

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

FINANCIAL STATEMENTS

JUNE 30, 2018

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

Financial Statements

June 30, 2018

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INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the University of Rhode Island (a component unit of the State of Rhode Island and Providence Plantations) (the "University"), which comprise the statement of net position for the year ended June 30, 2018, 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, 2018.

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, 2018. 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, 2018, 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 2 to the financial statements, GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, is effective for fiscal year 2018 and required the University to restate beginning net position to recognize its proportionate share of the net postemployment benefits other than pension obligations ("OPEB") determined for the State Employees' OPEB Cost-Sharing Plan and the Board of Education Cost-Sharing OPEB Plan. 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 82, the schedule of the University's contributions - pension on page 83, notes to the required supplementary information - pension on page 84-85, the schedule of the University's proportionate share of the net OPEB liability on page 86, the schedule of the University's contributions - OPEB on page 87 and the notes to the required supplementary information - OPEB on page 88 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the

information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 30, 2018, on our consideration of University of Rhode Island's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering University of Rhode Island's internal control over financial reporting and compliance.

O'Connor and Drew, P.C.

**Certified Public Accountants
Braintree, Massachusetts**

September 30, 2018

UNIVERSITY OF RHODE ISLAND

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

Management's Discussion and Analysis (Unaudited)

June 30, 2018

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, 2018 and the results of operations for the year then ended, with selected comparative information for the year ended June 30, 2017. 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 is 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, 2018

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.

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, 2018

Introduction – Continued

The University has a combined enrollment of 18,318 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 Education and Professional Studies 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 fiscal year ended June 30, 2018 shows a decrease in net position before capital appropriations and gifts of \$8.41 million, compared to a decrease of \$4.75 million in fiscal year 2017. Operating revenues increased by \$16.64 million or 3.93% and operating expenses increased by \$24.21 million or 4.77%.

UNIVERSITY OF RHODE ISLAND

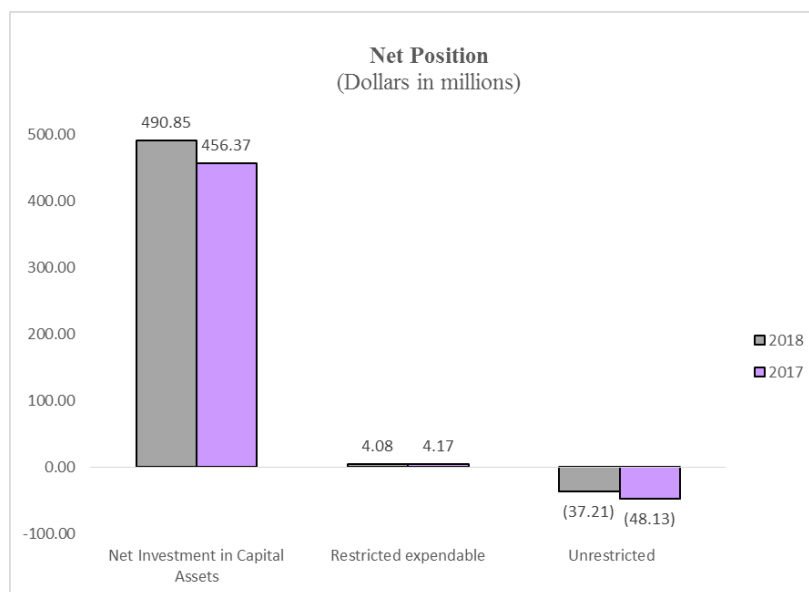
(a Component Unit of the State of Rhode Island and Providence Plantations)

Management's Discussion and Analysis (Unaudited) - Continued

June 30, 2018

Financial Highlights – Continued

The following chart displays the components of the University's net position for the fiscal years ended June 30, 2018 and 2017.



