

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

FINANCIAL STATEMENTS

JUNE 30, 2016

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

Financial Statements

June 30, 2016

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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 statement of net position for the year ended June 30, 2016, the related statements of revenues and expenses, change in net position and cash flow for the year 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 the University Rhode Island's financial statements, a component unit of the University, as of and for the year ended June 30, 2016.

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 audit. We did not audit the financial statements of the University of Rhode Island Foundation, Inc. (the "Foundation") as of June 30, 2016. This was 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, 2016, and the respective changes in net position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that management's discussion and analysis on pages 4-26, the schedule of the University's proportionate share of the net pension liability on page 76, the schedule of the University's contributions on page 77 and the notes to the required supplementary information on page 78 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 October 6, 2016, 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 Duen, P.C.

**Certified Public Accountants
Braintree, Massachusetts**

October 6, 2016

UNIVERSITY OF RHODE ISLAND

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

Management's Discussion and Analysis (Unaudited)

June 30, 2016

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, 2016 and the results of operations for the year then ended, with selected comparative information for the year ended June 30, 2015. 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, 2016

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

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, 2016

Introduction – Continued

The University has a combined enrollment of 16,831 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, 2016 shows a decrease in net position before capital appropriations and gifts of \$15.18 million, compared to an increase of \$6.18 million in fiscal year 2015. Although there was a \$5.69 million or 1.41% increase in operating revenue there was a \$29.77 million or 6.4% increase in operating expenses. Factors contributing to this increase in expenses were increases in salary and benefits as well as an increase in scholarships.

UNIVERSITY OF RHODE ISLAND

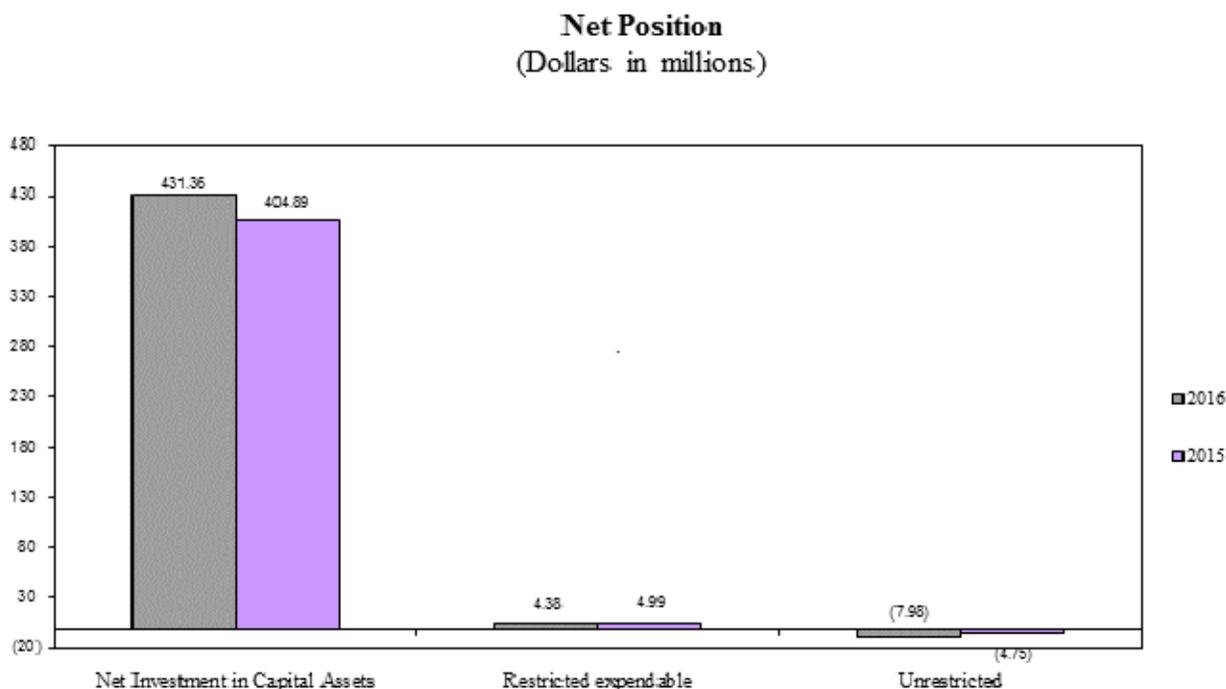
(a Component Unit of the State of Rhode Island and Providence Plantations)

Management's Discussion and Analysis (Unaudited) - Continued

June 30, 2016

Financial Highlights – Continued

The following chart displays the components of the University's net position for the fiscal years ended June 30, 2016 and 2015.



On June 30, 2016 and 2015, the University's total assets of \$861.63 million, and \$839.78 million, exceeded its total liabilities of \$ 441.77 million and \$434.74 million resulting in net position of \$427.76 million, and \$405.13 million, respectively. The resulting net position is summarized in the following categories (dollars in millions):

	2016	2015
Net Investment in Capital Assets	\$ 431.36	404.89
Restricted expendable	4.38	4.99
Unrestricted	(7.98)	(4.75)
Total net position	\$ 427.76	405.13

UNIVERSITY OF RHODE ISLAND

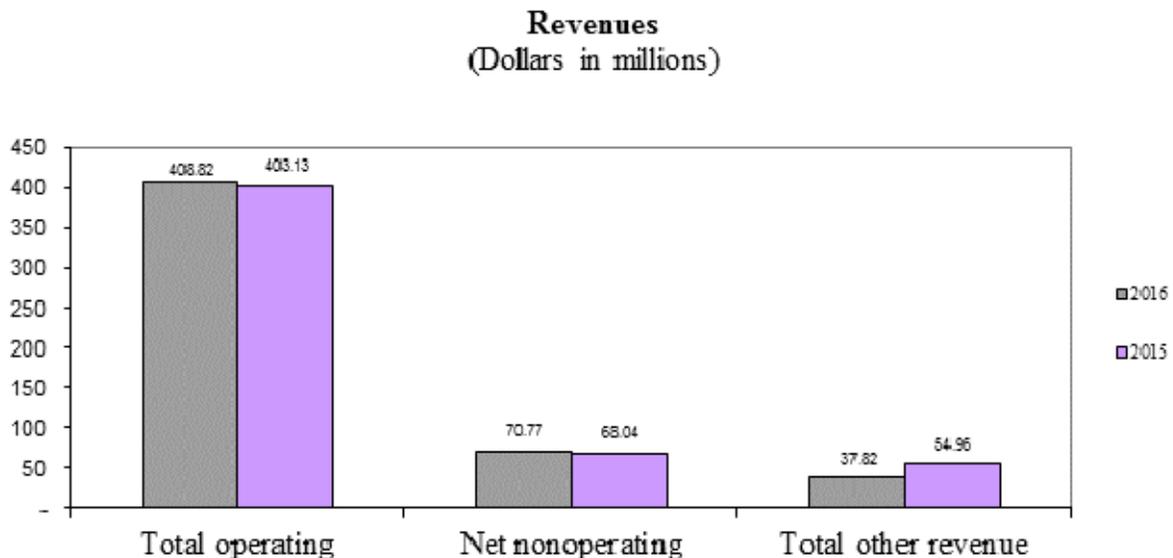
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Management's Discussion and Analysis (Unaudited) - Continued

June 30, 2016

Financial Highlights – Continued

The following chart provides a graphical breakdown of total revenues by category for the fiscal years ending June 30, 2016 and 2015.



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.

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, 2016

Overview of the Financial Statements – Continued

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.

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

The Financial Statements

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

The *Statements of Net 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).

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, 2016

The Financial Statements – Continued

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 27 to 30 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.

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 31 to 74 of this report.

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, 2016

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 \$427.76 million and \$405.13 million at the close of fiscal years 2016 and 2015.

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

	<u>2016</u>	<u>2015</u>
Current assets	\$ 176.92	170.28
Noncurrent assets	684.71	669.50
Total assets	\$ 861.63	839.78
Deferred outflows of resources	15.89	8.87
Total assets and deferred outflows of resources	\$ 877.52	848.65
Current liabilities	78.06	72.62
Noncurrent liabilities	363.71	362.12
Total liabilities	\$ 441.77	434.74
Deferred inflows of resources	7.99	8.78
Total liabilities and deferred inflows of resources	\$ 449.76	443.52
Net position:		
Net investment in capital assets	\$ 431.36	404.89
Restricted, expendable	4.38	4.99
Unrestricted	(7.98)	(4.75)
Total net position	\$ 427.76	405.13

UNIVERSITY OF RHODE ISLAND

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Management's Discussion and Analysis (Unaudited) - Continued

June 30, 2016

Financial Analysis - Continued

By far the largest portion of the University's net position, \$431.36 million and \$404.89 million, as of June 30, 2016 and 2015, 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 100% for both FY 2016 and 2015 net position. 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 position consist of resources that are subject to external restrictions on how they must be used, and they represent approximately 1% of the University's net position at June 30, 2016 and 2015.

Net position that are not subject to restrictions imposed by creditors, grantors, contributors, laws, regulations or enabling legislation are classified as unrestricted net position. As of June 30, 2016 and 2015, the University's unrestricted net position represent (2 %) and (1%), 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: 2.27 to 1 and 2.34 to 1 as of June 30, 2016 and 2015, 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, 2016

Financial Analysis - Continued

One of the components of the University's noncurrent assets are the funds on deposit with the bond trustee totaling \$16.54 million and \$19.00 million as of June 30, 2016 and 2015. The majority of the bond proceeds were from the 2009 A Bonds for \$1.94 million for utility upgrades, 2009 B Bonds for \$9.88 million for fire protection, 2010 A Bonds for \$6.06 million for the repaving and reconstruction of major parking facilities.

During fiscal years 2016 and 2015, the University's net position increased by \$22.63 million and \$61.15 million respectively, which is largely due to capital and private funds received. During fiscal year 2015 the University implemented GASB 68, *Accounting and Financial Reporting for Pensions*. This standard improves the reporting of pension liabilities and expenses shown on the financial statements. The total amount of pension benefits that have been earned by current and previous employees are reflected on the statement of net position in the long term liabilities. The University closed fiscal years 2016 with negative unrestricted net position of \$7.98 million, compared to a negative unrestricted net position of \$4.75 million, for fiscal year 2015.

