

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

FINANCIAL STATEMENTS

JUNE 30, 2017

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

Financial Statements

June 30, 2017

CONTENTS

Independent Auditors' Report	1-3
Management's Discussion and Analysis (Unaudited)	4-26
Financial Statements:	
Statement of Net Position	27
Statement of Revenues and Expenses and Changes in Net Position	28
Statement of Cash Flows	29-30
Notes to the Financial Statements	31 -77
Required Supplementary Information:	
Schedule of the University's Proportionate Share of the Net Pension Liability	78
Schedule of the University's Contributions	79
Notes to the Required Supplementary Information	80
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 <i>Government Auditing Standards</i>	81-82



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, 2017, the related statements of revenues and expenses, change in net position and cash flows 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, 2017.

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") or the University of Rhode Island Research Foundation, Inc. (the "Research Foundation") as of June 30, 2017. These financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for the entities not audited by us included in the discretely presented component units of the University, is based solely upon the report of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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, 2017, 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.

Emphasis of a Matter

As discussed in Note 1, GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, is effective for fiscal 2018 and will require the University to restate beginning net position at July 1, 2017 to recognize its proportionate share of the net postemployment benefits other than pensions obligation determined for the Rhode Island Retiree Health Care Benefit Plan and the Rhode Island Board of Education Health Care Insurance Retirement Program. Our opinion is not modified with respect to that matter.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that management's discussion and analysis on pages 4-26, the schedule of the University's proportionate share of the net pension liability on page 78, the schedule of the University's contributions on page 79 and the notes to the required supplementary information on page 80 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 29, 2017, 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**

September 29, 2017

UNIVERSITY OF RHODE ISLAND

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

Management's Discussion and Analysis (Unaudited)

June 30, 2017

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, 2017 and the results of operations for the year then ended, with selected comparative information for the year ended June 30, 2016. 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 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 Section 16-60-1 and 16-60-4 for Elementary/Secondary and per RIGL Section 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, 2017

Introduction – Continued

The mission of the full 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 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 the State.
- 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 BOE.

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, 2017

Introduction – Continued

The University has a combined enrollment of 18,072 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, 2017 shows a decrease in net position before capital appropriations and gifts of \$4.75 million, compared to a decrease of \$15.18 million in fiscal year 2016. Operating revenues increased by \$14.57 million or 3.57% and operating expenses increased by \$12.60 million or 2.5%.

UNIVERSITY OF RHODE ISLAND

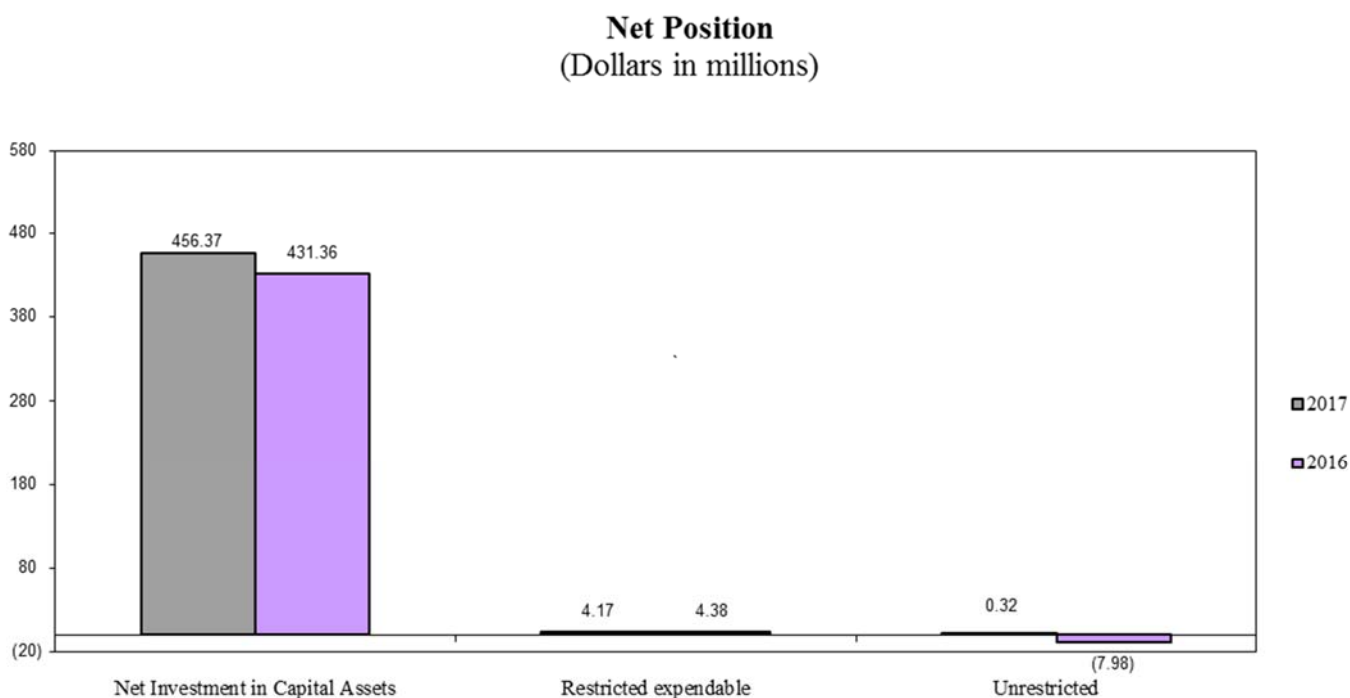
(a Component Unit of the State of Rhode Island and Providence Plantations)

Management's Discussion and Analysis (Unaudited) - Continued

June 30, 2017

Financial Highlights – Continued

The following chart displays the components of the University's net position for the fiscal years ended June 30, 2017 and 2016.



On June 30, 2017 and 2016, the University's total assets of \$873.26 million, and \$861.63 million, and deferred outflows of resources of \$25.16 million, and \$10.15 million exceeded its total liabilities of \$433.69 million and \$441.77 million and deferred inflows of resources of \$3.87 million and \$2.25 million resulting in net position of \$460.86 million, and \$427.76 million, respectively. The resulting net position is summarized in the following categories (dollars in millions):

	2017	2016
Net Investment in Capital Assets	\$ 456.37	431.36
Restricted expendable	4.17	4.38
Unrestricted	0.32	(7.98)
Total net position	\$ 460.86	427.76

UNIVERSITY OF RHODE ISLAND

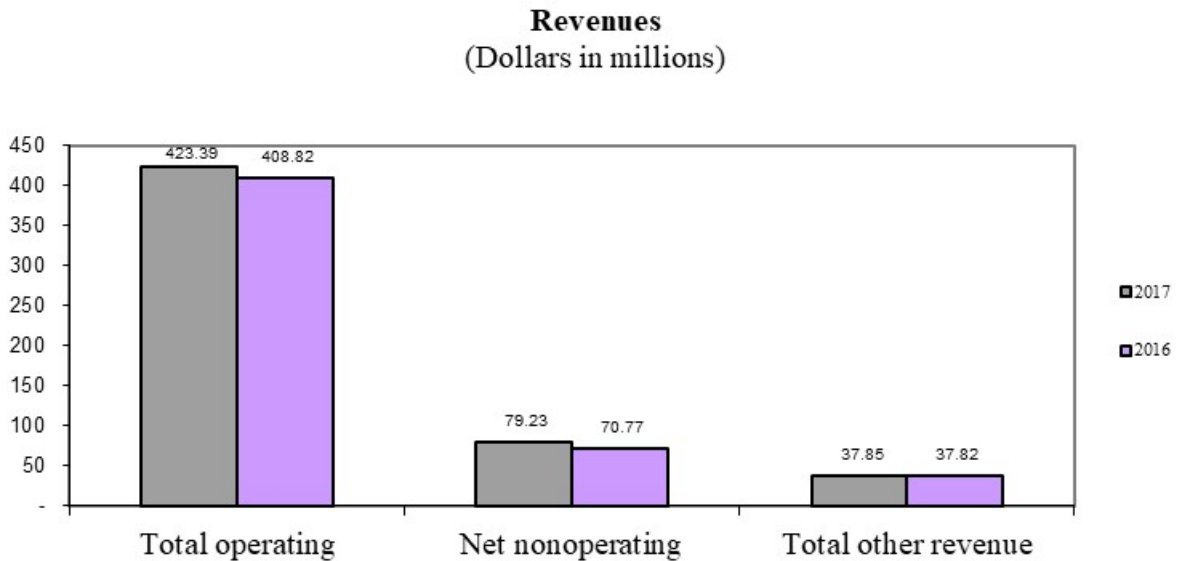
(a Component Unit of the State of Rhode Island and Providence Plantations)

Management's Discussion and Analysis (Unaudited) - Continued

June 30, 2017

Financial Highlights – Continued

The following chart provides a graphical breakdown of total revenues by category for the fiscal years ending June 30, 2017 and 2016.



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, 2017

Overview of the Financial Statements – Continued

The University of Rhode Island Foundation (“the Foundation”), the University of Rhode Island Alumni Association (“the Alumni Association”), and the University of Rhode Island Research Foundation (the “Research Foundation”) are legally separate tax-exempt component units of the University. During 2017, the University determined that the Research Foundation would be shown as a component unit of the University.

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.

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 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 for 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. Because of the relationship, the Research Foundation is considered a component unit of the University and is 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.

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, 2017

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

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

The financial statements can be found on pages 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 77 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, 2017

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 and deferred outflows of resources exceeded total liabilities and deferred inflows of resources by \$460.86 million and \$427.76 million at the close of fiscal years 2017 and 2016.