On June 30, 2018 and 2017, the University's total assets of \$999.70 million, and \$873.26 million, and deferred outflows of resources of \$40.60 million, and \$29.20 million exceeded its total liabilities of \$572.17 million and \$486.18 million and deferred inflows of resources of \$10.41 million and \$3.87 million resulting in net position of \$457.72 million, and \$412.41 million, respectively. The resulting net position is summarized in the following categories (dollars in millions):

| | | (Restated) |
|----------------------------------|-------------------------|---------------|
| | 2018 | 2017 |
| Net Investment in Capital Assets | \$ 490.85 | 456.37 |
| Restricted expendable | 4.08 | 4.17 |
| Unrestricted | (37.21) | (48.13) |
| Total net position | \$ <u>457.72</u> | <u>412.41</u> |

UNIVERSITY OF RHODE ISLAND

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

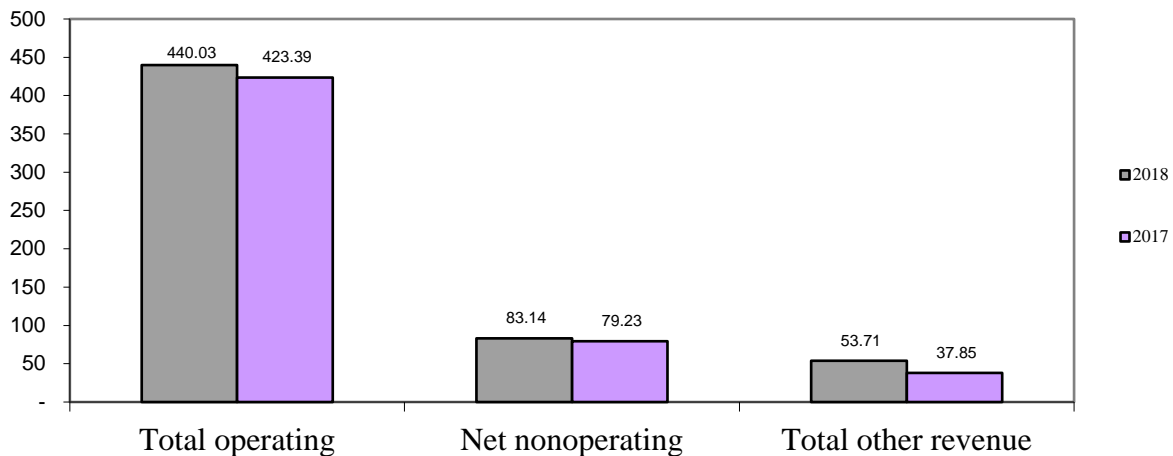
Management's Discussion and Analysis (Unaudited) - Continued

June 30, 2018

Financial Highlights – Continued

The following chart provides a graphical breakdown of total revenues by category for the fiscal years ending June 30, 2018 and 2017.

Revenues
(Dollars in millions)



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, 2018

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.

The Foundation acts primarily as a fundraising organization to supplement the resources that are available to the University in support of its programs. The Alumni Association informs and engages current and future alumni as committed partners of the University, its mission and traditions. 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, 2018

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 31 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 32 to 81 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, 2018

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 \$457.72 million and \$412.41 million at the close of fiscal years 2018 and 2017.

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

| | | (Restated) |
|---|--------------------|------------|
| | 2018 | 2017 |
| Current assets | \$ 177.34 | 175.50 |
| Noncurrent assets | 822.36 | 697.76 |
| Total assets | \$ 999.70 | 873.26 |
| Deferred outflows of resources | 40.60 | 29.20 |
| Total assets and deferred outflows of resources | \$ 1,040.30 | 902.46 |
| Current liabilities | 66.93 | 57.79 |
| Noncurrent liabilities | 505.24 | 428.39 |
| Total liabilities | \$ 572.17 | 486.18 |
| Deferred inflows of resources | 10.41 | 3.87 |
| Total liabilities and deferred inflows of resources | \$ 582.58 | 490.05 |
| Net position: | | |
| Net investment in capital assets | \$ 490.85 | 456.37 |
| Restricted, expendable | 4.08 | 4.17 |
| Unrestricted | (37.21) | (48.13) |
| Total net position | \$ 457.72 | 412.41 |

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, 2018

Financial Analysis - Continued

By far the largest portion of the University's net position, \$490.85 million and \$456.37 million, as of June 30, 2018 and 2017, 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 107% for fiscal year 2018 and 111% for fiscal year 2017 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, 2018 and 2017.