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, 2016

Financial Analysis - Continued

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

	<u>2016</u>	<u>2015</u>
Operating revenues:		
Tuition and fees, net of tuition waivers and remissions	\$ 272.14	261.62
Operating grants and contributions	92.53	95.08
Other sources	44.15	46.43
Total operating revenues	<u>408.82</u>	<u>403.13</u>
Operating expenses:		
Salaries and benefits	301.23	281.39
Operating expenses	54.46	52.17
Scholarships, grants and contracts	27.56	26.11
Auxiliaries	78.86	74.44
Depreciation	32.66	30.88
Total operating expenses	<u>494.77</u>	<u>464.99</u>
Net operating loss	<u>(85.95)</u>	<u>(61.86)</u>
Nonoperating revenues (expenses):		
State appropriation	72.22	69.92
Net investment income	0.45	0.34
Private gifts	8.90	9.02
Interest expense	(10.80)	(11.24)
Total nonoperating revenues	<u>70.77</u>	<u>68.04</u>
Income (loss) before other revenues, expenses, gains or losses	<u>(15.18)</u>	<u>6.18</u>
Capital appropriations	18.35	14.11
State contributed capital	16.28	39.92
Capital gifts	3.19	0.93
Increase in net assets	<u>22.64</u>	<u>61.14</u>
Net position – beginning of year	405.12	445.67
Adjustments to beginning net position	-	(101.69)
Net position – ending of year	<u>\$ 427.76</u>	<u>405.12</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, 2016

Operating Revenues

The total operating revenues increased by \$5.69 million or 1.4 % in fiscal year 2016, compared to an increase of \$4.03 million or 1.0% in fiscal year 2015. The increase in 2016 is largely attributable to an increase in out of state tuition of \$780 and an increase in out of state students of 161. The University also started an online registered nurse to Bachelor of Science - nursing program (RN to BS), as well as an online nutrition program. The technology fee also increase by 75%.

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

	<u>2016</u>	<u>2015</u>
Tuition	\$ 278.27	267.38
Student service fees	21.43	20.41
Health service fees	6.68	6.67
Housing fees	39.59	37.91
Dining service fees	19.55	19.67
Miscellaneous student fees	2.92	2.98
Total	<u>368.44</u>	<u>355.02</u>
Tuition waived or remitted	<u>(96.30)</u>	<u>(93.40)</u>
Net	<u>\$ 272.14</u>	<u>261.62</u>

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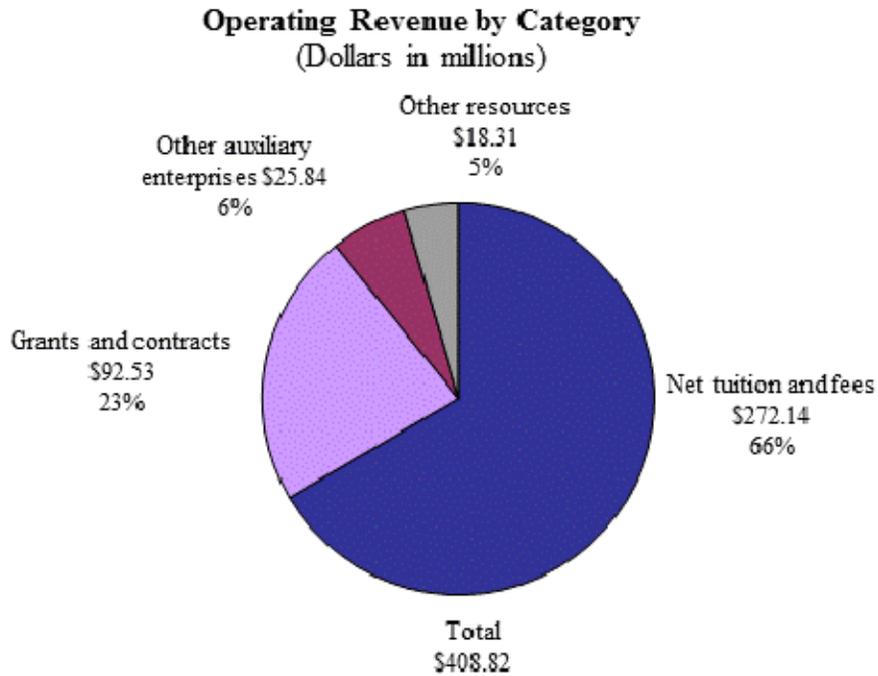
(a Component Unit of the State of Rhode Island and Providence Plantations)

Management's Discussion and Analysis (Unaudited) - Continued

June 30, 2016

Operating Revenues - Continued

The following provides a graphical breakdown of operating revenues by category for the year ended June 30, 2016.



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

Management’s Discussion and Analysis (Unaudited) - Continued

June 30, 2016

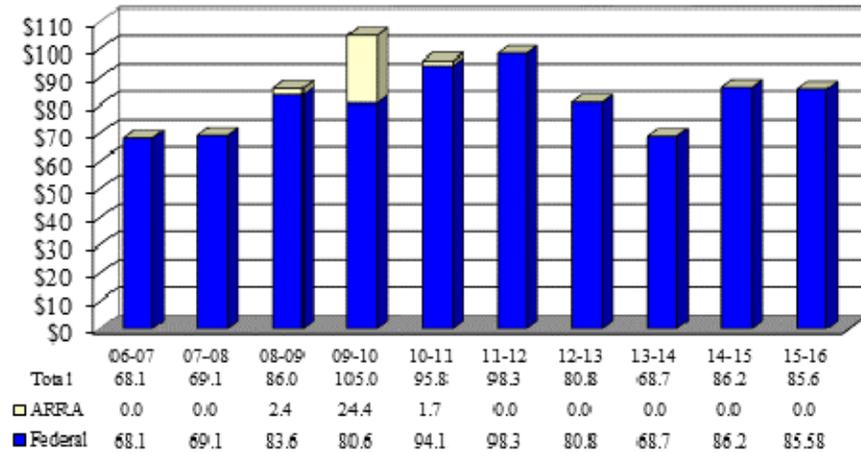
Grant and Contract Revenue

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 \$68.1 million in 2007 to \$85.6 million in 2016 or a 26% 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

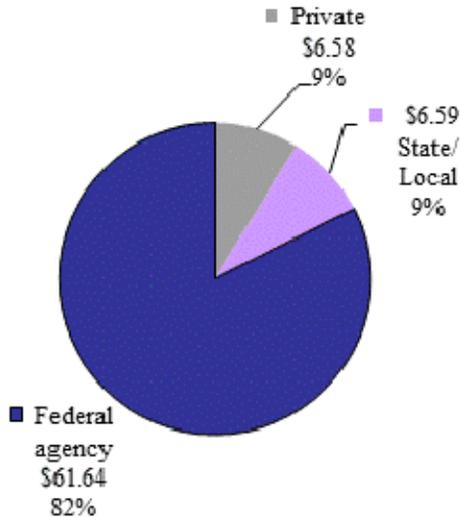
(a Component Unit of the State of Rhode Island and Providence Plantations)

Management's Discussion and Analysis (Unaudited) - Continued

June 30, 2016

Grant and Contract Revenue - Continued

The following summary shows the breakdown of grants received from sponsoring agencies during fiscal 2016, with a pie chart for federal and nonfederal awards (dollars in millions).



<u>Agency</u>	<u>Award</u>
Department of Health and Human Services	\$ 15.35
National Science Foundation	14.49
Agency for International Development	7.36
Department of Agriculture	6.48
Department of Defense	5.82
Other agencies	4.24
Department of Interior	3.67
National Oceanic and Atmospheric Admin	3.26
Department of Energy	0.97
Federal agency	61.64
State/Local	6.59
Private	6.58
Total	<u>\$ 74.81</u>

Operating Expenses

The operating expenses for fiscal years 2016 and 2015 totaled \$494.77 million and \$464.99 million, which represent a change from prior year of an increase of \$29.78 million or an increase of 6.40%. The increase in expenses relates to increases in salaries and benefits as well as an increase in scholarships.

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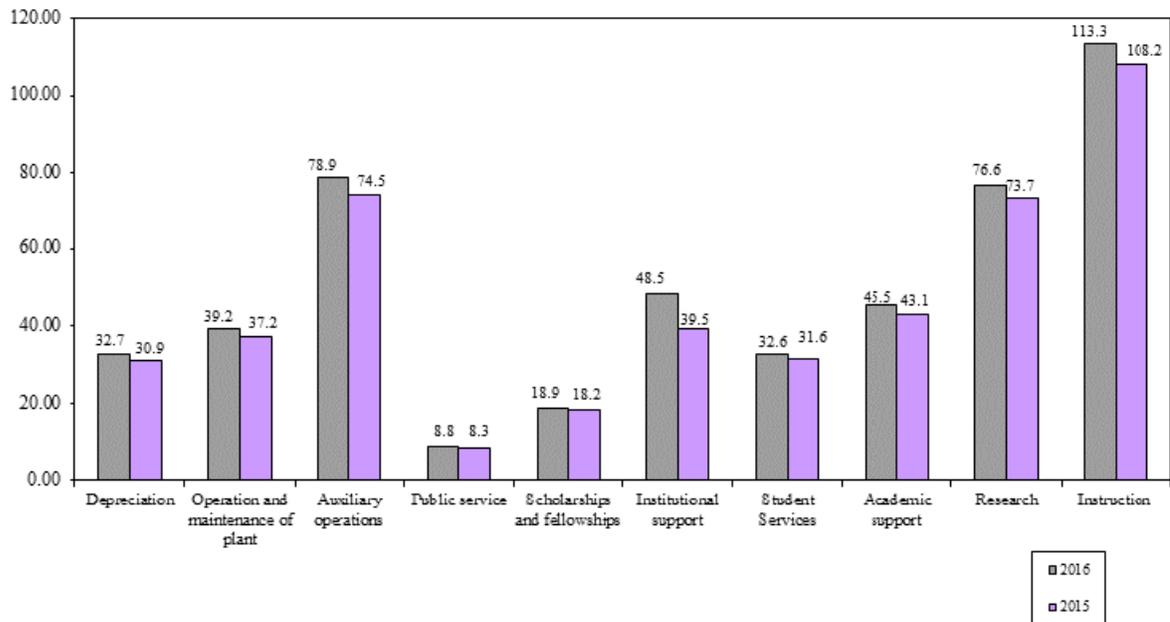
Management's Discussion and Analysis (Unaudited) - Continued