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

	<u>2017</u>	<u>2016</u>
Current assets	\$ 175.50	176.92
Noncurrent assets	697.76	684.71
Total assets	\$ 873.26	861.63
Deferred outflows of resources	25.16	15.89
Total assets and deferred outflows of resources	\$ 898.42	877.52
Current liabilities	57.79	78.06
Noncurrent liabilities	375.90	363.71
Total liabilities	\$ 433.69	441.77
Deferred inflows of resources	3.87	7.99
Total liabilities and deferred inflows of resources	\$ 437.56	449.76
Net position:		
Net investment in capital assets	\$ 456.37	431.36
Restricted, expendable	4.17	4.38
Unrestricted	0.32	(7.98)
Total net position	\$ 460.86	427.76

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, 2017

Financial Analysis - Continued

By far the largest portion of the University's net position, \$456.37 million and \$431.36 million, as of June 30, 2017 and 2016, 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 99% for FY 2017 and 100% for 2016 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 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, 2017 and 2016.

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, 2017 and 2016, the University's unrestricted net position represent 0.1% and (2%), 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, unearned 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: 3.04 to 1 and 2.27 to 1 as of June 30, 2017 and 2016, 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, 2017

Financial Analysis - Continued

One of the components of the University's noncurrent assets are the funds on deposit with the bond trustee totaling \$20.70 million and \$16.54 million as of June 30, 2017 and 2016. The majority of the bond proceeds were from the 2009 B Bonds for \$9.55 million for fire protection, 2010 A Bonds for \$5.65 million for the repaving and reconstruction of major parking facilities, and 2016 A Bonds for \$5.40 million for design, construction, renovation improvement and equipping of certain utility systems and other infrastructure.

During fiscal years 2017 and 2016, the University's net position increased by \$33.10 million and \$22.63 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 2017 with an unrestricted net position of \$0.32 million, compared to a negative unrestricted net position of \$7.98 million, for fiscal year 2016.

The University will be implementing GASB 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, in fiscal year 2018. This standard will improve accounting and financial reporting for postemployment benefits other than pensions ("OPEB"). GASB 75 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. The University will be restating balances in 2018 to reflect these changes.

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, 2017

Financial Analysis - Continued

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

	<u>2017</u>	<u>2016</u>
Operating revenues:		
Tuition and fees, net of tuition waivers and remissions	\$ 276.35	272.14
Operating grants and contributions	97.47	92.53
Other sources	49.57	44.15
Total operating revenues	<u>423.39</u>	<u>408.82</u>
Operating expenses:		
Salaries and benefits	312.97	301.23
Operating expenses	58.29	54.46
Scholarships, grants and contracts	28.85	27.56
Auxiliaries	72.14	78.86
Depreciation	35.12	32.66
Total operating expenses	<u>507.37</u>	<u>494.77</u>
Net operating loss	<u>(83.98)</u>	<u>(85.95)</u>
Nonoperating revenues (expenses):		
State appropriation	76.67	72.22
Net investment income	0.75	0.45
Private gifts	10.40	8.90
Interest expense	(8.59)	(10.80)
Total nonoperating revenues	<u>79.23</u>	<u>70.77</u>
Loss before other revenues, expenses, gains or losses	<u>(4.75)</u>	<u>(15.18)</u>
Capital appropriations	11.56	18.35
State contributed capital	21.50	16.28
Capital gifts	4.79	3.19
Increase in net assets	<u>33.10</u>	<u>22.64</u>
Net position – beginning of year	<u>427.76</u>	<u>405.12</u>
Net position – ending of year	\$ <u>460.86</u>	<u>427.76</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, 2017

Operating Revenues

The total operating revenues increased by \$14.57 million or 3.57 % in fiscal year 2017, compared to an increase of \$5.69 million or 1.4% in fiscal year 2016. Since there was not an increase in tuition from 2016 to 2017, this increase relates to a total increase of students as well as a slight change in the mix of instate and out of state students. Also contributing to the growth was online degree programs. The University was in its second year of the online registered nurse to Bachelor of Science - nursing program (RN to BS), as well as an online nutrition program.

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

	<u>2017</u>	<u>2016</u>
Tuition	\$ 283.16	278.27
Student service fees	22.09	21.43
Health service fees	7.06	6.68
Housing fees	41.01	39.59
Dining service fees	20.44	19.55
Miscellaneous student fees	3.21	2.92
Total	376.97	368.44
Tuition waived or remitted	(100.62)	(96.30)
Net	\$ <u>276.35</u>	<u>272.14</u>

UNIVERSITY OF RHODE ISLAND

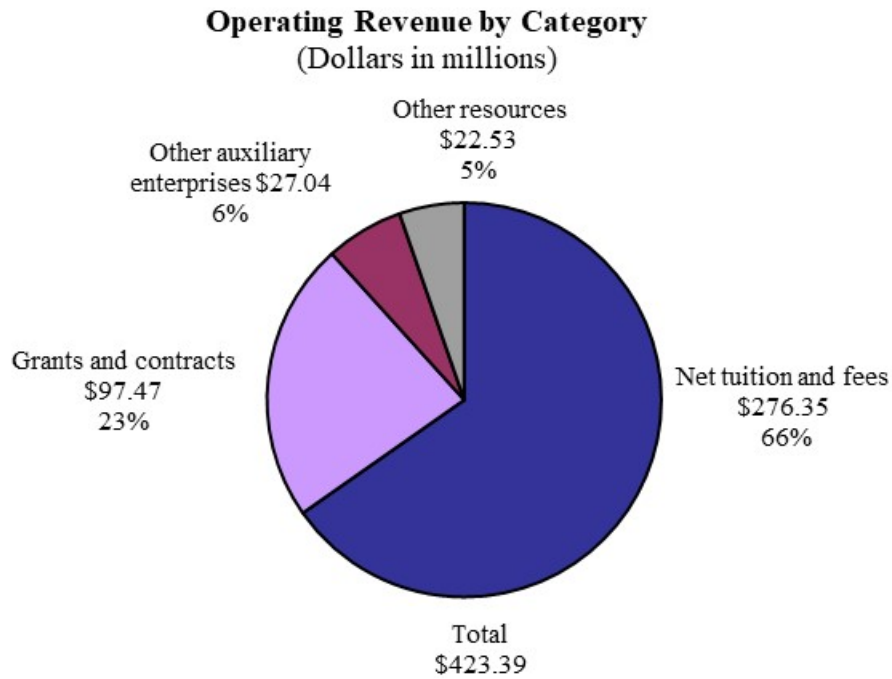
(a Component Unit of the State of Rhode Island and Providence Plantations)

Management's Discussion and Analysis (Unaudited) - Continued

June 30, 2017

Operating Revenues - Continued

The following provides a graphical breakdown of operating revenues by category for the year ended June 30, 2017.



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, 2017

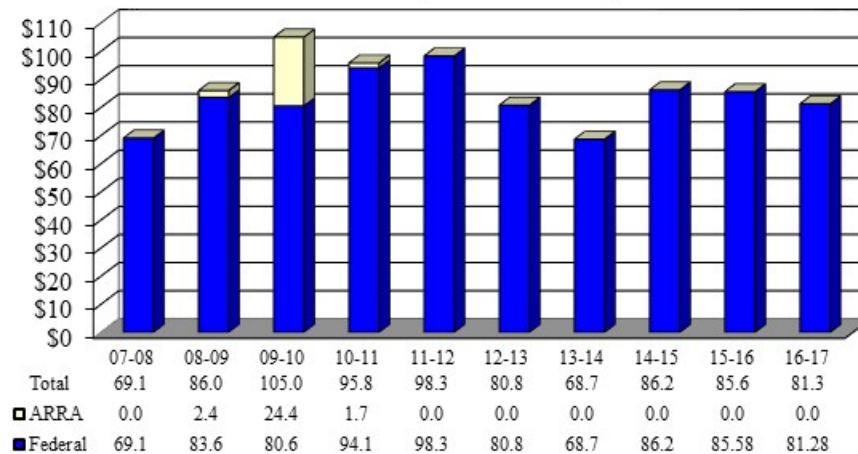
Grant and Contract Revenue

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 \$69.1 million in 2008 to \$81.3 million in 2017 or an 18% 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

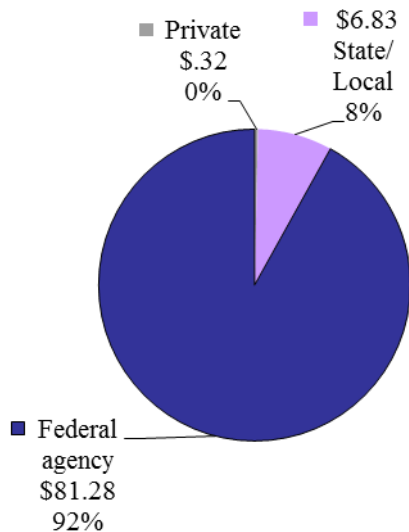
(a Component Unit of the State of Rhode Island and Providence Plantations)

Management's Discussion and Analysis (Unaudited) - Continued

June 30, 2017

Grant and Contract Revenue - Continued

The following summary shows the breakdown of grants received from sponsoring agencies during fiscal 2017, with a pie chart for federal and nonfederal awards (dollars in millions).



