, 3% to 5%, due semiannually through 2041	<b>12,710,000</b>	13,055,000
Series 2010 B University of Rhode Island Auxiliary Enterprise Revenue Issue, 3% to 5%, due semiannually through 2031	<b>41,285,000</b>	42,000,000
Series 2013 A University of Rhode Island Educational and General Revenue Refunding Issue, 2% to 3%, due semiannually through 2024	<b>5,615,000</b>	6,195,000
Series 2013 B University of Rhode Island Educational and General Revenue Refunding Issue, 2% to 3%, due semiannually through 2024	<b>4,997,103</b>	5,464,231
Series 2013 C University of Rhode Island Auxiliary Revenue Issue, 2% to 5%, due semiannually through 2025	<b>21,875,000</b>	23,695,000
Series 2013 D University of Rhode Island Auxiliary Revenue Issue, 2% to 5%, due semiannually through 2024	<b>6,915,274</b>	7,538,244
	<b>\$ 227,192,377</b>	<b>\$ 235,502,475</b>

**UNIVERSITY OF RHODE ISLAND**  
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**Notes to the Financial Statements - Continued**

**June 30, 2014 and 2013**

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 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 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.

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**Notes to the Financial Statements - Continued**

**June 30, 2014 and 2013**

Note 9 - **Long-Term Liabilities – Continued**

*Bonds Payable – Continued*

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.

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. The University entered into the bond refunding with the goal to achieve cost savings primarily through the reduction of interest expense. There was an economic gain (difference between the present value of the old and new debt service payments) of approximately \$2.6 million. 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.



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**Notes to the Financial Statements - Continued**

**June 30, 2014 and 2013**

Note 9 - **Long-Term Liabilities – Continued**

*Bonds Payable – Continued*

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 Auxiliary Enterprise 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.

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. The University entered into the bond refunding with the goal to achieve cost savings primarily through the reduction of interest expense. 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. The University entered into the bond refunding with the goal to achieve cost savings primarily through the reduction of interest expense. There was an economic gain (difference between the present value of the old and new debt service payments) of \$704,998.

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**Notes to the Financial Statements - Continued**

**June 30, 2014 and 2013**

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 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. The University entered into the bond refunding with the goal to achieve cost savings primarily through the reduction of interest expense. 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. The University entered into the bond refunding with the goal to achieve cost savings primarily through the reduction of interest expense. There was an economic gain (difference between the present value of the old and new debt service payments) of \$1,033,774.

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>
Years ending June 30:					
2015	\$ 8,132,390	\$	10,870,570	\$	19,002,960
2016	8,436,085		10,563,593		18,999,678
2017	8,766,560		10,225,525		18,992,085
2018	9,142,283		9,860,995		19,003,278
2019	9,523,006		9,482,074		19,005,080
2020-2024	54,342,053		40,732,590		95,074,643
2025-2029	60,185,000		26,413,778		86,598,778
2030-2034	45,010,000		11,627,963		56,637,963
2035-2039	18,160,000		3,110,813		21,270,813
2040-2041	5,495,000		278,125		5,773,125
	<u>\$ 227,192,377</u>	<u>\$</u>	<u>133,166,026</u>	<u>\$</u>	<u>360,358,403</u>

**UNIVERSITY OF RHODE ISLAND**  
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**Notes to the Financial Statements - Continued**

**June 30, 2014 and 2013**

Note 9 - **Long-Term Liabilities – Continued**

*Bonds Payable – Continued*

Interest costs on all debt for the years ended June 30, 2014 and 2013 were \$11,626,312 and \$12,430,406, respectively. Of these amounts, \$0 and \$409,839 were capitalized in 2014 and 2013, respectively.

*Due to Primary Government -Certificate of Participation (COP) Energy Conservation*

The Certificate of Participation consists of the following:

Principal and interest on Certificate of Participation (COP) for the next five years and in subsequent five-year periods are as follows:

	<u>Principal</u>		<u>Interest</u>		<u>Total</u>
Years ending June 30:					
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	2,290,000		431,825		2,721,825
2020-2024	5,970,000		868,250		6,838,250
2025-2029	1,400,000		94,650		1,494,650
	<u>\$ 17,305,000</u>	<u>\$</u>	<u>3,947,687</u>	<u>\$</u>	<u>21,252,687</u>

*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.