June 30, 2016

Operating Expenses - Continued

The bar chart below illustrates the University's operating expenses by function for the fiscal years ended June 30, 2016 and 2015, 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, 2016

Operating Expenses - Continued

The following summary shows where major grant and contract expenditures, including indirect cost charges, occurred during 2016 and 2015 (dollars in millions):

Agency	Amount	
	2016	2015
Department of Health and Human Services	\$ 15.35	18.98
National Science Foundation	14.49	15.87
Agency for International Development	7.36	5.34
Department of Agriculture	6.48	5.45
Department of Defense	5.82	6.02
Department of Interior	3.67	3.27
National Oceanic and Atmospheric Administration	3.26	4.28
Other Federal Agencies	2.60	1.77
Department of Energy	0.97	1.98
Department of Homeland Security	0.82	0.51
National Aeronautic and Space Administration	0.56	0.73
Environmental Protection Agency	0.25	0.26
Department of Education	0.01	0.17

Nonoperating Revenues and Expenses

The State's unrestricted appropriation is the largest component of the University's nonoperating revenues. The amount requested for fiscal 2016 was \$75.37 million. However, the amount appropriated by the State was \$72.22 million resulting in an appropriation for fiscal 2016 that was \$3.15 million 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, 2016

Nonoperating Revenues and Expenses - Continued

The University has a long tradition of using the state appropriation to support its operating expenses. During fiscal years 2016 and 2015, the University received state appropriations of \$72.22 million and \$69.92 million, which combined with operating revenue, was not sufficient to cover operating expenses in excess of \$13.73 in fiscal 2016 compared to an excess of \$8.06 million in fiscal 2015. The University has seen an increase in the state appropriation over the past few years, although it is still significantly less than what was received ten years ago by approximately \$ 11 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, 55% in fiscal years 2016, 56% in 2015. A summary of net income after state appropriation is presented below (dollars in millions).

	<u>2016</u>	<u>2015</u>
Net student fees	\$ 272.14	261.62
Other operating revenue	136.68	141.51
Operating expenses	<u>(494.77)</u>	<u>(464.99)</u>
Operating loss	(85.95)	(61.86)
State direct appropriations	<u>72.22</u>	<u>69.92</u>
Net income after state appropriation	<u>\$ (13.73)</u>	<u>8.06</u>

UNIVERSITY OF RHODE ISLAND

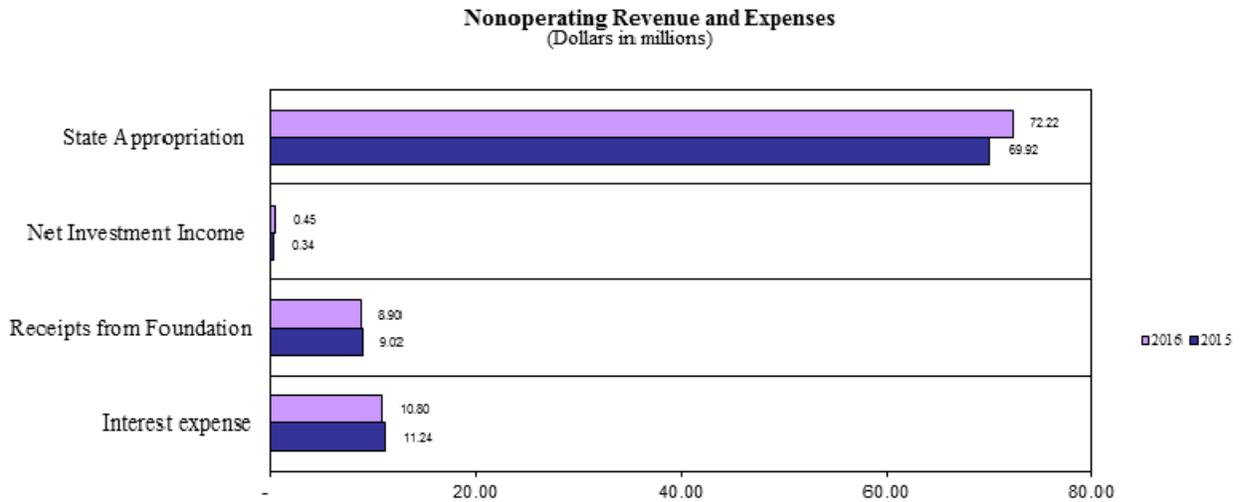
(a Component Unit of the State of Rhode Island and Providence Plantations)

Management's Discussion and Analysis (Unaudited) - Continued

June 30, 2016

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, 2016

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 2017-2021 for the University totals \$913.2 million, and it includes all continuing and planned projects, whether funded or not. This plan forms the basis for discussions on funding the various projects from all available funding sources.

Capital Assets

The University's investment in capital assets as of June 30, 2016 and 2015 net of accumulated depreciation, amounts to \$652.51 million and \$637.04 million, respectively. This investment in capital assets includes land, buildings (including improvements), and furnishings and equipment (including capital leases). Capital assets increased during fiscal 2016 by \$15.47 million and by \$38.65 million in fiscal 2015. 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, 2016 and 2015 is presented below (dollars in millions).

	<u>2016</u>	<u>2015</u>
Land and improvements	\$ 39.35	40.46
Major capital additions to building and improvements	567.70	492.48
Furnishings and equipment	28.95	28.07
Construction in progress	16.51	76.03
Total	<u>\$ 652.51</u>	<u>637.04</u>

Major capital additions in fiscal 2016 included completion of the Chemistry Building (\$75 million). The new chemistry building, the Beaupre Center, which houses the URI Department of Chemistry, including its undergraduate, master's and doctoral programs, as well a federal Center of Excellence for Explosives Detection, Mitigation and Response, triples the amount of space for teaching labs and nearly doubles the space for research laboratories, with 14 teaching laboratories and 18 faculty research labs.

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

UNIVERSITY OF RHODE ISLAND

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

Management's Discussion and Analysis (Unaudited) - Continued

June 30, 2016

Capital Assets and Debt Administration - Continued

Debt

As of June 30, 2016 and 2015 the University had \$229.70 million and \$247.08 million, respectively, in outstanding debt, a decrease of \$17.38 million in 2016 and \$11.67 million in 2015. The table below summarizes the types of debt instruments (dollars in millions).

	<u>2016</u>	<u>2015</u>
Loans payable	\$ 0.71	0.81
Capital lease obligations	4.62	5.65
Due to Primary Government	13.75	15.59
Revenue bonds	<u>215.92</u>	<u>225.03</u>
Total	<u>\$ 235.00</u>	<u>247.08</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, 2016, the University of Rhode Island general revenue bonds are rated by Moody's as Aa3 and Standard and Poor's rating services have given rates of A+.

The University implemented GASB 68, *Accounting and Financial Reporting for Pensions* in fiscal 2015, the pension liability as of June 30, 2016 and 2015 was \$113.01 million and \$100.31 million, respectively. More detailed information about the University's long-term liabilities is presented in note 8 and 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, 2016

Economic Factors that Will Affect the Future

The seasonally adjusted unemployment rate for the State of Rhode Island, from which the University draws a majority of its students, decreased from 5.9% in June of 2015 to 5.5% in June of 2016, according to the U.S. Bureau of Labor Statistics. This compares to a steady rate of 4.9% in June 2016, and 5.3% in June 2015, 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.

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:

- In Fiscal 2016 there was an increase in Tuition 2.2% in state and 2.5% out of state. Standard fees increased 6.5%. Room and board increased 3.3%
- In Fiscal 2017; there will be no increase in student tuition.
- New state of the art Nursing Education Center where URI and Rhode Island College will share facilities, including high-technology classrooms, seminar room, and lecture halls, as well as a state-of-the-art "Simulation Center". This new space will increase the capacity of baccalaureate and master's degree graduates. The Nursing Education Center is expected to be open January 2017.
- \$125 million bond referendum passed to build a new 195,000 square foot Engineering building. This will replace five existing engineering buildings on the Kingston campus which were all opened in the late 1950s and early 1960s. This is scheduled to open September 2019.

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, 2016

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: Office of the Vice President for Administration and Finance, University of Rhode Island, Carloti 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)

Statement of Net Position

June 30, 2016

Assets and Deferred Outflows of Resources

	University of Rhode Island	Component units
Current Assets:		
Cash and equivalents (Note 2)	\$ 129,783,294	\$ 11,741,639
Cash held by State Treasurer (Note 3)	421,029	-
Accounts receivable, net (Note 4)	36,734,022	189,214
Due from primary government	4,761,035	-
Current portion of pledges receivable	-	10,863,033
Current portion of notes receivable	-	2,211,707
Inventory and other current assets	<u>5,221,985</u>	<u>128,288</u>
Total Current Assets	<u>176,921,365</u>	<u>25,133,881</u>
Noncurrent Assets:		
Cash and equivalents – restricted (Note 2)	1,749,739	-
Funds on deposit with bond trustee	16,537,036	-
Investments (Note 2)	1,936,000	136,769,307
Pledges receivable, net of current portion	-	9,092,581
Loans receivable, net (Note 5)	11,974,534	34,652
Charitable remainder trusts	-	369,753
Capital assets, net of accumulated depreciation (Note 6)	<u>652,511,562</u>	<u>1,859,121</u>
Total Noncurrent Assets	<u>684,708,871</u>	<u>148,125,414</u>
Total Assets	<u>861,630,236</u>	<u>173,259,295</u>
Deferred Outflows of Resources:		
Changes in proportion and differences between employer contributions and proportionate share of contributions	928,569	-
Contributions made after measurement date	<u>9,223,974</u>	<u>-</u>
Total Deferred Outflows of Resources	<u>10,152,543</u>	<u>-</u>
<u>Liabilities, Deferred Inflows of Resources and Net Position</u>		
Current Liabilities:		
Accounts payable and accrued liabilities	46,331,438	919,487
Compensated absences (Note 8)	1,095,877	-
Funds held for others	1,506,534	-
Unearned revenue	16,511,421	39,654
Current portion of capital lease obligations (Note 8)	1,082,722	-
Current portion of due to primary government (Note 8)	1,970,000	-
Current portion of bonds and loans payable (Note 8)	9,563,980	1,516,679
Current portion of gift annuity payable	<u>-</u>	<u>80,000</u>
Total Current Liabilities	<u>78,061,972</u>	<u>2,555,820</u>
Noncurrent Liabilities:		
Compensated absences (Note 8)	17,081,656	-
Capital lease obligations (Note 8)	3,538,197	-
Due to primary government (Note 8)	11,780,000	-
Bonds and loans payable (Note 8)	207,068,854	-
Gift annuity payable	-	589,803
Grant refundable (Note 8)	11,229,033	-
Net pension liability (Note 9)	<u>113,015,599</u>	<u>-</u>
Total Noncurrent Liabilities	<u>363,713,339</u>	<u>589,803</u>
Total Liabilities	<u>441,775,311</u>	<u>3,145,623</u>
Deferred Inflows of Resources:		
Differences between expected and actual experience	1,307,475	-
Change in plan actuarial assumptions	850,303	-
Net difference between expected and actual earnings on pension plan investments	<u>93,018</u>	<u>-</u>
Total Deferred Inflows of Resources	<u>2,250,796</u>	<u>-</u>
Net Position:		
Net investment in capital assets	431,360,178	1,859,121
Restricted:		
Expendable (Note 11)	4,377,972	70,481,426
Nonexpendable	-	87,263,541
Unrestricted	<u>(7,981,478)</u>	<u>10,509,584</u>
Total Net Position	<u>\$ 427,756,672</u>	<u>\$ 170,113,672</u>

See accompanying notes to the financial statements.