<u>Agency</u>	<u>Award</u>
Department of Education	\$ 18.13
National Science Foundation	16.21
Department of Health and Human Services	15.29
Agency for International Development	8.45
Department of Agriculture	6.00
National Oceanic and Atmospheric Admin	4.50
Department of Defense	4.34
Department of Interior	3.23
Other agencies	2.75
Department of Homeland Security	1.34
National Aeronautic and Spacne Administration	1.04
Federal agency	81.28
State/Local	6.83
Private	<u>0.32</u>
Total	<u>\$ 88.43</u>

Operating Expenses

The operating expenses for fiscal years 2017 and 2016 totaled \$507.37 million and \$494.77 million, which represent a change from prior year of an increase of \$12.60 million or an increase of 2.55%. The majority of increase in expenses relates to increases in salaries and benefits. In fiscal 2016 there was a four year initiative to hire new faculty. There were fourteen new positions in 2016 and twenty new positions in 2017.

UNIVERSITY OF RHODE ISLAND

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

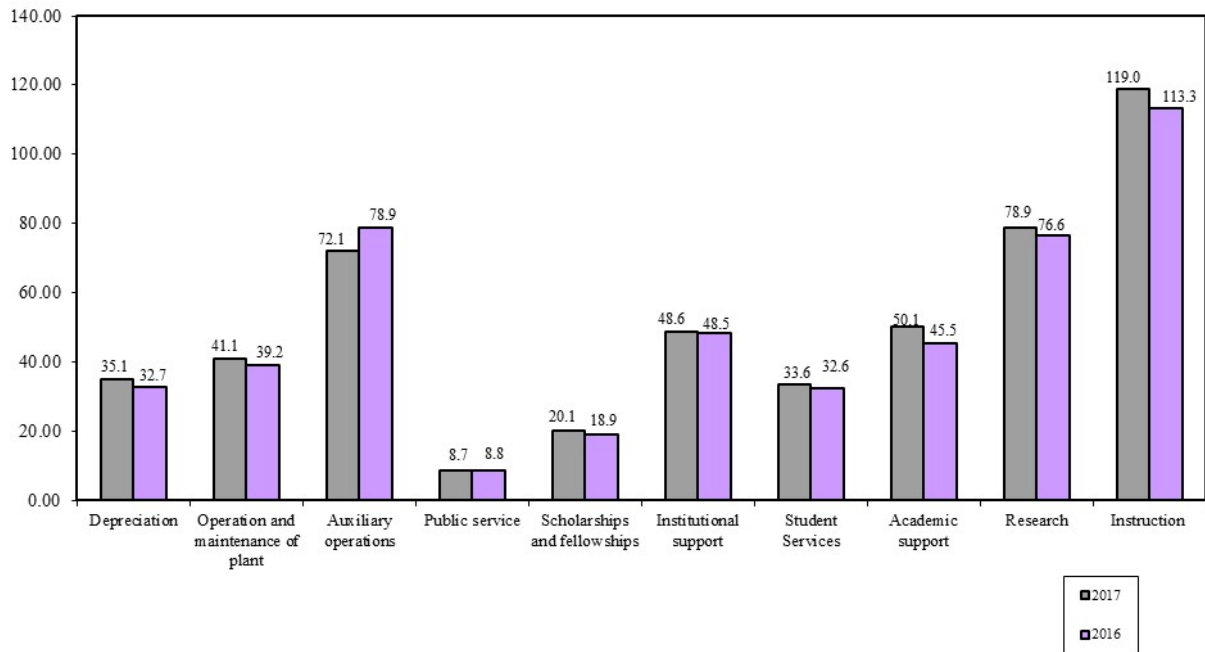
Management's Discussion and Analysis (Unaudited) - Continued

June 30, 2017

Operating Expenses - Continued

The bar chart below illustrates the University's operating expenses by function for the fiscal years ended June 30, 2017 and 2016, 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, 2017

Operating Expenses - Continued

The following summary shows where major grant and contract expenditures, including indirect cost charges, occurred during 2017 and 2016 (dollars in millions):

Agency	Amount	
	2017	2016
Department of Education	\$ 18.13	0.01
National Science Foundation	16.21	14.49
Department of Health and Human Services	15.29	15.35
Agency for International Development	8.45	7.36
Department of Agriculture	6.00	6.48
National Oceanic and Atmospheric Administration	4.50	3.26
Department of Defense	4.34	5.82
Department of Interior	3.23	3.67
Other Federal Agencies	1.72	2.60
Department of Homeland Security	1.34	0.82
National Aeronautic and Space Administration	1.04	0.56
Department of Energy	0.71	0.97
Environmental Protection Agency	0.32	0.25

Nonoperating Revenues and Expenses

The State's unrestricted appropriation is the largest component of the University's nonoperating revenues. The amount requested for fiscal 2017 was \$82.28 million. However, the amount appropriated by the State was \$76.67 million resulting in an appropriation for fiscal 2017 that was \$5.61 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, 2017

Nonoperating Revenues and Expenses - Continued

The University has a long tradition of using the state appropriation to support its operating expenses. During fiscal years 2017 and 2016, the University received state appropriations of \$76.67 million and \$72.22 million, which combined with operating revenue, was not sufficient to cover operating expenses in excess of \$7.31 million in fiscal 2017 and \$13.73 million in fiscal 2016. 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 over ten years ago by approximately \$7 million. Since the decline of the state appropriation, the student tuition and fees have played an increasingly important role in funding of the University's operations, 54% in fiscal years 2017, 55% in 2016. A summary of net income after state appropriation is presented below (dollars in millions).

	<u>2017</u>	<u>2016</u>
Net student fees	\$ 276.35	272.14
Other operating revenue	147.04	136.68
Operating expenses	<u>(507.37)</u>	<u>(494.77)</u>
Operating loss	(83.98)	(85.95)
State direct appropriations	<u>76.67</u>	<u>72.22</u>
Net loss after state appropriation	\$ <u>(7.31)</u>	<u>(13.73)</u>

UNIVERSITY OF RHODE ISLAND

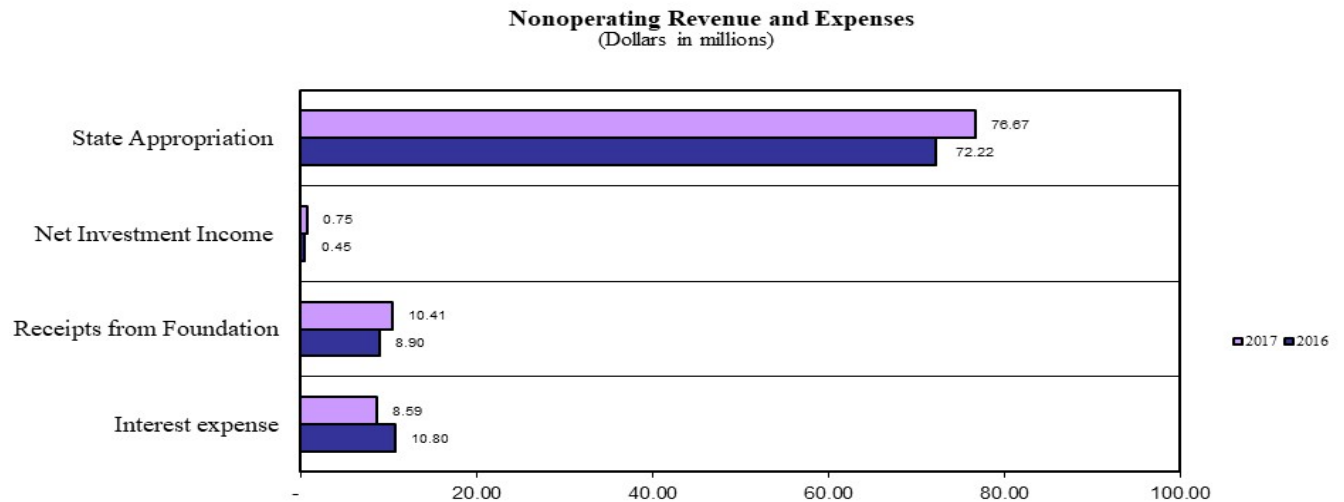
(a Component Unit of the State of Rhode Island and Providence Plantations)

Management's Discussion and Analysis (Unaudited) - Continued

June 30, 2017

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, 2017

Capital Assets and Debt Administration - Continued

Capital Plan - Continued

The BOE 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 2018-2022 for the University totals \$871.4 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, 2017 and 2016 net of accumulated depreciation, amounts to \$665.43 million and \$652.51 million, respectively. This investment in capital assets includes land, buildings (including improvements), and furnishings and equipment (including capital leases). Capital assets increased during fiscal 2017 by \$12.92 million and by \$15.47 million in fiscal 2016. Legal title to all land and real estate assets is vested in the BOE or the State. A summary of net capital asset balances as of June 30, 2017 and 2016 is presented below (dollars in millions).

	<u>2017</u>	<u>2016</u>
Land and improvements	\$ 38.19	39.35
Major capital additions to building and improvements	567.97	567.70
Furnishings and equipment	28.26	28.95
Construction in progress	31.01	16.51
Total	<u>\$ 665.43</u>	<u>652.51</u>

Major capital additions in fiscal 2017 included the Engineering Building Renovation (\$19.03 million) in construction in progress. This renovation will replace antiquated and worn out academic buildings. The new construction will provide specialty lab space and new teaching spaces to serve the needs of the University's 21st century Engineering Program.

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, 2017

Capital Assets and Debt Administration - Continued

Debt

As of June 30, 2017 and 2016 the University had \$238.05 million and \$235.00 million, respectively, in outstanding debt, an increase of \$3.05 million in 2017 and a decrease of \$12.08 million in 2016. The table below summarizes the types of debt instruments (dollars in millions).