**UNIVERSITY OF RHODE ISLAND**  
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**Notes to the Financial Statements - Continued**

**June 30, 2014 and 2013**

Note 9 - **Long-Term Liabilities – Continued**

*Loans Payable – Continued*

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 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>
Years ending June 30:			
2015	\$ 193,771	\$ 44,507	\$ 238,278
2016	182,441	37,007	219,448
2017	103,497	32,072	135,569
2018	84,851	28,741	113,592
2019	88,387	25,205	113,592
2020-2024	365,509	64,861	430,370
2025	21,305	213	21,518
	<u>\$ 1,039,761</u>	<u>\$ 232,606</u>	<u>\$ 1,272,367</u>

**UNIVERSITY OF RHODE ISLAND**  
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**Notes to the Financial Statements - Continued**

**June 30, 2014 and 2013**

Note 9 - **Long-Term Liabilities – Continued**

*Lease Obligations*

Steam generation plant

In 1998 the University entered into an agreement for the construction of a steam generating plant including a twenty year agreement for the purchase of steam. Under the terms of the agreement, the seller is required to supply the University with 320,000,000 pounds of steam annually and is responsible for certain costs related to operating and maintaining the steam/condensate distribution system.

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 charge 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.

The Rhode Island Economic Development Corporation (“RIEDC”) issued the Rhode Island Economic Development Corporation Revenue Bonds (University of Rhode Island Steam Facility Project) Series 1999 in the amount of \$16,395,000 to fund the construction of the steam plant. The Indenture Agreement covering the bond issue requires the debt service be paid by the University, based on 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.

Hardware

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 University purchased 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.

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

**Notes to the Financial Statements - Continued**

**June 30, 2014 and 2013**

Note 9 - **Long-Term Liabilities – Continued**

*Lease Obligations – Continued*

Hardware – Continued

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 University purchased 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.

Future Minimum Payments

The following schedule summarizes future minimum payments under all non-cancelable leases:

	<u>Principal</u>		<u>Interest</u>		<u>Total</u>
Years ending June 30:					
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		181,000		1,296,000
2019	1,175,000		121,000		1,296,000
2020	1,230,000		25,625		1,255,625
	<u>\$ 6,565,000</u>	\$	<u>1,170,625</u>	\$	<u>7,735,625</u>

**UNIVERSITY OF RHODE ISLAND**  
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**Notes to the Financial Statements - Continued**

**June 30, 2014 and 2013**

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:

	2014		2013
Restricted – expendable:			
Student loans	\$ 3,020,436	\$	3,003,808
Capital programs	44,239		229,117
	\$ 3,064,675	\$	3,232,925

Note 11 - **Unrestricted Net Position**

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

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 extended period of time through a system of monitoring wells. The University shares fiscal responsibility with the towns of South Kingstown and Narragansett. The University has accrued a liability of \$794,000 relating to the remediation project, operation and maintenance costs, and site reviews. The related costs for 2014 and 2013 were \$94,564 and \$72,489, respectively.

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

**Notes to the Financial Statements - Continued**

**June 30, 2014 and 2013**

Note 12 - **Contingencies – Continued**

*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, 2014 and 2013, the University is a guarantor of loans to fraternities and sororities in the amount of \$185,464 and \$200,000, 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.

Note 13 - **Operating Expenses**

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

	<u>2014</u>	<u>2013</u>
Compensation and benefits	\$ <b>284,002,172</b>	\$ 271,939,890
Supplies and services	<b>130,575,029</b>	124,313,448
Depreciation	<b>29,933,340</b>	27,045,215
Scholarships and fellowships	<b>25,810,714</b>	26,126,839
	<u>\$ <b>470,321,255</b></u>	<u>\$ 449,425,392</u>



**UNIVERSITY OF RHODE ISLAND**  
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**Notes to the Financial Statements - Continued**

**June 30, 2014 and 2013**

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 Postsecondary 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 2014, the State reserved 3.0% of its general revenues to fund a Budget Reserve and Cash Stabilization 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.

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

	<u>2014</u>	<u>2013</u>
Asset Protection	\$ 7,357,500	\$ 9,404,000
Fire and Safety Protection	5,238,268	-
New Chemistry Building	682,510	317,489
Nursing & Assoc Health Building	483,286	-
Biotechnology Center	89,120	1,620,679
Fine Arts Center	55,232	344,769
	<u>\$ 13,905,916</u>	<u>\$ 11,686,937</u>

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

**Notes to the Financial Statements - Continued**

**June 30, 2014 and 2013**

Note 14 - **State Appropriation – Continued**

*State Contributed Capital*

In November 2004, Rhode Island voters approved the issuance of \$114 million General Obligation Bonds to fund improvements for higher education facilities. The bonds provided 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 year 2013, the University spent \$125,000.

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 2014 and 2013 the University spent \$753,000 and \$3.7 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 for the construction of the Chemistry Building. During fiscal years 2014 and 2013, the University spent \$7.5 million and \$9,600, respectively.