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

Statement of Revenues and Expenses and Changes in Net Position

For the Year Ended June 30, 2016

	University of Rhode Island	Component units
Operating Revenues:		
Tuition and fees	\$ 290,846,736	\$ -
Residence, dining, student union, and health fees	77,593,123	-
Less scholarship allowances	(96,302,282)	-
Net Student Fees	272,137,577	-
Federal, state, local, and private grants and contracts	92,534,864	-
Other auxiliary enterprises	25,844,652	-
Other sources	18,297,967	4,854,532
Total Operating Revenues	408,815,060	4,854,532
Operating Expenses (Note 13):		
Instruction	113,312,832	-
Research	76,575,704	-
Academic support	45,464,221	-
Student services	32,579,012	2,238,373
Scholarships and fellowships	18,867,363	-
Public service	8,751,977	-
Operation and maintenance of plant	39,200,805	405,942
Depreciation	32,662,294	88,014
Institutional support	48,497,447	5,237,718
Auxiliary operations	78,855,069	-
Total Operating Expenses	494,766,724	7,970,047
Net Operating Loss	(85,951,664)	(3,115,515)
Nonoperating Revenues (Expenses):		
State appropriation (Note 14)	72,216,182	-
Net investment income	454,278	173,900
Endowment income	-	(5,998,627)
Private gifts and contributions	-	12,131,021
Payments from component units	8,896,234	(10,473,928)
Additions to permanent endowments	-	3,012,578
Miscellaneous receipts	-	791,959
Interest expense	(10,799,016)	-
Net Nonoperating Revenues (Expenses)	70,767,678	(363,097)
Decrease in Net Position Before Capital Contributions	(15,183,986)	(3,478,612)
Capital Contributions:		
Capital appropriations (Note 14)	34,627,213	-
Capital gifts	3,184,791	(3,184,791)
Increase (Decrease) in Net Position	22,628,018	(6,663,403)
Net Position, Beginning of Year	405,128,654	176,777,075
Net Position, End of Year	\$ 427,756,672	\$ 170,113,672

See accompanying notes to the financial statements.

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

Statement of Cash Flows

For the Year Ended June 30, 2016

	<u>University of Rhode Island</u>
Cash Flows From Operating Activities:	
Tuition and fees	\$ 271,652,984
Federal, state, local, and private grants	94,048,845
Payments to suppliers	(132,340,723)
Payments to employees	(292,780,148)
Payments for scholarships, fellowships, and sponsored programs	(27,562,568)
Other auxiliary enterprises	26,118,161
Other sources	<u>20,108,790</u>
Net Cash Applied to Operating Activities	<u>(40,754,659)</u>
Cash Flows from Noncapital Financing Activities:	
State appropriations	72,216,182
Payments from component units	8,896,234
Funds held for others	<u>(176,759)</u>
Net Cash Provided by Noncapital Financing Activities	<u>80,935,657</u>
Cash Flows from Capital and Related Financing Activities:	
Capital appropriations	34,627,213
Capital gifts	3,184,791
Purchase of capital assets	(48,406,567)
Proceeds from issuance of loans	131,757
Principal paid on capital debt and leases	(12,211,419)
Interest paid on capital debt and leases	(10,799,016)
Return of deposit from trustee	<u>2,457,993</u>
Net Cash Applied to Capital and Related Financing Activities	<u>(31,015,248)</u>
Cash Flows from Investing Activity:	
Net investment income	<u>454,278</u>
Net Increase in Cash and Equivalents	9,620,028
Cash and Equivalents, Beginning of the Year	<u>122,334,034</u>
Cash and Equivalents, End of the Year	<u>\$ 131,954,062</u>

UNIVERSITY OF RHODE ISLAND

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

Statement of Cash Flows - Continued

For the Year Ended June 30, 2016

	<u>University of Rhode Island</u>
Reconciliation of Net Operating Loss to Net Cash Applied to Operating Activities:	
Net operating loss	\$ (85,951,664)
Adjustments to reconcile net operating loss to net cash applied to operating activities:	
Depreciation	32,662,294
Loss on disposal of assets	272,852
Bad debt recovery	687,230
Net pension activity	4,887,360
Changes in assets and liabilities:	
Accounts receivable	(1,389,473)
Due from primary government	1,200,737
Inventory and other current assets	(474,542)
Loans receivable	766,998
Accounts payable and accrued liabilities	4,586,548
Compensated absences	364,063
Unearned revenue	412,464
Refundable grant	<u>1,220,474</u>
Net Cash Applied to Operating Activities	<u>\$ (40,754,659)</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, 2016

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 (the "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 Postsecondary 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.

The Rhode Island General Assembly established the 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.

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

Notes to the Financial Statements - Continued

For the Year Ended June 30, 2016

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

Organization - Continued

The legislation enlarged the BOE to seventeen (17) members in order for the BOE 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.

The mission of the BOE 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 frames 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 the council on postsecondary education that are aligned with the long-range goals adopted by the board.

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

Notes to the Financial Statements - Continued

For the Year Ended June 30, 2016

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

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 statement of revenues and expenses, and change 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

For the Year Ended June 30, 2016

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 year ended June 30, 2016, the Foundation distributed \$13,658,719 to the University for both restricted and unrestricted purposes.

During the year ended June 30, 2016, the Alumni Association distributed \$2,238,373 to the University for Scholarships and Athletic Club expenses.

As of June 30, 2016, the Component Units have a liability to the University of \$1,516,679, which is reflected in accounts payable and accrued liabilities.

The Foundation and the Alumni Association are private not-for-profit organizations that reports under FASB standards, including ASC 958-205, *Presentation of Financial Statements for Not-for-Profit Entities*, and ASC 958-605, *Revenue Recognition for Not-for-Profit Entities*. Accordingly, certain revenue recognition criteria and presentation features are different from GASB revenue recognition criteria and presentation features. No modifications have been made to the Foundation and the Alumni Association's financial information in the University's financial reporting entity for these differences.

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

Notes to the Financial Statements - Continued

For the Year Ended June 30, 2016

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

Component Units – Continued

The condensed statements of net position of the Foundation and the Alumni Association as of June 30, 2016 are as follows:

	<u>Foundation</u>	<u>Alumni Association</u>	<u>Total</u>
Current assets	\$ 22,500,522	\$ 2,633,359	\$ 25,133,881
Noncurrent assets	142,941,462	5,183,952	148,125,414
Total assets	<u>165,441,984</u>	<u>7,817,311</u>	<u>173,259,295</u>
Current liabilities	2,378,399	177,421	2,555,820
Noncurrent liabilities	589,803	-	589,803
Total liabilities	<u>2,968,202</u>	<u>177,421</u>	<u>3,145,623</u>
Net position:			
Net investment in capital assets	1,859,121	-	1,859,121
Restricted:			
Expendable	67,918,279	2,563,147	70,481,426
Nonexpendable	87,263,541	-	87,263,541
Unrestricted	5,432,841	5,076,743	10,509,584
Total net position	<u>\$ 162,473,782</u>	<u>\$ 7,639,890</u>	<u>\$ 170,113,672</u>

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

Notes to the Financial Statements - Continued

For the Year Ended June 30, 2016

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 year ended June 30, 2016 are as follows:

	Foundation	Alumni Association	Component Units
Operating Revenues:			
Other sources	\$ -	\$ 4,854,532	\$ 4,854,532
Operating Expenses:			
Student services	-	2,238,373	2,238,373
Operation and maintenance of plant	-	405,942	405,942
Depreciation	88,014	-	88,014
Institutional support	3,187,502	2,050,216	5,237,718
Total Operating Expenses	3,275,516	4,694,531	7,970,047
Net Operating Revenue (Loss)	(3,275,516)	160,001	(3,115,515)
Nonoperating Revenues (Expenses):			
Net investment income	217,157	(43,257)	173,900
Endowment income	(5,998,627)	-	(5,998,627)
Private gifts	10,755,014	1,376,007	12,131,021
Gifts to the University	(10,473,928)	-	(10,473,928)
Additions to permanent endowments	3,012,578	-	3,012,578
Miscellaneous receipts	791,959	-	791,959
Net Nonoperating Revenues	(1,695,847)	1,332,750	(363,097)
Increase in Net Position Before Capital Gifts	(4,971,363)	1,492,751	(3,478,612)
Capital Gifts	(3,184,791)	-	(3,184,791)
Increase in Net Position	(8,156,154)	1,492,751	(6,663,403)
Net Position, at Beginning of Year	170,629,936	6,147,139	176,777,075
Net Position, at End of Year	\$ 162,473,782	\$ 7,639,890	\$ 170,113,672

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

For the Year Ended June 30, 2016

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

Net Position

Resources are classified for accounting purposes into the following three 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 – 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.

Investments

The University categorizes the fair value measurements of its investments based on the hierarchy established by generally accepted accounting principles as prescribed by the GASB. The fair value hierarchy, which has three levels, is based on the valuation inputs used to measure an asset's fair value: Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. The University does not have any investments that are measured using Level 2 or 3 inputs.

Fair value measurements of the University's investments include \$1,936,000 of Level 1 corporate bonds at June 30, 2016, based on quoted market prices.