	<u>2017</u>	<u>2016</u>
Loans payable	\$ 0.92	0.71
Capital lease obligations	3.54	4.62
Due to Primary Government	18.52	13.75
Revenue bonds	215.07	215.92
Total	<u>\$ 238.05</u>	<u>235.00</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's financial statements. As of June 30, 2017, the University's 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, 2017 and 2016 was \$123.02 million and \$113.01 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, 2017

Economic Factors that Will Affect the Future

The seasonally adjusted unemployment rate for the State, from which the University draws a majority of its students, decreased from 5.5% in June of 2016 to 4.2% in June of 2017, according to the U.S. Bureau of Labor Statistics. This compares to a steady rate of 4.4% in June 2017, and 4.9% in June 2016, on a national level. Historically, in times of economic slowdowns, public colleges/universities have experienced increases in their enrollment as unemployed and underemployed workers seek to update and upgrade their skills. The University cannot predict the extent to which enrollment may vary in this current environment.

To support their strategic priorities in this financially challenging environment, the University and the BOE 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 was no increase in student tuition.
- New state of the art Nursing Education Center where the University 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 was opened in August 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.
- In November 2016, the voters approved the issuance of \$45 million General Obligation Bonds for higher education facilities. \$25 million for the renovations of Bliss Hall and \$20 million for an innovation campus that will support cutting-edge research into products, services and businesses that will build the State's economy.

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, 2017

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, Carlotti Administration Building, Room 108, 75 Lower College Road, Kingston, RI 02881.

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

Statement of Net Position

June 30, 2017

Assets and Deferred Outflows of Resources

	University of Rhode Island	Component units
Current Assets:		
Cash and equivalents (Note 2)	\$ 119,144,301	\$ 16,308,101
Cash held by State Treasurer (Note 3)	4,194,311	-
Investments (Note 2)	944,000	-
Accounts receivable, net (Note 4)	35,915,460	1,067,698
Due from primary government	10,491,394	-
Current portion of pledges receivable	-	8,411,855
Current portion of loans receivable	-	6,700
Inventory and other current assets	<u>4,811,389</u>	<u>1,367,214</u>
Total Current Assets	<u>175,500,855</u>	<u>27,161,568</u>
Noncurrent Assets:		
Cash and equivalents – restricted (Note 2)	457,636	-
Funds on deposit with bond trustee	20,702,257	-
Investments (Note 2)	-	150,155,900
Accounts receivable, net	-	1,492,711
Pledges receivable, net of current portion	-	8,786,377
Loans receivable, net (Note 5)	11,168,496	27,951
Charitable remainder trusts	-	344,874
Capital assets, net of accumulated depreciation (Note 6)	<u>665,428,663</u>	<u>1,928,626</u>
Total Noncurrent Assets	<u>697,757,052</u>	<u>162,736,439</u>
Total Assets	<u>873,257,907</u>	<u>189,898,007</u>
Deferred Outflows of Resources:		
Deferred loss on debt refunding	4,050,476	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	2,424,835	-
Net difference between projected and actual investment earnings	8,781,327	-
Contributions made after measurement date	<u>9,903,769</u>	<u>-</u>
Total Deferred Outflows of Resources	<u>25,160,407</u>	<u>-</u>

Liabilities, Deferred Inflows of Resources and Net Position

	University of Rhode Island	Component units
Current Liabilities:		
Accounts payable and accrued liabilities	28,249,447	1,492,265
Compensated absences (Note 8)	1,148,992	-
Funds held for others	1,004,485	1,596,770
Unearned revenue	14,091,020	58,459
Current portion of capital lease obligations (Note 8)	1,133,197	-
Current portion of due to primary government (Note 8)	1,738,000	-
Current portion of bonds and loans payable (Note 8)	10,425,430	-
Current portion of gift annuity payable	-	80,000
Other current liabilities	-	718,357
Total Current Liabilities	57,790,571	3,945,851
Noncurrent Liabilities:		
Compensated absences (Note 8)	17,909,577	-
Capital lease obligations (Note 8)	2,405,000	-
Due to primary government (Note 8)	16,785,000	-
Bonds and loans payable (Note 8)	205,562,812	-
Gift annuity payable	-	629,012
Grant refundable (Note 8)	10,219,719	-
Net pension liability (Note 9)	123,019,948	-
Total Noncurrent Liabilities	375,902,056	629,012
Total Liabilities	433,692,627	4,574,863
Deferred Inflows of Resources:		
Differences between expected and actual experience	3,257,748	-
Change of assumptions	610,807	-
Total Deferred Inflows of Resources	3,868,555	-
Net Position:		
Net investment in capital assets	456,373,104	1,914,169
Restricted:		
Expendable (Note 11)	4,169,650	75,688,804
Nonexpendable	-	95,393,236
Unrestricted	314,378	12,326,935
Total Net Position	\$ 460,857,132	\$ 185,323,144

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, 2017

	University of Rhode Island	Component units
Operating Revenues:		
Tuition and fees	\$ 295,950,691	\$ -
Residence, dining, student union, and health fees	81,022,300	-
Less scholarship allowances	<u>(100,623,561)</u>	<u>-</u>
Net Student Fees	276,349,430	-
Federal, state, local, and private grants and contracts	97,468,553	2,507,185
Other auxiliary enterprises	27,043,084	-
Other sources	<u>22,528,514</u>	<u>4,067,899</u>
Total Operating Revenues	<u>423,389,581</u>	<u>6,575,084</u>
Operating Expenses (Note 13):		
Instruction	119,027,516	-
Research	78,929,862	3,004,670
Academic support	50,069,567	-
Student services	33,586,148	2,797,466
Scholarships and fellowships	20,143,677	-
Public service	8,662,482	-
Operation and maintenance of plant	41,080,812	662,712
Depreciation	35,121,836	92,298
Institutional support	48,609,395	5,930,672
Auxiliary operations	<u>72,136,450</u>	<u>-</u>
Total Operating Expenses	<u>507,367,745</u>	<u>12,487,818</u>
Net Operating Loss	<u>(83,978,164)</u>	<u>(5,912,734)</u>
Nonoperating Revenues (Expenses):		
State appropriation (Note 14)	76,666,590	-
Net investment income	749,894	668,731
Endowment income	-	14,658,986
Private gifts and contributions	-	12,063,102
Payments from component units	10,406,620	(13,880,208)
Additions to permanent endowments	-	8,129,695
Miscellaneous receipts	-	501,921
Interest expense	<u>(8,591,975)</u>	<u>-</u>
Net Nonoperating Revenues	<u>79,231,129</u>	<u>22,142,227</u>
Increase (Decrease) in Net Position Before Capital Contributions	(4,747,035)	16,229,493
Capital Contributions:		
Capital appropriations (Note 14)	33,060,844	-
Capital gifts	<u>4,786,651</u>	<u>(2,912,939)</u>
Increase in Net Position	33,100,460	13,316,554
Net Position, Beginning of Year (Component unit restated, Note 1)	<u>427,756,672</u>	<u>172,006,590</u>
Net Position, End of Year	<u>\$ 460,857,132</u>	<u>\$ 185,323,144</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 Cash Flows

For the Year Ended June 30, 2017

	<u>University of Rhode Island</u>
Cash Flows From Operating Activities:	
Tuition and fees	\$ 278,027,781
Federal, state, local, and private grants	93,810,463
Payments to suppliers	(136,865,684)
Payments to employees	(322,299,251)
Payments for scholarships, fellowships, and sponsored programs	(29,864,096)
Other auxiliary enterprises	26,192,808
Other sources	<u>19,974,510</u>
Net Cash Applied to Operating Activities	<u>(71,023,469)</u>
Cash Flows from Noncapital Financing Activities:	
State appropriations	76,666,590
Payments from component units	10,406,620
Funds held for others	<u>(502,049)</u>
Net Cash Provided by Noncapital Financing Activities	<u>86,571,161</u>
Cash Flows from Capital and Related Financing Activities:	
Capital appropriations	33,060,844
Purchase of capital assets	(44,435,641)
Proceeds from issuance of loans and bonds	112,844,649
Principal paid on capital debt and leases	(112,398,261)
Interest paid on capital debt and leases	(10,353,770)
Return of deposit from trustee	<u>(4,165,221)</u>
Net Cash Applied to Capital and Related Financing Activities	<u>(25,447,400)</u>
Cash Flows from Investing Activities:	
Net investment income	749,894
Proceeds from the sale of investments	<u>992,000</u>
Net Cash Provided by Investing Activities	<u>1,741,894</u>
Net Decrease in Cash and Equivalents	(8,157,814)
Cash and Equivalents, Beginning of the Year	<u>131,954,062</u>
Cash and Equivalents, End of the Year	<u>\$ 123,796,248</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, 2017

	<u>University of Rhode Island</u>
Reconciliation of Net Operating Loss to Net Cash Applied to Operating Activities:	
Net operating loss	\$ (83,978,164)
Adjustments to reconcile net operating loss to net cash applied to operating activities:	
Depreciation	35,121,836
Loss on disposal of assets	1,183,355
Bad debt recovery	(412,178)
Net pension activity	664,720
Changes in assets and liabilities:	
Accounts receivable	1,230,740
Due from primary government	(5,730,359)
Inventory and other current assets	410,596
Loans receivable	806,038
Accounts payable and accrued liabilities	(17,771,374)
Compensated absences	881,036
Unearned revenue	(2,420,401)
Refundable grant	<u>(1,009,314)</u>
 Net Cash Applied to Operating Activities	 <u>\$ (71,023,469)</u>
 Noncash Transactions:	
Capital gifts	<u>\$ 4,786,651</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

For the Year Ended June 30, 2017

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 (the "State") and is part of the State's system of public higher education.