The expenditures funded from the proceeds of the above-mentioned general obligation bonds and capitalized as fixed assets during fiscal years 2014 and 2013 totaled \$8.3 million and \$3.8 million, respectively.

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

	<b>2014</b>	2013
Direct Appropriations	\$ <b>64,987,247</b>	\$ 58,859,376
State Capital Plan Funds	<b>13,905,916</b>	11,686,937
State Contributed Capital	<b>9,372,962</b>	3,889,615
	<b>\$ 88,266,125</b>	\$ 74,435,928

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

**UNIVERSITY OF RHODE ISLAND**  
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**Notes to the Financial Statements - Continued**

**June 30, 2014 and 2013**

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 the Variable Annuity Life Insurance Company retirement plan. The Board establishes and amends contribution rates. Eligible employees must contribute at least 5% of their gross biweekly earnings. These contributions may be made on a pre-tax basis.

Funding Policy

The University contributes 9% of the employee's gross biweekly earnings. Total expenditures by the University for such 403(b) annuity contracts amounted to \$10,488,027, \$9,747,543, and \$9,855,328 during 2014, 2013 and 2012, respectively. The employee contribution amounted to \$5,826,682, \$5,415,302 and \$5,475,182, during 2014, 2013, and 2012, respectively.

*State of Rhode Island Employees Retirement System (ERS)*

The State administered retirement system includes both defined benefit and defined contribution plan components.

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

**Notes to the Financial Statements - Continued**

**June 30, 2014 and 2013**

Note 15 - **Pension and Retirement Plans – Continued**

*State of Rhode Island Employees Retirement System (ERS) – Continued*

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). Under a cost sharing plan, pension obligations for employees of all employers are pooled and plan assets are available to pay the benefits of the employees of any participating employer providing pension benefits through the plan, regardless of the status of the employers' payment of its pension obligation to the plan. 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.

Funding Policy

The funding policy, as set forth in the General Laws, Section 36-10-2, provides for actuarially determined periodic contributions to the plan. University employees 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 23.05% of annual covered payroll for the fiscal year ended June 30, 2014. The University contributed \$8,543,841, \$8,030,413 and \$9,007,291 for the fiscal years ended June 30, 2014, 2013 and 2012, respectively, equal to 100% of the required contributions for each year.

New Accounting Guidance Effective For Fiscal 2015

GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, is effective for fiscal 2015 and is applicable for employees participating in a cost-sharing multiple employer plan such as ERS. The University will be required to restate beginning net position as of July 1, 2014 to recognize the employer's proportionate share of the plan's net pension obligation. Pension expense reported in the University financial statements will reflect the change in the net pension liability for the fiscal year.

**UNIVERSITY OF RHODE ISLAND**  
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**Notes to the Financial Statements - Continued**

**June 30, 2014 and 2013**

Note 15 - **Pension and Retirement Plans – Continued**

*State of Rhode Island Employees Retirement System (ERS) – Continued*

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 \$371,795 and \$349,452 for the fiscal years ended June 30, 2014 and 2013, respectively, equal to 100% of the required contributions for that year. 2013 was the first year of the defined contribution plan.

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, 2014 and 2013**

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

**Notes to the Financial Statements - Continued**

**June 30, 2014 and 2013**

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 2014 was 7.07% 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 years ended June 30, 2014, 2013 and 2012 were \$2,605,300, \$2,583,051 and \$2,615,084, respectively, which represents 100% of the ARC.

*Rhode Island Board of Education Health Care Insurance Retirement Program*

Plan Description

The University contributes 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 the University of Rhode Island.

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

**Notes to the Financial Statements - Continued**

**June 30, 2014 and 2013**

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 years 2012 and 2013 was 2.69%, and in 2014 was 2.30% of payroll covered by the Board Plan. Active employees contribute 0.9% 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 \$1,112,874, \$1,221,171 and \$1,239,082, and active employees contributed 0.9% of covered payroll of \$421,172, \$408,570 and \$414,563 during 2014, 2013 and 2012, 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**  
**(a Component Unit of the State of Rhode Island and Providence Plantations)**

**Notes to the Financial Statements - Continued**

**June 30, 2014 and 2013**

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 2014 and 2013 share of capital expenditures amounted to \$52,172 and \$51,709, 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 \$719,936 in 2014 and \$647,596 in 2013. 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 \$95,109,305 and \$99,042,505 during fiscal 2014 and 2013, 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 Compliance and on Internal Control  
Over Financial Reporting and 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 of  
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, 2014 and 2013, 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 of Rhode Island's basic financial statements and have issued our report thereon dated September 30, 2014. 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 the 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 audits 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.

*O'Connor and Drew, P.C.*

**Certified Public Accountants**

**Braintree, Massachusetts**

September 30, 2014