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

Notes to the Financial Statements - Continued

For the Year Ended June 30, 2016

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

Allowance for Doubtful Accounts

Accounts receivable are periodically evaluated for collectability based on past history with students. Provisions for losses on receivables are determined on the basis of loss experience, known and inherent risks in the receivables portfolio, the estimated value of underlying collateral, and current economic conditions.

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. Inventory for the year ended June 30, 2016 totaled \$4,010,415.

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.

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

Notes to the Financial Statements - Continued

For the Year Ended June 30, 2016

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

Compensated Absences and Salary Reduction Plan - Continued

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 can be received in the form of paid leave, payment at the time of separation from the University or to an employee's estate.

Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Employees' Retirement System ("ERS") and the additions to/deductions from ERS' fiduciary net position have been determined on the same basis as they are reported by ERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

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 entity 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.

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

Notes to the Financial Statements - Continued

For the Year Ended June 30, 2016

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

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 biweekly basis. Employee contributions ranged from 15% to 35% of healthcare premiums. Expenses incurred by the University for the 2016 healthcare premiums amounted to \$38,975,558. Employee contributions for the 2016 fiscal year were \$6,258,195.

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 was 4.30% for non-faculty and 3.77% for faculty. The assessed fringe benefit cost for the University was \$7,223,310 for fiscal 2016.

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.

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.

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

Notes to the Financial Statements - Continued

For the Year Ended June 30, 2016

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

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.

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 and Excess Liability Coverage with limits of \$25 million. Coverage under the General Liability Policy extends to faculty, staff, students, and volunteers acting within the scope of their duties on behalf of the University. Employed healthcare 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 covered under the Educator's Legal Liability policy which provides \$10 million of coverage to directors and officers and covers claims of discrimination, wrongful termination and failure to grant tenure. 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.

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

Notes to the Financial Statements - Continued

For the Year Ended June 30, 2016

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

Risk Management - Continued

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 the year ended June 30, 2016.

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 2015 financial statements have been reclassified to conform to the 2016 presentation.

New Government Accounting Pronouncements

GASB 80 – *Blending Requirements for Certain Component Units- an Amendment of GASB Statement No. 14* effective for periods beginning after June 15, 2016, provides additional criterion requiring blending of a component unit incorporated as a not-for-profit corporation in which the primary government is they sole corporate member. Management has not completed its review of the requirements of this standard and its applicability.

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

Notes to the Financial Statements - Continued

For the Year Ended June 30, 2016

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

New Government Accounting Pronouncements - Continued

GASB 78 – Pensions Provided Through Certain Multiple-Employer Defined Benefit Pension Plans is effective for periods beginning after December 15, 2015 and amends Statement 68 to exclude certain pensions provided to employees of state or local governments that, among other factors, are used to provide pension benefits to governmental and non-governmental employees. The Statement establishes requirements for the recognition and measurement of pension expense, expenditures, and liabilities, note disclosures and required supplementary information. Management has not yet evaluated the effects of the implementation of GASB Statement 78.

GASB 76 - The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments, supersedes similarly named Statement 55 and is effective for reporting periods beginning after June 15, 2015. The objective of this Statement is to identify, in the context of the current governmental financial reporting environment, the hierarchy of generally accepted accounting principles (“GAAP”). The hierarchy consists of the sources of accounting principles used to prepare financial statements of state and local governmental entities in conformity with GAAP and the framework for selecting those principles. GASB 76 reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and non-authoritative literature in the event that the accounting treatment of a transaction or other event is not specified within a source of authoritative GAAP. Implementation of this standard had no affect on financial position.

UNIVERSITY OF RHODE ISLAND
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Notes to the Financial Statements - Continued

For the Year Ended June 30, 2016

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

New Government Accounting Pronouncements - Continued

GASB 75 - Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions is effective for periods beginning after June 15, 2017. This Statement replaces Statement 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pension Plans* and Statement 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*. The objective of Statement 75 is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions (“OPEB”). It also requires additional information by state and local governmental employers about financial support for OPEB that is provided by other entities. The Statement establishes standards for recognizing and measuring liabilities, deferred outflows and inflows of resources, and expense/expenditures. GASB 75 also identifies the assumptions and methods that are required to be used to project benefit payments, discount projected benefit payments to their actuarial present value and attribute that present value to periods of employee service for defined benefit OPEB. Management has not yet evaluated the effects of the implementation of this Statement.

Note 2 - **Cash, Equivalents and Investments**

Cash and Equivalents

The University’s policy is in accordance with Chapter 35-10.1 of the Rhode Island General Laws dealing with the Public Finance, which states that any depository institution 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
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Notes to the Financial Statements - Continued

For the Year Ended June 30, 2016

Note 2 - **Cash, Equivalents and Investments – Continued**

Cash and Equivalents - Continued

At June 30, 2016, the carrying amount of the University's cash deposits was \$101,338,164, and the bank balance was \$102,282,515. 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, \$49,068,283 was covered by federal depository insurance, and \$40,045,091 was collateralized with securities held by the pledging financial institution in the University's name as of June 30, 2016. The remaining amount, \$13,169,141 was uninsured and uncollateralized. The insured balance reflects FDIC insurance and guarantee programs in effect during 2016.

At June 30, 2016, the University had investments (cash equivalents) consisting of \$30,194,869 in the Ocean State Investment Pool Trust ("OSIP"), an investment pool established by the State General Treasurer. The University's investment accounted for 5.6% of the total investment in OSIP at June 30, 2016. Agencies, authorities, commissions, boards, municipalities, political subdivisions, and other public units of the State may invest in OSIP. OSIP has met the criteria outlined in GASB Statement No. 79 – *Certain External Investment Pools and Pool Participants* to permit election to reports its investments at amortized cost which approximates fair value. The OSIP is not rated and the weighted average maturity of investments held in the pool, by policy, is not to exceed 60 days. OSIP transacts with its participants at a stable net asset value (NAV) per share. Investments reported at the NAV are not subject to the leveling categorization as described above. There are no participant withdrawal limitations. 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 – 2nd 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

For the Year Ended June 30, 2016

Note 2 - **Cash, 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, 2016, the First American Treasury Obligations Fund had a rating of AAAM by Standard and Poor's and Aaa-mf by Moody's.

Investments

As of June 30, 2016, the University's investments are contained in bond securities.

Credit Risk

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. As of June 30, 2016, the University's investments were unrated.

Custodial Credit Risk

Custodial credit risk is the risk that, in the event of the failure of counterparty, the University will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The University does not have a policy for custodial risk associated with investments.

Fair Value Hierarchy

The fair value hierarchy categorizes inputs to valuation techniques used to measure fair value into three levels. Level 1 inputs are quoted market prices for identical assets or liabilities in active markets that a government can access at the measurement date. Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for an asset or liability, directly or indirectly. Level 3 inputs are unobservable inputs. The highest priority is assigned to Level 1 inputs and the lowest to Level 3 inputs. If the fair value is measured using inputs from more than one level of the hierarchy, the measurement is considered to be based on the lowest priority input level that is significant to the entire measurement. Valuation techniques used should maximize the use of the observable inputs and minimize the use of unobservable inputs.

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

Notes to the Financial Statements - Continued

For the Year Ended June 30, 2016

Note 2 - **Cash, Equivalents and Investments – Continued**

Fair Value Hierarchy - Continued

The asset's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. The following is a description of the valuation methodologies used for assets at fair value on a recurring basis.

Corporate Bonds: Valued at the current available closing price reported or based on values obtained on comparable securities of issuers with similar credit ratings.

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the University believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine if the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

At June 30, 2016, all investments are categorized in Level 1 of the fair value hierarchy.

Component Units

The Foundation and the Alumni Association investments at June 30, 2016 are reported at fair market value and are composed of the following:

	Foundation	Alumni Association	Total
Common Stocks	\$ 3,573,329	\$ 3,686,063	\$ 7,259,392
Fixed Income	5,103,301	-	5,103,301
Government Securities	34,058,870	538,583	34,597,453
Emerging Markets Equities	10,651,741	-	10,651,741
Domestic Equities	19,028,622	-	19,028,622
Marketable Alternatives	37,058,766	-	37,058,766
Corporate Bonds	-	959,306	959,306
REITS	3,262,249	-	3,262,249
Mutual Funds	18,848,477	-	18,848,477
	<u>\$ 131,585,355</u>	<u>\$ 5,183,952</u>	<u>\$ 136,769,307</u>

UNIVERSITY OF RHODE ISLAND
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Notes to the Financial Statements - Continued

For the Year Ended June 30, 2016

Note 2 - **Cash, Equivalents and Investments – Continued**

Component Units - Continued

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

Note 3 - **Cash Held by State Treasurer**

Accounts payable, accrued salaries and capital costs incurred but not reimbursed by the State to be funded from state-appropriated funds totaled \$421,029 at June 30, 2016. The University has recorded a comparable dollar amount of cash held by the State Treasurer for the benefit of the University, which was subsequently utilized to pay for such liabilities.

Note 4 - **Accounts Receivable**

Accounts receivable, which are anticipated to be collected within one year, include the following at June 30, 2016:

Student accounts receivable	\$	11,756,937
Grants receivable		3,693,692
Unbilled grants receivables		17,842,178
Other receivables		<u>10,537,913</u>
		43,830,720
Less: allowance for doubtful accounts		<u>(7,096,698)</u>
	\$	<u><u>36,734,022</u></u>

Note 5 - **Loans Receivable**

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.