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 Commissioner, which operates under the direction of the Commissioner of Postsecondary Education, is the administrative and research arm of the BOE. 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 public higher education system consists of three entities: the University, Rhode Island College ("RIC"), and the Community College of Rhode Island ("CCRI"). 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, 2017

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 (the “Councils”). Each of the Councils will be responsible for the significant portion of the governance and regulation per RIGL Sections 16-60-1 and 16-60-4 for Elementary/Secondary and per RIGL Sections 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 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, 2017

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, 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, 2017

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

Component Units

The University of Rhode Island Foundation, Inc. (the "Foundation"), the Alumni Association of the University of Rhode Island (the "Alumni Association"), and the University of Rhode Island Research Foundation, Inc. (the "Research Foundation") are legally separate tax-exempt component units of the University. During 2017, the University determined that the Research Foundation would be shown as a component unit of the University. Consequently, beginning net position of the component units has been restated to include the beginning net position of the Research Foundation in the amount of \$1,892,918.

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.

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 for 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. Because of this relationship, the Research Foundation is considered a component unit of the University and is discretely presented in the University's financial statements.

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, 2017

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

Component Units - Continued

During the year ended June 30, 2017, the Foundation distributed \$15,609,238 to the University for both restricted and unrestricted purposes.

During the year ended June 30, 2017, the Alumni Association distributed \$2,797,466 to the University for Scholarships and Athletic Club expenses.

As of June 30, 2017, the Component Units have a liability to the University of \$718,357, which is reflected in accounts payable and accrued liabilities.

The University has fundraising agreements with the Foundation and Alumni Association and paid \$3,246,000 and \$913,000 respectively. The University has a support agreement with the Research Foundation and paid \$416,071 as well as \$250,000 that was passed through the University for State of Rhode Island Legislature Community Grant.

The Foundation, the Alumni Association, and the Research Foundation 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, Alumni Association, or Research Foundation'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, 2017

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

Component Units - Continued

The condensed statements of net position of the Foundation, the Alumni Association, and the Research Foundation as of June 30, 2017 are as follows:

	2017			
	Foundation	Alumni Association	Research Foundation	Total
Current assets	\$ 23,291,155	\$ 2,369,235	\$ 1,501,178	\$ 27,161,568
Noncurrent assets	155,749,977	5,386,794	1,599,668	162,736,439
Total assets	179,041,132	7,756,029	3,100,846	189,898,007
Current liabilities	3,113,371	267,866	564,614	3,945,851
Noncurrent liabilities	629,012	-	-	629,012
Total liabilities	3,742,383	267,866	564,614	4,574,863
Net position:				
Net investment in capital assets	1,914,169	-	-	1,914,169
Restricted:				
Expendable	73,828,056	1,860,748	-	75,688,804
Nonexpendable	95,393,236	-	-	95,393,236
Unrestricted	4,163,288	5,627,415	2,536,232	12,326,935
Total net position	\$ 175,298,749	\$ 7,488,163	\$ 2,536,232	\$ 185,323,144

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, 2017

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, Alumni Association, and the Research Foundation for the year ended June 30, 2017 are as follows:

	Foundation	Alumni Association	Research Foundation	Total
Operating Revenues:				
Federal, state, local, and private grants and contracts	\$ -	\$ -	\$ 2,507,185	\$ 2,507,185
Other sources	-	3,252,940	814,959	4,067,899
Total Operating Revenues	-	3,252,940	3,322,144	6,575,084
Operating Expenses:				
Research	-	-	3,004,670	3,004,670
Student services	-	2,797,466	-	2,797,466
Operation and maintenance of plant	-	437,969	224,743	662,712
Depreciation	92,298	-	-	92,298
Institutional support	3,731,330	2,199,342	-	5,930,672
Total Operating Expenses	3,823,628	5,434,777	3,229,413	9,483,148
Net Operating Loss	(3,823,628)	(2,181,837)	92,731	(5,415,249)
Nonoperating Revenues (Expenses):				
Net investment income (loss)	(24,526)	555,535	137,722	668,731
Endowment income	14,658,986	-	-	14,658,986
Private gifts	10,588,527	1,474,575	-	12,063,102
Gifts from (to) the University	(14,293,069)	-	412,861	(13,880,208)
Additions to permanent endowments	8,129,695	-	-	8,129,695
Miscellaneous receipts	501,921	-	-	501,921
Net Nonoperating Revenues	19,561,534	2,030,110	550,583	22,142,227
Increase in Net Position Before Capital Gifts	15,737,906	(151,727)	643,314	16,229,493
Capital Gifts	(2,912,939)	-	-	(2,912,939)
Increase in Net Position	12,824,967	(151,727)	643,314	13,316,554
Net Position, at Beginning of Year, restated	162,473,782	7,639,890	1,892,918	172,006,590
Net Position, at End of Year	\$ 175,298,749	\$ 7,488,163	\$ 2,536,232	\$ 185,323,144

Complete financial statements for the Foundation can be obtained from 79 Upper College Road, Kingston, RI 02881, for the Alumni Association can be obtained from Alumni Relations, Room 105, 73 Upper College Road, Kingston, RI 02881, and the Research Foundation can be obtained from 75 Lower 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, 2017

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 1 or 3 inputs.

Fair value measurements of the University's investments include \$944,000 of Level 2 negotiable certificates of deposit at June 30, 2017, based on significant other observable 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, 2017

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, 2017 totaled \$3,353,591.

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 BOE'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 statement of net position 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, 2017

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. As discussed later, GASB 75 - *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, replaces GASB 45 and will require a restatement of balances at July 1, 2017.

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, 2017

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

Health Insurance

The State offers one state paid health plan to each of its participating agencies. The premiums for these plans are divided among the agencies based upon the number of eligible employees. All employees share in healthcare costs. Employee contributions ranged from 15% to 35% of healthcare premiums. The costs are automatically deducted through the payroll system on a biweekly basis. The University pays the balance of the healthcare costs. Expenses incurred by the University for the 2017 healthcare premiums amounted to \$40,765,254. Employee contributions for the 2017 fiscal year were \$7,303,229.

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 compensation 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 weighted average fringe benefit assessment rate for 2017 for non-faculty was 4.49% and 3.69% for faculty. The assessed fringe benefit cost for the University was \$7,507,892 for fiscal 2017.

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, 2017

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 preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions about future events. These estimates and assumptions affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, as well as the reported amounts of revenues and expenses during the reporting period. Management evaluates the estimates and assumptions on an ongoing basis using historical experience and other factors that management believes to be reasonable under the circumstances. Adjustments to estimates and assumptions are made as facts and circumstances require. As future events and their effects cannot be determined with certainty, actual results may differ from the estimates used in preparing the accompanying financial statements. Significant estimates and assumptions are required as part of estimating an allowance for doubtful accounts, depreciation, and determining the net pension liability.

Risk Management

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

The University is insured for general liability with policy limits of \$1 million per claim and \$3 million in the aggregate with a \$25,000 deductible 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.

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, 2017

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

Risk Management - Continued

Crime coverage for University employees is carried with a limit of \$25 million and a deductible of \$75,000, except for employee dishonesty that has a \$150,000 deductible. The University also maintains an excess liability insurance policy with a limit of \$25 million.

Buildings and contents are insured against fire, theft, and natural disaster to the extent that losses exceed \$100,000 per incident and do not exceed \$200 million. A separate inland marine policy insures specifically listed property items such as computer equipment, valuable papers, fine arts, contractors' equipment, and miscellaneous property at various limits of insurance and deductibles. The University also maintains Hull, 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, 2017.

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.

New Governmental Accounting Pronouncements

GASB Statement 83 – *Certain Asset Retirement Obligations* (“AROs”) is effective for periods beginning after June 15, 2018. An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. This Statement establishes criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources for AROs and requires that recognition occur when the liability is both incurred and reasonably estimable. 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, 2017

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

New Governmental Accounting Pronouncements - Continued

GASB Statement 84 – *Fiduciary Activities* is effective for periods beginning after December 15, 2018. The objective of this statement is to establish criteria for identifying fiduciary activities. Activity meeting the established criteria would then be presented in a statement of fiduciary net position and a statement of changes in fiduciary net position. Pension and other employee benefit trust funds, investment trust funds, private-purpose trust funds and custodial funds would be reported, as applicable, according to this Statement. Information of component units of a primary government would be combined and shown in the aggregate with the fiduciary funds of the primary government. Under this Statement, a liability could be recognized to the beneficiaries in a fiduciary fund if the government has been compelled to disburse fiduciary resources. Management has not yet evaluated the effects of the implementation of this Statement.

GASB Statement 85 – *Omnibus 2017* is effective for periods beginning after June 15, 2017. The objective of this Statement is to address practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits). Management has not completed its review of the requirements of this standard and its applicability.

GASB Statement 86 – *Certain Debt Extinguishment Issues* is effective for reporting periods beginning after June 15, 2017. The primary objective of this Statement is to improve consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources—resources other than the proceeds of refunding debt—are placed in an irrevocable trust for the sole purpose of extinguishing debt. This Statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and disclosures in the financial statements for debt that is defeased in substance. Management has not completed its review of the requirements of this standard.

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, 2017

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

New Governmental Accounting Pronouncements - Continued

GASB Statement 87 – *Leases* is effective for periods beginning after December 15, 2019. Implementation of this standard will require lessees to recognize on their statement of net position the rights and obligations resulting from leases categorized as operating leases as assets, liabilities, or deferred inflows / outflows of resources. It provides for an election on leases with terms of less than twelve months to be excluded from this Standard. Management is in the process of evaluating this standard and has not yet determined its impact on the financial statements.