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

Notes to the Financial Statements - Continued

For the Year Ended June 30, 2016

Note 5 - **Loans Receivable - Continued**

Loans receivable include the following at June 30, 2016:

Perkins loans	\$	8,419,392
Nursing loans		1,703,490
Health profession loans		1,832,156
Other		<u>795,023</u>
		12,750,061
Less: allowance for doubtful accounts		<u>(775,527)</u>
	\$	<u><u>11,974,534</u></u>

Note 6 - **Capital Assets**

Capital assets of the University consist of the following at June 30, 2016:

	Estimated lives (in years)	Beginning balance	Additions	Reductions	Reclassifi- cations	Ending balance
Capital assets not depreciated:						
Land	-	\$ 2,187,121	\$ -	\$ -	\$ -	\$ 2,187,121
Construction in progress	-	<u>76,027,526</u>	<u>42,206,313</u>	<u>-</u>	<u>(101,725,814)</u>	<u>16,508,025</u>
Total not depreciated		<u>78,214,647</u>	<u>42,206,313</u>	<u>-</u>	<u>(101,725,814)</u>	<u>18,695,146</u>
Capital assets depreciated:						
Land improvements	15-25	66,541,359	-	-	1,566,265	68,107,624
Buildings, including improvements	10-50	768,836,467	-	-	99,751,555	868,588,022
Furnishings and equipment (including cost of capital leases)	5-15	<u>100,601,380</u>	<u>6,200,254</u>	<u>(5,271,811)</u>	<u>407,994</u>	<u>101,937,817</u>
Total depreciated		<u>935,979,206</u>	<u>6,200,254</u>	<u>(5,271,811)</u>	<u>101,725,814</u>	<u>1,038,633,463</u>
Less accumulated depreciation:						
Land improvements		28,265,710	2,675,491	-	-	30,941,201
Building, including improvements		276,359,533	24,525,542	-	-	300,885,075
Furnishings and equipment		<u>72,528,469</u>	<u>5,461,261</u>	<u>(4,998,959)</u>	<u>-</u>	<u>72,990,771</u>
Total accumulated depreciation		<u>377,153,712</u>	<u>32,662,294</u>	<u>(4,998,959)</u>	<u>-</u>	<u>404,817,047</u>
Capital assets, net		<u>\$ 637,040,141</u>	<u>\$ 15,744,273</u>	<u>\$ (272,852)</u>	<u>\$ -</u>	<u>\$ 652,511,562</u>

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

Notes to the Financial Statements - Continued

For the Year Ended June 30, 2016

Note 7 - **Early Retirement Incentive Plan**

The University established a University Retirement Incentive Program (“URIP”), offered in the Spring of 2012, for the purpose of providing an incentive for faculty and non-classified staff to retire. Eligible employees included faculty and non-classified staff employed for a minimum of twenty hours per week, age 62 or older and a minimum of ten years’ service with the University, and a participant in one of the Board of 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, 2016 the remaining liability is \$77,509.

Note 8 - **Long-Term Liabilities**

Long-term liabilities consist of the following at June 30, 2016:

	Beginning balance	Additions	Reductions	Ending balance	Current portion
Leases and bonds payable:					
Lease obligations	\$ 5,653,179	\$ -	\$ 1,032,260	\$ 4,620,919	\$ 1,082,722
Due to primary government					
Certificate of participation					
(COP) energy conservation	15,590,000	-	1,840,000	13,750,000	1,970,000
Revenue bonds payable	219,059,989	-	8,436,085	210,623,904	8,766,561
Premium on bonds payable	5,972,889	-	669,991	5,302,898	669,991
Loans payable	807,358	131,757	233,083	706,032	127,428
Total leases and bonds payable	247,083,415	131,757	12,211,419	235,003,753	12,616,702
Other long-term liabilities:					
Compensated absences	17,813,470	1,449,565	1,085,502	18,177,533	1,095,877
Grant refundable	10,008,559	1,220,474	-	11,229,033	-
Net pension liability	100,312,100	12,703,499	-	113,015,599	-
Total Other long-term liabilities	128,134,129	15,373,538	1,085,502	142,422,165	1,095,877
Total long-term liabilities	\$ 375,217,544	\$ 15,505,295	\$ 13,296,921	\$ 377,425,918	\$ 13,712,579

UNIVERSITY OF RHODE ISLAND
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Notes to the Financial Statements - Continued

For the Year Ended June 30, 2016

Note 8 - **Long-Term Liabilities – Continued**

Bonds Payable

The revenue bonds consist of the following:

Series 2005 A University of Rhode Island Educational and General Revenue Issue, 3% to 4.25%, due semiannually through 2020	\$ 1,085,000
Series 2005 B University of Rhode Island Educational and General Revenue Issue, 3% to 4.25%, due semiannually through 2025	1,180,000
Series 2005 C University of Rhode Island Auxiliary Enterprise Revenue Issue, 3% to 4.625%, due semiannually through 2025	10,950,000
Series 2005 D University of Rhode Island Auxiliary Enterprise Revenue Refunding Issue, 3% to 4.25%, due semiannually through 2029	14,295,000
Series 2005 F University of Rhode Island Educational and General Revenue Issue, 3% to 4.50%, due semiannually through 2025	1,930,000
Series 2005 G University of Rhode Island Educational and General Revenue Refunding Issue, 4% to 5%, due semiannually through 2030	33,885,000
Series 2008 A University of Rhode Island Auxiliary Enterprise Revenue Refunding Issue, 6.25% to 6.50%, interest due semiannually through 2035, principal commences in 2028 through 2035	34,105,000
Series 2008 B University of Rhode Island Auxiliary Enterprise Revenue Issue, 8%, interest due semiannually through 2024, all principal is due 2024	3,830,000
Series 2009 A University of Rhode Island Educational and General Revenue Issue, 3.4% to 4.75%, due semiannually through 2034	9,240,000
Series 2009 B University of Rhode Island Auxiliary Revenue Issue, 3% to 5.25%, due semiannually through 2029	15,305,000
Series 2010 A University of Rhode Island Educational and General Revenue Issue, 3% to 5%, due semiannually through 2041	11,995,000
Series 2010 B University of Rhode Island Auxiliary Enterprise Revenue Issue, 3% to 5%, due semiannually through 2031	39,790,000
Series 2013 A University of Rhode Island Educational and General Revenue Refunding Issue, 2% to 3%, due semiannually through 2024	4,515,000
Series 2013 B University of Rhode Island Educational and General Revenue Refunding Issue, 2% to 3%, due semiannually through 2024	4,111,870
Series 2013 C University of Rhode Island Auxiliary Revenue Issue, 2% to 5%, due semiannually through 2025	18,625,000
Series 2013 D University of Rhode Island Auxiliary Revenue Issue, 2% to 5%, due semiannually through 2024	5,782,034
	\$ 210,623,904

UNIVERSITY OF RHODE ISLAND
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Notes to the Financial Statements - Continued

For the Year Ended June 30, 2016

Note 8 - **Long-Term Liabilities – Continued**

Bonds Payable – Continued

The bonds issued by the Rhode Island Health and Education Building Corporation (the "Corporation") are special limited obligations of the Board of 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 April 1, 2005, the Corporation issued the University of Rhode Island Educational and General Revenue Issue, Series 2005 A Bonds, par amount \$2,740,000. The proceeds were used to construct the second level of an existing facility, Surge Modular Building I, located at 210 Flag Road on the Kingston Campus.

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

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

On October 14, 2005, the Corporation issued the University of Rhode Island Auxiliary Enterprise Revenue Refunding Issue, Series 2005 D Bonds with a par amount of \$19,625,000. The proceeds of the 2005 D Bonds were used to advance refund the outstanding Series 1999 A principal of \$18,020,000. The Corporation also issued the University of Rhode Island Educational and General Revenue Refunding Issue, Series 2005 G Bonds with a par amount of \$44,805,000. The proceeds of the 2005 G Bonds were used to advance refund the outstanding Series 1999 B principal of \$3,430,000 and Series 2000 B principal of \$39,290,000.

UNIVERSITY OF RHODE ISLAND
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Notes to the Financial Statements - Continued

For the Year Ended June 30, 2016

Note 8 - **Long-Term Liabilities – Continued**

Bonds Payable – Continued

On November 14, 2008, the Corporation issued \$34,105,000 of Series 2008 A the University of Rhode Island Auxiliary Enterprise Revenue 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.

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.

UNIVERSITY OF RHODE ISLAND
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Notes to the Financial Statements - Continued

For the Year Ended June 30, 2016

Note 8 - **Long-Term Liabilities – Continued**

Bonds Payable – Continued

On June 18, 2013, the Corporation issued the Higher Education Facility Revenue Bonds, University of Rhode Island Educational and General Revenue Refunding Issue, Series 2013 A with a par amount of \$6,195,000. The proceeds of the Series 2013 A Bond were used to refund all Higher Education Facility Revenue Bonds, University of Rhode Island, Series 1997 and to refund all University of Rhode Island Educational & General Revenue, Series 2002 bonds. 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.

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.

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Notes to the Financial Statements - Continued

For the Year Ended June 30, 2016

Note 8 - **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 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:

	Fixed-Rate Bonds		
	Principal	Interest	Total
Years ending June 30:			
2017	\$ 8,766,561	\$ 10,225,525	\$ 18,992,086
2018	9,142,283	9,860,995	19,003,278
2019	9,523,006	9,482,074	19,005,080
2020	9,922,467	9,077,808	19,000,275
2021	10,361,814	8,638,946	19,000,760
2022-2026	58,417,773	35,381,558	93,799,331
2027-2031	60,015,000	20,130,494	80,145,494
2032-2036	31,705,000	7,274,463	38,979,463
2037-2041	12,770,000	1,660,000	14,430,000
	\$ 210,623,904	\$ 111,731,863	\$ 322,355,767

Interest costs on all debt for the year ended June 30, 2016 were \$10,799,016.

UNIVERSITY OF RHODE ISLAND
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Notes to the Financial Statements - Continued

For the Year Ended June 30, 2016

Note 8 - **Long-Term Liabilities – Continued**

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

The Certificate of Participation consists of the following:

Certificate of participation (COP) Energy Conservation - 2007 B payable to the State of Rhode Island. Original amount of debt issued - \$6,370,054, 4% to 4.5% due annually through 2020	\$ 2,615,000
Certificate of participation (COP) Energy Conservation - 2009 B payable to the State of Rhode Island. Original amount of debt issued - \$11,365,000, 2.5% to 5% due annually through 2021	6,485,000
Certificate of participation (COP) Energy Conservation - 2011 A payable to the State of Rhode Island. Original amount of debt issued - \$5,590,000, 2% to 4.5% due annually through 2026	4,650,000
	\$ 13,750,000

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

	Principal	Interest	Total
Years ending June 30:			
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	2,465,000	331,288	2,796,288
2021	1,925,000	217,088	2,142,088
2022-2026	2,980,000	414,525	3,394,525
	\$ 13,750,000	\$ 2,521,813	\$ 16,271,813

UNIVERSITY OF RHODE ISLAND
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Notes to the Financial Statements - Continued

For the Year Ended June 30, 2016

Note 8 - **Long-Term Liabilities – Continued**

Loans Payable

The University 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 also 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:

	Principal	Interest	Total
Years ending June 30:			
2017	\$ 127,428	\$ 32,072	\$ 159,500
2018	97,832	28,741	126,573
2019	93,961	25,205	119,166
2020	64,623	21,451	86,074
2021	68,608	17,465	86,073
2022-2025	253,580	26,158	279,738
	\$ 706,032	\$ 151,092	\$ 857,124

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.