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

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, 2017

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.

At June 30, 2017, the carrying amount of the University's cash deposits was \$64,066,796, and the bank balance was \$67,529,304. 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, \$38,501,879 was covered by federal depository insurance ("FDIC"), and \$28,963,983 was collateralized with securities held by the pledging financial institution in the University's name as of June 30, 2017. The remaining amount, \$63,442 was uninsured and uncollateralized. The insured balance reflects FDIC insurance and guarantee programs in effect during 2017.

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, 2017

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

Cash and Equivalents - Continued

At June 30, 2017, the University had investments (cash equivalents) consisting of \$55,535,141 in the Ocean State Investment Pool Trust (“OSIP”), an investment pool established by the State General Treasurer. The University’s investment accounted for 9.8% of the total investment in OSIP at June 30, 2017. 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.

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, 2017, 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, 2017, the University’s investments were contained in negotiable certificates of deposit maturing within one year.

Credit Risk

The BOE 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, 2017, the University’s investments were unrated.

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, 2017

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

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.

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.

Negotiable Certificates of Deposit: Investments are valued at fair market value adjusted monthly by a third-party servicer.

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, 2017, all investments are categorized in Level 2 of the fair value hierarchy.

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, 2017

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

Component Units

The Foundation, the Alumni Association, and the Research Foundation investments at June 30, 2017 are reported at fair market value and are composed of the following:

	<u>Foundation</u>	<u>Alumni Association</u>	<u>Research Foundation</u>	<u>Total</u>
Common Stocks	\$ 4,803,664	\$ 3,806,890	\$ -	\$ 8,610,554
Fixed Income	5,331,182	-	-	5,331,182
Government Securities	27,172,685	544,693	-	27,717,378
Emerging Markets Equities	13,393,311	-	-	13,393,311
Domestic Equities	22,642,260	-	-	22,642,260
Marketable Alternatives	34,899,566	-	-	34,899,566
Corporate Bonds	4,902,356	1,035,211	-	5,937,567
REITS	3,251,790	-	-	3,251,790
Equity Investment in Private Company	-	-	92,500	92,500
Mutual Funds	28,279,792	-	-	28,279,792
	<u>\$ 144,676,606</u>	<u>\$ 5,386,794</u>	<u>\$ 92,500</u>	<u>\$ 150,155,900</u>

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

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 \$4,194,311 at June 30, 2017. The University has recorded a comparable dollar amount of cash held by the State Treasurer for the benefit of the University, which was subsequently utilized to pay for such liabilities.

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

Notes to the Financial Statements - Continued

For the Year Ended June 30, 2017

Note 4 - **Accounts Receivable**

Accounts receivable, which are anticipated to be collected within one year, include the following at June 30, 2017:

Student accounts receivable	\$	10,709,088
Grants receivable		5,075,940
Unbilled grants receivables		16,835,641
Other receivables		<u>9,979,311</u>
		42,599,980
Less: allowance for doubtful accounts		<u>(6,684,520)</u>
	\$	<u><u>35,915,460</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.

Loans receivable include the following at June 30, 2017:

Perkins loans	\$	8,051,830
Nursing loans		1,475,929
Health profession loans		1,629,534
Other		<u>796,113</u>
		11,953,406
Less: allowance for doubtful accounts		<u>(784,910)</u>
	\$	<u><u>11,168,496</u></u>

The Federal Perkins Loan Program Extension Act of 2015 (the "Extension Act"), enacted on December 18, 2015, extended the Perkins Loan Program through September 30, 2017. The Extension Act states that new Perkins Loans cannot be disbursed to students after September 30, 2017. Students that received a fall semester Perkins loan disbursement before October 1, 2017 can receive a spring semester Perkins loan disbursement. The University is currently evaluating alternative methods of financial aid for students affected by the Extension Act for the 2018-19 academic year.

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, 2017

Note 6 - **Capital Assets**

Capital assets of the University consist of the following at June 30, 2017:

	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	-	16,508,025	42,145,986	(632,070)	(27,014,153)	31,007,788
Total not depreciated		18,695,146	42,145,986	(632,070)	(27,014,153)	33,194,909
Capital assets depreciated:						
Land improvements	15-25	68,107,624	-	-	1,517,177	69,624,801
Buildings, including improvements	10-50	868,588,022	1,698,711	(592,160)	25,496,976	895,191,549
Furnishings and equipment (including cost of capital leases)	5-15	101,937,817	5,377,595	(2,712,939)	-	104,602,473
Total depreciated		1,038,633,463	7,076,306	(3,305,099)	27,014,153	1,069,418,823
Less accumulated depreciation:						
Land improvements		30,941,201	2,683,950	-	-	33,625,151
Building, including improvements		300,885,075	26,832,354	(503,163)	-	327,214,266
Furnishings and equipment		72,990,771	5,605,532	(2,250,651)	-	76,345,652
Total accumulated depreciation		404,817,047	35,121,836	(2,753,814)	-	437,185,069
Capital assets, net		\$ 652,511,562	\$ 14,100,456	\$ (1,183,355)	\$ -	\$ 665,428,663

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 BOE 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, 2017, the remaining liability is \$19,378.

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, 2017

Note 8 - **Long-Term Liabilities**

Long-term liabilities consist of the following at June 30, 2017:

	<u>Beginning balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending balance</u>	<u>Current portion</u>
Leases and bonds payable:					
Lease obligations	\$ 4,620,919	\$ -	\$ 1,082,722	\$ 3,538,197	\$ 1,133,197
Due to primary government					
Certificate of participation	13,750,000	8,748,000	3,975,000	18,523,000	1,738,000
Revenue bonds payable	210,623,904	88,510,000	103,011,560	196,122,344	8,697,283
Premium on bonds payable	5,302,898	15,873,596	2,229,399	18,947,095	1,545,954
Loans payable	<u>706,032</u>	<u>379,530</u>	<u>166,759</u>	<u>918,803</u>	<u>182,193</u>
Total leases and bonds payable	<u>235,003,753</u>	<u>113,511,126</u>	<u>110,465,440</u>	<u>238,049,439</u>	<u>13,296,627</u>
Other long-term liabilities:					
Compensated absences	18,177,533	1,979,056	1,098,020	19,058,569	1,148,992
Grant refundable	11,229,033	-	1,009,314	10,219,719	-
Net pension liability	<u>113,015,599</u>	<u>10,004,349</u>	<u>-</u>	<u>123,019,948</u>	<u>-</u>
Total Other long-term liabilities	<u>142,422,165</u>	<u>11,983,405</u>	<u>2,107,334</u>	<u>152,298,236</u>	<u>1,148,992</u>
Total long-term liabilities	<u>\$ 377,425,918</u>	<u>\$ 125,494,531</u>	<u>\$ 112,572,774</u>	<u>\$ 390,347,675</u>	<u>\$ 14,445,619</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, 2017

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

Bonds Payable

The revenue bonds consist of the following:

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	8,735,000
Series 2009 B University of Rhode Island Auxiliary Revenue Issue, 3% to 5.25%, due semiannually through 2029	14,730,000
Series 2010 A University of Rhode Island Educational and General Revenue Issue, 3% to 5%, due semiannually through 2041	11,625,000
Series 2010 B University of Rhode Island Auxiliary Enterprise Revenue Issue, 3% to 5%, due semiannually through 2031	39,010,000
Series 2013 A University of Rhode Island Educational and General Revenue Refunding Issue, 2% to 3%, due semiannually through 2024	3,945,000
Series 2013 B University of Rhode Island Educational and General Revenue Refunding Issue, 2% to 3%, due semiannually through 2024	3,647,628
Series 2013 C University of Rhode Island Auxiliary Revenue Issue, 2% to 5%, due semiannually through 2025	16,915,000
Series 2013 D University of Rhode Island Auxiliary Revenue Issue, 2% to 5%, due semiannually through 2024	5,174,716
Series 2016 A University of Rhode Island Educational and General Revenue Refunding Issue, 3% to 5%, due semiannually through 2036	35,155,000
Series 2016 B University of Rhode Island Auxiliary Revenue Issue, 4% to 5%, due semiannually through 2035	53,355,000
	<u>\$ 196,122,344</u>

The bonds issued by the Rhode Island Health and Education Building Corporation (the "Corporation") are special limited obligations of the BOE acting on behalf of the University. The refunding and general and educational bonds are secured by all available revenues of the BOE 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.

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, 2017

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

Bonds Payable - Continued

On November 14, 2008, the Corporation 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 2024.

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

Notes to the Financial Statements - Continued

For the Year Ended June 30, 2017

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. The refunding reduced the University's total debt service by \$994,958 and resulted in 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. The refunding reduced the University's total debt service by \$785,119 and resulted in 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. The refunding reduced the University's total debt service by \$3,403,027 and resulted in an economic gain (difference between the present value of the old and new debt service payments) of \$3,024,046.

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, 2017

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. The refunding reduced the University's total debt service by \$1,149,425 and resulted in an economic gain (difference between the present value of the old and new debt service payments) of \$1,033,774.

On September 28, 2016, the Corporation issued the Higher Education Facility Revenue Bonds, University of Rhode Island Educational and General Revenue Refunding Issue, Series 2016 A with a par amount of \$35,155,000. The proceeds of the Series 2016 A Bond were used to finance and refinance the design, construction, renovation, improvement and equipping of certain utility systems and other infrastructure, including wastewater, electrical, telecommunications, natural gas connections and storm water management systems, as well as roadways, walkways and parking facilities of the University. The University refunded all Higher Education Facility Revenue Bonds, University of Rhode Island, Series 2005 A, B, F, and G bonds. The University entered into the bond refunding with the goal to achieve cost savings primarily through the reduction of interest expense. The refunding reduced the University's total debt service by \$7,282,960 and resulted in an economic gain (difference between the present value of the old and new debt service payments) of \$6,119,777.

On September 28, 2016, the Corporation issued the Higher Education Facility Revenue Bonds, University of Rhode Island Auxiliary Enterprise Revenue Refunding Issue, Series 2016 B with a par amount of \$53,355,000. The proceeds of the Series 2016 B Bond were used to refund all Higher Education Facility Revenue Bonds, University of Rhode Island, Series 2005 C and D bonds, and Series 2008 A bonds. The University entered into the bond refunding with the goal to achieve cost savings primarily through the reduction of interest expense. The refunding reduced the University's total debt service by \$16,396,545 and resulted in an economic gain (difference between the present value of the old and new debt service payments) of \$13,548,566.

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, 2017

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

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:			
2018	\$ 8,697,283	\$ 9,147,995	\$ 17,845,278
2019	9,083,006	8,767,705	17,850,711
2020	9,487,467	8,363,283	17,850,750
2021	9,931,814	7,923,684	17,855,498
2022	10,403,550	7,459,896	17,863,446
2023-2027	56,854,224	29,022,036	85,876,260
2028-2032	53,700,000	14,490,763	68,190,763
2033-2037	27,500,000	5,115,925	32,615,925
2038-2041	10,465,000	1,079,125	11,544,125
	\$ 196,122,344	\$ 91,370,412	\$ 287,492,756

Amortization of the bond premium and deferred loss on debt refunding are included with interest expense. Interest costs on all debt for the year ended June 30, 2017 were \$8,591,975.

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, 2017

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 - 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	\$ 5,385,000
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	4,390,000
Certificate of participation (COP) Energy Conservation - 2017 B payable to the State of Rhode Island. Original amount of debt issued - \$6,910,000, 3% to 5% due annually through 2032	6,910,000
Certificate of participation (COP) Energy Conservation Refunding - 2017 C payable to the State of Rhode Island. Original amount of debt issued - \$1,838,000 5% due annually through 2032 with a reduction to total debt service of \$163,221 and an economic gain of \$161,289	1,838,000
	\$ 18,523,000

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

	Principal	Interest	Total
Years ending June 30:			
2018	\$ 1,738,000	\$ 824,794	\$ 2,562,794
2019	2,042,000	780,925	2,822,925
2020	2,607,000	689,438	3,296,438
2021	2,550,000	564,638	3,114,638
2022	1,132,000	442,325	1,574,325
2023-2027	5,274,000	1,413,950	6,687,950
2028-2032	3,180,000	422,500	3,602,500
	\$ 18,523,000	\$ 5,138,570	\$ 23,661,570

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, 2017

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

Loans Payable

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

Principal and interest of loans payable are as follows:

	Principal	Interest	Total
Years ending June 30:			
2018	\$ 182,193	\$ 28,741	\$ 210,934
2019	178,322	25,205	203,527
2020	156,098	21,451	177,549
2021	88,609	17,465	106,074
2022	92,840	13,233	106,073
2023-2025	220,741	12,925	233,666
	\$ 918,803	\$ 119,020	\$ 1,037,823

Lease Obligations

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

Notes to the Financial Statements - Continued

For the Year Ended June 30, 2017

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

Lease Obligations - 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 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:

	Principal	Interest	Total
Years ending June 30:			
2018	\$ 1,133,197	\$ 181,467	\$ 1,314,664
2019	1,175,000	121,000	1,296,000
2020	1,230,000	25,625	1,255,625
	\$ 3,538,197	\$ 328,092	\$ 3,866,289

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, 2017

Note 9 - **Pension**

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

Notes to the Financial Statements - Continued

For the Year Ended June 30, 2017

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 four-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 Rhode Island General Laws, Section 36-10-2, provides for actuarially determined periodic contributions to the plan. For fiscal 2017, University employees, with less than 20 years of service as of July 1, 2015, were required to contribute 3.75% of their annual covered salary. Employees with more than 20 years of service as of July 1, 2015 were required to contribute 11% of their annual covered salary. The University is required to contribute at an actuarially determined rate; the rate was 25.34% of annual covered payroll for the fiscal year ended June 30, 2017. The University contributed \$9,903,769, \$9,223,974 and \$8,869,864 for the fiscal years ended June 30, 2017, 2016 and 2015, 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, 2017, the University reported a liability of \$123,019,948 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, 2016, 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, 2015 rolled forward to June 30, 2016. The University proportion of the net pension liability was based on its share of contributions to the ERS for fiscal year 2016 relative to the total contributions of all participating employers for that fiscal year. At June 30, 2016, the University proportion was 5.80%.

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, 2017

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, 2017, the University recognized pension expense of \$10,568,489. At June 30, 2017, 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	\$	2,424,835
Net difference between projected and actual investment earnings		8,781,327
Contributions made after the measurement date		<u>9,903,769</u>
	\$	<u><u>21,109,931</u></u>

Deferred Inflows of Resources

Differences between expected and actual experience	\$	3,257,748
Change of assumptions		610,807
Total	\$	<u><u>3,868,555</u></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, 2017

Note 9 - **Pension - Continued**

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

Contributions of \$9,903,769 are reported as deferred outflows of resources related to pensions resulting from the University's contributions in fiscal year 2017 subsequent to the measurement date and will be recognized as a reduction of the net pension liability at the June 30, 2017 measurement date. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as a reduction in pension expense as follows:

Year ended June 30:		
2018	\$	1,077,599
2019		1,077,599
2020		3,214,404
2021		1,968,005
2022		-
Thereafter		-
	<u>\$</u>	<u>7,337,607</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, 2015 valuations rolled forward to June 30, 2016 and the calculation of the total pension liability at June 30, 2016 were consistent with the results of an actuarial experience study performed as of June 30, 2013.

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, 2017

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 35 sources. The June 30, 2016 expected arithmetic returns over the long-term (20 years) by asset class are summarized in the following table:

<u>Type of Investment</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Global Equity:	38.00%	
U.S. Equity		6.98%
International Developed		7.26%
International Emerging Markets		9.57%
Equity Hedge Funds	8.00%	4.10%
Private Equity	7.00%	10.15%
Core Fixed Income	15.00%	2.37%
Absolute Return Hedge Funds	7.00%	4.10%
Infrastructure	3.00%	5.58%
Real Estate	8.00%	5.33%
Other Real Return Assets:	11.00%	
Master Limited Partnerships		4.97%
Credit		4.97%
Inflation Linked Bonds		1.76%
Cash, Overlay and Money Market	3.00%	0.82%
	<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
(a Component Unit of the State of Rhode Island and Providence Plantations)

Notes to the Financial Statements - Continued

For the Year Ended June 30, 2017

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.

In May 2017, the Employees' Retirement System of Rhode Island Board voted to lower the investment rate of return assumption from 7.5% to 7% which will be reflected in the determination of the net pension liability for the various plans administered by the ERS beginning with the June 30, 2017 measurement date valuations.

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%)
\$ 150,642,843	\$ 123,019,948	\$ 100,406,250

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

Notes to the Financial Statements - Continued

For the Year Ended June 30, 2017

Note 10 - **Other Retirement Plans**

State of Rhode Island Employees Retirement System (“ERS”) Defined Contribution

Plan Description

Certain employees participating in the defined benefit plan (those with less than 20 years of service as of July 1, 2015), as described in Note 9, also participate in a defined contribution plan of the Employees’ Retirement System as authorized by Rhode Island General Law Chapter 36-10.3. The defined contribution plan was established under IRS section 401(a) and is administered by TIAA-CREF. The Retirement Board is the plan administrator and plan trustee. The employees may choose among various investment options available to plan participants. The State Investment Commission is responsible for implementing the investment policy of the plan and selecting the investment options available to members.

Contributions

Certain employees (those with less than 20 years of service as of July 1, 2015) contribute 5% of their annual covered salary and employers contribute at the following percentages of annual covered salary for these employees based on their years of service as of July 1, 2015:

<u>Years of Service</u> <u>As of 7/1/2015</u>	<u>Employer</u> <u>Contribution Rate</u>
15 - 20 Years	1.50%
10 - 15 Years	1.25%
0 - 10 Years	1.00%

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 Rhode Island General Laws, which are subject to amendment by the General Assembly.

The University contributed and recognized as pension expense \$390,835 for the fiscal year ended June 30, 2017, equal to 100% of the required contributions for that year.

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, 2017

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

State of Rhode Island Employees Retirement System (“ERS”) Defined Contribution – Continued

Plan Vesting and Contribution Forfeiture Provisions

The total amount contributed by the member, including associated investment gains and losses, shall immediately vest in the member’s account and is non-forfeitable. The total amount contributed by the employer, including associated investment gains and losses, vests with the member and is non-forfeitable upon completion of three (3) years of contributory service. Non-vested employer contributions are forfeited upon termination of employment. Such forfeitures can be used by employers to offset future remittances to the plan.

Retirement Benefits

Benefits may be paid to a member after severance from employment, death, plan termination, or upon a deemed severance from employment for participants performing qualified military service. At a minimum, retirement benefits must begin no later than April 1 of the calendar year following the year in which the member attains age 70½ or terminates employment, if later.

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 at <http://ersri.org>.

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 BOE, 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 BOE 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.

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, 2017

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

Rhode Island Board of Education Alternate Retirement Plan – Continued

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 \$11,549,633 during 2017. The employee contribution amounted to \$6,416,463 during 2017.