UNIVERSITY OF RHODE ISLAND
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Notes to the Financial Statements - Continued

For the Year Ended June 30, 2016

Note 8 - **Long-Term Liabilities – Continued**

Lease Obligations - Continued

Steam Generation Plant - Continued

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

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:					
2016	\$ 1,082,722	\$	231,962	\$	1,314,684
2017	1,133,197		181,467		1,314,664
2018	1,175,000		121,000		1,296,000
2019	1,230,000		25,625		1,255,625
	<u>\$ 4,620,919</u>	<u>\$</u>	<u>560,054</u>	<u>\$</u>	<u>5,180,973</u>

UNIVERSITY OF RHODE ISLAND
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Notes to the Financial Statements - Continued

For the Year Ended June 30, 2016

Note 9 - **Pension**

General Information About the Pension Plan

Plan Description

Certain employees of the University participate in a cost-sharing multiple-employer defined benefit pension plan - the Employees' Retirement System plan - administered by the Employees' Retirement System of the State of Rhode Island (the "System"). 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 System issues a publicly available financial report that includes financial statements and required supplementary information for the plans. The report may be obtained at <http://www.ersri.org>.

Benefit Provisions

The level of benefits provided to participants is established by Chapter 36-10 of the General Laws, which is subject to amendment by the General Assembly. Member benefit provisions vary based on service credits accumulated at dates specified in various amendments to the General Laws outlining minimum retirement age, benefit accrual rates and maximum benefit provisions. In general, members accumulate service credits for each year of service subject to maximum benefit accruals of 80% or 75%. For those hired after June 30, 2012, the benefit accrual rate is 1% per year with a maximum benefit accrual of 40%. Members eligible to retire at September 30, 2009 may retire with 10 years of service at age 60 or after 28 years of service at any age. The retirement eligibility age increases proportionately for other members reflecting years of service and other factors until it aligns with the Social Security Normal Retirement Age, which applies to any member with less than 5 years of service as of July 1, 2012. Members are vested after 5 years of service.

The plan provides for survivor's benefits for service connected death and certain lump sum death benefits. Joint and survivor benefit provision options are available to members.

UNIVERSITY OF RHODE ISLAND
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Notes to the Financial Statements - Continued

For the Year Ended June 30, 2016

Note 9 - **Pension - Continued**

Benefit Provisions - Continued

Cost of living adjustments are provided but are currently suspended until the collective plans covering state employees and teachers reach a funded status of 80%. Until the plans reach an 80% funded status, interim cost of living adjustments are provided at five-year intervals.

The plan also provides nonservice-connected disability benefits after five years of service and service-connected disability benefits with no minimum service requirement.

Contributions

The funding policy, as set forth in the General Laws, Section 36-10-2, provides for actuarially determined periodic contributions to the plan. For fiscal 2016, University employees were required to contribute 3.75% of their annual covered salary. The University is required to contribute at an actuarially determined rate; the rate was 23.64% of annual covered payroll for the fiscal year ended June 30, 2016. The University contributed \$9,223,974, \$8,869,864 and \$8,493,953 for the fiscal years ended June 30, 2016, 2015 and 2014, respectively, equal to 100% of the required contributions for each year.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources

At June 30, 2016, the University reported a liability of \$113,015,599 for its proportionate share of the net pension liability related to its participation in ERS. The net pension liability was measured as of June 30, 2015, the measurement date, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2014 rolled forward to June 30, 2015. The University proportion of the net pension liability was based on its share of contributions to the ERS for fiscal year 2015 relative to the total contributions of all participating employers for that fiscal year. At June 30, 2015 the University proportion was 5.69%.

UNIVERSITY OF RHODE ISLAND
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Notes to the Financial Statements - Continued

For the Year Ended June 30, 2016

Note 9 - **Pension - Continued**

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources - Continued

For the year ended June 30, 2016, the University recognized pension expense of \$14,111,334. At June 30, 2016, the University reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

Deferred Outflows of Resources

Changes in proportion and differences between employer contributions and proportionate share of contributions	928,569
Contributions made after the measurement date	<u>9,223,974</u>
	<u>\$ 10,152,543</u>

Deferred Inflows of Resources

Differences between expected and actual experience	\$ 1,307,475
Change of assumptions	850,303
Net difference between expected and actual earnings on pension plan investments	93,018
Total	<u>\$ 2,250,796</u>

UNIVERSITY OF RHODE ISLAND
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Notes to the Financial Statements - Continued

For the Year Ended June 30, 2016

Note 9 - **Pension - Continued**

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources - Continued

Contributions of \$9,223,974 are reported as deferred outflows of resources related to pensions resulting from the University contributions in fiscal year 2016 subsequent to the measurement date will be recognized as a reduction of the net pension liability for the year ended June 30, 2017. Other amounts reported as deferred inflows of resources related to pensions will be recognized as a reduction in pension expense as follows:

Year ended June 30:		
2017	\$	(854,872)
2018		(854,872)
2019		(854,872)
2020		1,242,389
2021		-
		<hr style="width: 100%;"/>
	\$	<u>(1,322,227)</u>

Actuarial Assumptions

The total pension liability was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.75%
Salary increases	3.50% to 6.50%
Investment rate of return	7.50%

Mortality rates were based on 115% (males) and 95% (females) of the RP-2000 combined healthy mortality tables with white collar adjustments projected with scale AA from 2000.

The actuarial assumptions used in the June 30, 2014 valuations rolled forward to June 30, 2015 and the calculation of the total pension liability at June 30, 2015 were consistent with the results of an actuarial experience study performed as of June 30, 2013.

UNIVERSITY OF RHODE ISLAND
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Notes to the Financial Statements - Continued

For the Year Ended June 30, 2016

Note 9 - **Pension - Continued**

Actuarial Assumptions - continued

The long-term expected rate of return best-estimate on pension plan investments was determined by the actuary using a building-block method. The actuary started by calculating best-estimate future expected real rates of return (expected returns net of pension plan investment expense and inflation) for each major asset class, based on a collective summary of capital market expectations from 23 sources. The June 30, 2015 expected arithmetic returns over the long-term (20 years) by asset class are summarized in the following table:

<u>Asset Class</u>	<u>Target allocation</u>	<u>Medium-Term Expected Real Rate of Return</u>
Global Equity:	38.00%	
U.S. Equity		6.93%
International Developed		7.32%
International Emerging Markets		9.52%
Equity Hedge Funds	8.00%	3.98%
Private Equity	7.00%	9.99%
Core Fixed Income	15.00%	2.18%
Absolute Return Hedge Funds	7.00%	3.98%
Infrastructure	3.00%	5.70%
Real Estate	8.00%	4.85%
Other Real Return Assets:	11.00%	
Master Limited Partnerships		4.51%
Credit		4.51%
Inflation Linked Bonds		1.24%
Cash, Overlay and Money Market	3.00%	0.78%
	<u>100.00%</u>	

These return assumptions are then weighted by the target asset allocation percentage, factoring in correlation effects, to develop the overall long-term expected rate of return best-estimate on an arithmetic basis.

UNIVERSITY OF RHODE ISLAND
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Notes to the Financial Statements - Continued

For the Year Ended June 30, 2016

Note 9 - **Pension - Continued**

Discount rate

The discount rate used to measure the total pension liability was 7.5 percent. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current contribution rate and that contributions from the employers will be made at statutorily required rates, actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the Net Pension Liability (Asset) to Changes in the Discount Rate

The following presents the net pension liability (asset) calculated using the discount rate of 7.5 percent as well as what the net pension liability (asset) would be if it were calculated using a discount rate that is 1-percentage-point lower or 1-percentage-point higher than the current rate.

1.00 % Decrease (6.5%)	Current Discount Rate (7.5%)	1.00 % Increase (8.5%)
\$ 140,114,699	\$ 113,015,599	\$ 90,831,127

Pension Plan Fiduciary Net Position

As noted earlier, ERS issues a publicly available financial report that includes financial statements and required supplementary information for the plans. The report may be obtained at <http://www.ersri.org>. The report contains detailed information about the pension plan's fiduciary net position.

UNIVERSITY OF RHODE ISLAND
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Notes to the Financial Statements - Continued

For the Year Ended June 30, 2016

Note 10 - **Other Retirement Plans**

State of Rhode Island Employees Retirement System (“ERS”) 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. Employers contribute amounts ranging from 1% to 1.5% of annual covered salary depending upon the individual employee’s years of service. 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 \$390,185 for the fiscal year ended June 30, 2016, equal to 100% of the required contributions for that year.

The ERS issues a publicly available financial report that includes financial statements and required supplementary information for plans administered by the system. The report may be obtained by writing to the Employees’ Retirement System of Rhode Island, 50 Service Avenue, Warwick, RI 02886.

UNIVERSITY OF RHODE ISLAND
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Notes to the Financial Statements - Continued

For the Year Ended June 30, 2016

Note 10 - **Other Retirement Plans - Continued**

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 (the "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 \$10,885,000 during 2016. The employee contribution amounted to \$6,047,227 during 2016.

Note 11 - **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, 2016:

Restricted – expendable:		
Student loans	\$	4,018,669
Capital programs		<u>359,303</u>
	\$	<u><u>4,377,972</u></u>

UNIVERSITY OF RHODE ISLAND
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Notes to the Financial Statements - Continued

For the Year Ended June 30, 2016

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 (the "EPA"), the US Justice Department, and the Rhode Island Department of Environmental Management (the "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 \$674,559 relating to the remediation project, operation and maintenance costs, and site reviews. The related costs for 2016 were \$101,707.

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, 2016, the University is a guarantor of loans to fraternities and sororities in the amount of \$150,000.

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.