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, 2017:

Restricted – expendable:		
Student loans	\$	4,165,900
Capital programs		3,750
	\$	<u>4,169,650</u>

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 U.S. Environmental Protection Agency (the “EPA”), the U.S. 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 \$874,469 relating to the remediation project, operation and maintenance costs, and site reviews. The related costs for the year ended June 30, 2017 were \$108,836.

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, 2017

Note 12 - **Contingencies - Continued**

Other

Various lawsuits are pending or threatened against the University that arose from the ordinary course of operations. In the opinion of management, no litigation is now pending, or threatened that would materially affect the University's financial position.

At June 30, 2017, 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.

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, 2017:

Compensation and benefits	\$	312,970,220
Supplies and services		130,420,907
Depreciation		35,121,836
Scholarships and fellowships		28,854,782
	\$	<u>507,367,745</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, 2017

Note 14 - **State Appropriation**

Direct Appropriations

Pursuant to the Rhode Island General Law Section 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 entities it oversees. 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 ("RICAP") was modeled on a financial technique originating in the State of Delaware. In fiscal year 2017, 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 fiscal year financial resources), the balance is transferred to RICAP. RICAP 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.

The University's State Capital Plan Allocations are composed of the following for the year ended June 30, 2017:

Asset Protection	\$ 8,668,300
Fire and Safety Protection	2,179,620
Nursing Education Center	301,859
Nursing White Hall	190,162
Substation	171,158
Biotechnology Center	47,749
	<hr/> <hr/>
	\$ 11,558,848

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, 2017

Note 14 - **State Appropriation - Continued**

State Contributed Capital

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 2017, the University spent \$80,000.

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 2017, the University spent \$1.2 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 2017, the University spent \$18.8 million.

In November 2016, the Rhode Island voters approved the issuance of \$45 million General Obligations Bonds for higher education facilities. The bond provides \$25 million for the renovations of Bliss Hall and \$20 million for an innovation campus that will support cutting-edge research into products, services and businesses that will build Rhode Island's economy. None of these funds were spent during fiscal year 2017.

In June 2017, the State refunded the 2007 B COP issuance with the 2017 C issuance. The refunding and issuance resulted in a loss on refunding and a premium in the amount of approximately \$1.4 million which the State has deemed contributed capital.

The expenditures funded from the proceeds of the above-mentioned general obligation bonds and capitalized as fixed assets during fiscal year 2017 totaled \$21.5 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, 2017

Note 14 - **State Appropriation - Continued**

State Contributed Capital - Continued

The University's State appropriations are composed of the following for the year ended June 30, 2017:

Direct Appropriations	\$	76,666,590
State Capital Plan Funds		11,558,848
State Contributed Capital		21,501,996
	\$	<u>109,727,434</u>

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

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

Rhode Island Retiree Health Care Benefit Plan

Plan Description

The University 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 (the "OPEB System"). The State of Rhode Island OPEB Board (the "Board") was authorized, created and established under Chapter 36-12.1 of the Rhode Island 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.

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, 2017

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

Rhode Island Retiree Health Care Benefit Plan - Continued

Plan Description - Continued

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 2017, employers were required to contribute 5.97% of covered payroll. The employer required contribution rate is determined on an actuarially determined basis consistent with a funding approach outlined in the Rhode Island 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, 2017, 2016 and 2015 which were \$2,340,820, \$2,343,583 and \$2,581,115 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, 2017

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

Rhode Island Board of Education Health Care Insurance Retirement Program

Plan Description

The University contributes to the BOE health care insurance retirement program (the “Plan”), medical coverage only, for eligible employees who participate in the BOE’s Alternate Retirement Plan (the “ARP”) and per union contracts. The BOE established a defined benefit healthcare plan effective July 1, 1998 for employees of the Office of Higher Education, University, RIC and CCRI. The BOE’s ARP is considered a cost-sharing multiple employer plan. Rhode Island State law established the “Rhode Island State Employees' and Electing Teachers OPEB System” (“OPEB System”), as defined in RIGL Section 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 Plan. The State of Rhode Island OPEB Board (the “Board”) was authorized, created and established under Chapter 36-12.1 of the Rhode Island 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 was established in fiscal year 2011 to accumulate assets and pay benefits and other costs associated with the system.

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

Funding Policy

RIGL Sections 36-12.1, 36-12-2.2 and 36-12.4 govern the provisions of the OPEB System. The contribution requirements of plan members and the University are established and may be amended by the Board. Effective in fiscal year 2011, all participating employers are required by law to fund the ARC, which for fiscal year 2015 was 2.30% and for 2016 and 2017 was 3.11% of payroll covered by the 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.

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, 2017

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

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

Funding Policy - Continued

The University contributions to the plan were \$1,640,363, \$1,502,284 and \$1,041,396, and active employees contributed 0.9% of covered payroll of \$474,703, \$434,745 and \$421,995 during 2017, 2016 and 2015, 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.

New Accounting Guidance Effective for Fiscal 2018

As discussed in Note 1, GASB 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* is effective for fiscal 2018 and is applicable for employees participating in a cost-sharing multiple employer plan such as the Rhode Island Retiree Health Care Benefit Plan and the Rhode Island Board of Education Health Care Insurance Retirement Program. The University will be required to restate beginning net position as of July 1, 2017 to recognize the employer's proportionate share of the plan's net OPEB obligation. OPEB expense reported in the University's financial statements will reflect the change in the net OPEB liability for the fiscal year.

Note 16 - **Related Parties**

The University of Rhode Island Student Senate (the "Student Senate") is a legally separate tax-exempt entity associated with the University.

The Student Senate accounts for various student organizations and receives the student activity fees collected by the University. The Student Senate also operates the Memorial Union Board which generates revenue from its own activities including Ram Tours and the 193 Degrees Coffee House. The University transferred \$1,547,246 to the Student Senate during the 2017 fiscal year representing student fees collected on the Student Senate's behalf. At June 30, 2017, \$16,227 was due to the Student Senate and no amounts were due from the Student Senate. Revenues of the Student Senate for fiscal year 2017 were \$2,659,681 and expenses totaled \$2,502,671. Net position of the Student Senate at June 30, 2017 totaled \$2,924,120.

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, 2017

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 2017 share of capital expenditures amounted to \$405,691.

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 \$567,684 in 2017. Financial information may be obtained at the Town of South Kingstown, 180 High Street, Wakefield, Rhode Island 02879.

Note 18 - **Pass-Through Loans**

The University distributed \$98,697,424 during fiscal 2017, 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.

**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	June 30, 2017	June 30, 2016	June 30, 2015
Measurement date	June 30, 2016	June 30, 2015	June 30, 2014
Valuation date	June 30, 2015	June 30, 2014	June 30, 2013
University's proportion of the net pension liability	5.80%	5.69%	5.63%
University's proportionate share of the net pension liability	\$ 123,019,948	\$ 113,015,599	\$ 100,312,100
University's covered-employee payroll	\$ 39,018,501	\$ 38,019,134	\$ 36,798,276
University's proportionate share of the net pension liability as a percentage of its covered-employee payroll	315.29%	297.26%	272.60%
Plan fiduciary net position as a percentage of the total pension liability	51.88%	55.03%	58.58%

Notes:

The amounts presented for each fiscal year were determined as of June 30 measurement date prior to the fiscal year-end.

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)

Employees' Retirement System

Year ended	<u>June 30, 2017</u>	<u>June 30, 2016</u>	<u>June 30, 2015</u>
Statutorily required contribution	\$ 9,903,769	\$ 9,223,974	\$ 8,869,864
Contributions in relation to the statutorily required contribution	<u>(9,903,769)</u>	<u>(9,223,974)</u>	<u>(8,869,864)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
University's covered-employee payroll	\$ 39,083,540	\$ 39,018,501	\$ 38,019,134
Contribution as a percentage of covered-employee payroll	25.34%	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 Supplemental Information

Pension Schedules

Note 1 - **Factors Affecting Trends for Amounts Related to the Net Pension Liability**

There were no changes in actuarial methods or assumptions or benefits reflected in the calculation of the net pension liability as of the June 30, 2016 measurement date compared to the June 30, 2015 measurement date. Benefits were also unchanged between these measurement dates.

There were no changes in actuarial methods or assumptions reflected in the calculation of the net pension liability as of the June 30, 2015 measurement date compared to the June 30, 2014 measurement date.

Benefit changes, which resulted from the settlement of the pension litigation and the subsequent enactment of those settlement provisions by the General Assembly, are reflected in the calculation of the net pension liability at the June 30, 2015 measurement date. Significant benefit changes are summarized below:

- Employees with more than 20 years of service at July 1, 2012 will increase their employee contribution rates to 11% for state employees and participate solely in the defined benefit plan effective July 1, 2015 – service credit accruals will increase from 1% to 2% per year.
- Members are eligible to retire upon the attainment of: age 65 with 30 years of service, 64 with 31 years of service, 63 with 32 years of service, or 62 with 33 years of service. Members may retire earlier if their RI Retirement Security Act date is earlier or are eligible under a transition rule.
- The COLA formula was adjusted to 50% of the COLA calculated by taking the previous 5-year average investment return, less the discount rate (5 year return – 7.5%, with a max of 4%) and 50% calculated using the previous year's CPI-U (max of 3%) for a total max COLA of 3.5%. The COLA is calculated on the first \$25,855, effective, 01/01/2016, and indexed as of that date as well.
- Other changes included providing interim cost of living increases at four rather than five year intervals, providing a one-time cost of living adjustment of 2% (applied to first \$25,000), two \$500 stipends, and minor adjustments.

**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, 2017, 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 September 29, 2017. 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, 2017. 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

September 29, 2017