UNIVERSITY OF RHODE ISLAND
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Notes to the Financial Statements - Continued

For the Year Ended June 30, 2016

Note 13 - **Operating Expenses**

The University's operating expenses, as presented on a natural classification basis, are as follows for the year ended June 30, 2016:

Compensation and benefits	\$	301,229,986
Supplies and services		133,311,876
Depreciation		32,662,294
Scholarships and fellowships		27,562,568
	\$	<u>494,766,724</u>

Note 14 - **State Appropriation**

Direct Appropriations

Pursuant to the Rhode Island General Law 16-59-9, the legislative-enacted budget reflects the budget passed by the General Assembly and signed by the Governor as well as any subsequent re-appropriations. The Board reviews and approves the unrestricted and restricted budgets and makes recommendations to the Governor and General Assembly for revisions to the current year's budget and the ensuing year's budget for the University, RIC, CCRI, and the Office of 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 2016, the State reserved 3.0% of its general revenues to fund a Budget Reserve and Cash Stabilization Fund. Once the fund reaches a maximum threshold (5% of revenues), the balance is transferred to the RICAP 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 allocations through this program since fiscal 1995.

UNIVERSITY OF RHODE ISLAND
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Notes to the Financial Statements - Continued

For the Year Ended June 30, 2016

Note 14 - **State Appropriation - Continued**

State Capital Plan Funds - Continued

The University's State Capital Plan Allocations are composed of the following for the year ended June 30, 2016:

Asset Protection	\$ 7,780,342
New Chemistry Building	4,000,000
Fire and Safety Protection	3,186,100
Substation	2,699,127
Nursing Education Center	592,186
Nursing White Hall	93,082
	<u>\$ 18,350,837</u>

State Contributed Capital

In November 1996, the Rhode Island voters approved the issuance of \$33.8 million General Obligations Bonds for higher education facilities. The bond provides the University with \$9.8 million for the renovation of Ballentine, Green, and Ranger Halls. \$9.5 million to RIC and \$14.5 million to CCRI. During fiscal year 2016, the University spent \$2.1 million on Ranger Hall.

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 2016, the University spent \$75,000.

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 year 2016, the University spent \$370,000.

UNIVERSITY OF RHODE ISLAND
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Notes to the Financial Statements - Continued

For the Year Ended June 30, 2016

Note 14 - **State Appropriation – Continued**

State Contributed Capital - Continued

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 year 2016, the University spent \$11.6 million.

In November 2014, the Rhode Island voters approved the issuance of \$125 million General Obligations Bonds for higher education facilities. The bond provides funding for the construction of the Engineering Building. During fiscal year 2016, the University spent \$1.5 million.

In 2008, the University received an Information Technology certificate of participation funding to improve the state's technology infrastructure and to outfit classrooms to assist teachers in improving their skills in the use of information technology. During fiscal year 2016, the University spent \$637,000.

The expenditures funded from the proceeds of the above-mentioned general obligation bonds and capitalized as fixed assets during fiscal year 2016 totaled \$16.3 million.

The University's State appropriations are composed of the following for the year ended June 30, 2016:

Direct Appropriations	\$	72,216,182
State Capital Plan Funds		18,350,837
State Contributed Capital		<u>16,276,376</u>
	\$	<u><u>106,843,395</u></u>

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

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Notes to the Financial Statements - Continued

For the Year Ended June 30, 2016

Note 15 - **Other Post-Employment Benefits**

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.

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 financial report. A copy 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.

For fiscal 2016, employers were required to contribute 6.75% of covered payroll. The employer required contribution rate is determined on an actuarially determined basis consistent with a funding approach outlined in the General Laws and as adopted by the OPEB System Board. The University fully-funded its required contribution to the plan for the years ended June 30, 2016, 2015 and 2014 which were \$2,343,583, \$2,581,115 and \$2,605,300 respectively.

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

Notes to the Financial Statements - Continued

For the Year Ended June 30, 2016

Note 15 - **Other Post-Employment Benefits**

Rhode Island Board of Education Health Care Insurance Retirement Program

Plan Description

The University contributes to the Rhode Island Board of Education (the “Board”) health care insurance retirement program (the “Plan”), medical coverage only, for eligible employees who participate in the Board’s Alternate Retirement Plan (the “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, Rhode Island College and Community College of Rhode Island. 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”), as defined in G.L. 36-12.1-5, which is 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 (the “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 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.

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

Notes to the Financial Statements - Continued

For the Year Ended June 30, 2016

Note 15 - **Other Post-Employment Benefits**

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

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 ARC, which for fiscal year 2014 and 2015 was 2.30% and 2016 was 3.11% 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 \$1,502,284, \$1,041,396 and \$1,112,874, and active employees contributed 0.9% of covered payroll of \$434,745, \$421,995 and \$421,172 during 2016, 2015 and 2014, respectively. 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.

Note 16 - **Related Parties**

The University of Rhode Island Research Foundation (the "Research Foundation") and the University of Rhode Island Student Senate (the "Student Senate") are legally separate tax-exempt entities associated with the University.

The Student Senate accounts for various student organizations and receives the student activity fees collected by the University. The Senate also operates the Memorial Union Board (Union) which generates revenue from its own activities including Ram Tours and the 193 Degrees Coffee House. The University transferred \$1,551,211 to the Senate for the year ended June 30, 2016. There were no amounts due to or due from the University and the Student Senate.

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

Notes to the Financial Statements - Continued

For the Year Ended June 30, 2016

Note 16 - **Related Parties - Continued**

The Research Foundation's mission is to promote industry and University collaboration and new technology ventures for economic growth and job creation. The Research Foundation's unique private, nonprofit status allows it to support a broad range of technology transfer activities, including licensing, startup company formation, equity investments and intellectual property protection. The Research Foundation is affiliated with the University by common management; however each organization has its own independent board of trustees/directors. The Research Foundation obtains significant managerial and financial support from the University, including the salaries of the University Associate Vice-President for Intellectual Property and Economic Development, who also serves as the Executive Director of the Research Foundation, other support staff and the provision of operational cost. Accordingly, the financial statements may not be indicative of the conditions or the results of operations that would have existed if the Research Foundation had been operating as an unaffiliated entity. The University has a support agreement with the Research Foundation and paid \$315,911 as well as \$417,101 that was passed thru the University for State of Rhode Island Legislature Community Grants.

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 2016 share of capital expenditures amounted to \$54,331.

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 \$605,381 in 2016. Financial information may be obtained at the Town of South Kingstown, 180 High Street, Wakefield, Rhode Island 02879.

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

Notes to the Financial Statements - Continued

For the Year Ended June 30, 2016

Note 18 - **Pass-Through Grants**

The University distributed \$98,230,481 during fiscal 2016, 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.

Note 19 - **Subsequent Events**

As of September 30, 2016, the University was in the process of finalizing the issuance of \$35,155,000 and \$53,355,000 of Educational and General Revenue Bonds, Series 2016 A and Series 2016 B, respectively, through the Rhode Island Health and Education Building Corporation. The proceeds of the Series 2016 A bond issuance will be used to refund the outstanding Series 2005 A, 2005 B, 2005 F and 2005 G bonds that had a total principal balance of \$36,294,375 at September 30, 2016. The bond will also provide \$5,400,000 for capital improvements to the University's campus. The proceeds of the Series 2016 B bond issuance will be used to refund the outstanding Series 2005 C, 2005 D and 2008 A bonds that had a total principal balance of \$62,230,433 at September 30, 2016.

**REQUIRED SUPPLEMENTARY
INFORMATION**

UNIVERSITY OF RHODE ISLAND

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

Schedule of the University's Proportionate Share of the Net Pension Liability (unaudited)

Employees' Retirement System

Year ended	<u>June 30, 2016</u>	<u>June 30, 2015</u>
Valuation date	6/30/2014	6/30/2013
Measurement date	6/30/2015	6/30/2014
University's proportion of the net pension liability	5.69%	5.63%
University's proportionate share of the net pension liability	\$ 113,015,599	\$ 100,312,100
University's covered-employee payroll as of the measurement date	\$ 38,019,134	\$ 36,798,276
University's proportionate share of the net pension liability as a percentage of its covered-employee payroll	297.26%	272.60%
Plan fiduciary net position as a percentage of the total pension liability	55.03%	58.58%

Notes:

The GASB pronouncement requiring the presentation of the information on this schedule became effective for years beginning after June 15, 2014 and is intended to provide data for the most recent ten years.

See accompanying notes to the required supplemental information.

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

Schedule of the University's Contributions (unaudited)

Year ended	<u>June 30, 2016</u>	<u>June 30, 2015</u>
Contractually required contribution	\$ 9,223,974	\$ 8,869,864
Contributions in relation to the contractually required contribution	<u>(9,223,974)</u>	<u>(8,869,864)</u>
Contribution excess	<u>\$ -</u>	<u>\$ -</u>
University's covered-employee payroll	\$ 39,018,501	\$ 38,019,134
Contribution as a percentage of covered-employee payroll	23.64%	23.33%

Notes:

Employers participating in the State's Employee's Retirement System are required by RI General Laws, Section 36-10-2, to contribute an actually determined contribution rate each year.

The GASB pronouncement requiring the presentation of the information on this schedule became effective for years beginning after June 15, 2014 and is intended to provide data for the most recent ten years.

See accompanying notes to the required supplemental information.

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

Notes to the Required Supplementary Information

For the Year Ended June 30, 2016

Note 1 - **Change in Assumptions**

The change in assumptions which is primarily related to reductions in wage inflation, salary increases for individual members, and the overall payroll growth assumptions resulted from an experience study performed for the six-year period ended June 30, 2013 and is amortized over the average of the expected remaining service life of all employees, which is 4.9977 years. The University's proportionate share of the collective amounts below is equal to the collective amount multiplied by the employer proportionate share percentage as shown in the Schedule of the employer proportionate share of the net pension liability.

	<u>2016</u>	<u>2015</u>
Change in assumptions	\$ 23,762,000	\$ 23,762,000
Accumulated amortization	<u>(8,817,000)</u>	<u>(4,408,000)</u>
Change in assumptions, net	\$ 14,945,000	\$ 19,354,000

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



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

The Board of 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 statement of net position as of June 30, 2016, the related statements of revenues and expenses, change in net position and cash flow for the year 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 October 6, 2016. We also performed the audit of the Alumni Association of the University Rhode Island's financial statements, as of and for the year ended June 30, 2016. Our report includes a reference to other auditors who audited the financial statements of the University of Rhode Island Foundation, Inc. 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 opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the University's internal control. Accordingly, we do not express an opinion on the effectiveness of the University's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the University of Rhode Island's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

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

O'Connor and Drew, P.C.

**Certified Public Accountants
Braintree, Massachusetts**

October 6, 2016