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, 2018 and 2017, the University's unrestricted net position represent (8.1%) and (11.7%), 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: 2.65 to 1 and 3.04 to 1 as of June 30, 2018 and 2017, 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, 2018

Financial Analysis - Continued

One of the components of the University's noncurrent assets are the funds on deposit with the bond trustee totaling \$103.34 million and \$20.70 million as of June 30, 2018 and 2017. The majority of the bond proceeds were from the 2009 B Bonds for \$9.39 million for fire protection, 2010 A Bonds for \$4.38 million for the repaving and reconstruction of major parking facilities, 2016 A Bonds for \$5.24 million for design, construction, renovation improvement and equipping of certain utility systems and other infrastructure, 2017 A Bonds for \$75.12 million for design and construction of a new student residence building located west of White Horn Brook, and 2017 C Bonds for \$3.95 million for the site-enabling, utility and hardscape relating to the new student residence structure.

During fiscal year 2018, the University's net position increased by \$45.30 million, which is largely due to capital and private funds received. During fiscal year 2017, the University's net position decreased by \$48.45 million due, in large part, to the implementation of GASB 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* in fiscal year 2018. This standard improves 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 restated beginning net position balances at July 1, 2017 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, 2018

Financial Analysis - Continued

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

| | <u>2018</u> | <u>2017</u> |
|--|-------------------------|----------------|
| Operating revenues: | | |
| Tuition and fees, net of tuition waivers and remissions | \$ 290.87 | 276.35 |
| Operating grants and contributions | 99.75 | 97.47 |
| Other sources | 49.41 | 49.57 |
| Total operating revenues | <u>440.03</u> | <u>423.39</u> |
| Operating expenses: | | |
| Salaries and benefits | 324.53 | 312.97 |
| Operating expenses | 66.25 | 58.29 |
| Scholarships, grants and contracts | 30.19 | 28.85 |
| Auxiliaries | 74.97 | 72.14 |
| Depreciation | 35.64 | 35.12 |
| Total operating expenses | <u>531.58</u> | <u>507.37</u> |
| Net operating loss | <u>(91.55)</u> | <u>(83.98)</u> |
| Nonoperating revenues (expenses): | | |
| State appropriation | 78.33 | 76.67 |
| Net investment income | 2.38 | 0.75 |
| Private gifts | 11.33 | 10.40 |
| Interest expense | (8.90) | (8.59) |
| Total nonoperating revenues | <u>83.14</u> | <u>79.23</u> |
| Loss before other revenues, expenses, gains or losses | <u>(8.41)</u> | <u>(4.75)</u> |
| Capital appropriations | 9.99 | 11.56 |
| State contributed capital | 42.37 | 21.50 |
| Capital gifts | 1.36 | 4.79 |
| Increase in net assets | 45.31 | 33.10 |
| Net position – beginning of year | 460.86 | 427.76 |
| Adjustments to beginning net position | (48.45) | - |
| Net position – ending of year | <u>\$ 457.72</u> | <u>460.86</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, 2018

Operating Revenues

The total operating revenues increased by \$16.64 million or 3.93 % in fiscal year 2018, compared to an increase of \$14.57 million or 3.57% in fiscal year 2017. There was an increase in tuition from 2017 to 2018, this increase was 7.85% for instate students and 4.18% for out of state students. There was also a change in the mix of instate and out of state students, instate students went from 55.6% in 2017 to 49.8% in 2018 and out of state students went from 44.4% in 2017 to 50.2% in 2018.

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

| | <u>2018</u> | <u>2017</u> |
|----------------------------|-------------------------|-----------------|
| Tuition | \$ 303.72 | 283.16 |
| Student service fees | 22.10 | 22.09 |
| Health service fees | 7.35 | 7.06 |
| Housing fees | 41.74 | 41.01 |
| Dining service fees | 20.65 | 20.44 |
| Miscellaneous student fees | <u>3.37</u> | <u>3.21</u> |
| Total | 398.93 | 376.97 |
| Tuition waived or remitted | <u>(108.06)</u> | <u>(100.62)</u> |
| Net | \$ <u>290.87</u> | <u>276.35</u> |

UNIVERSITY OF RHODE ISLAND

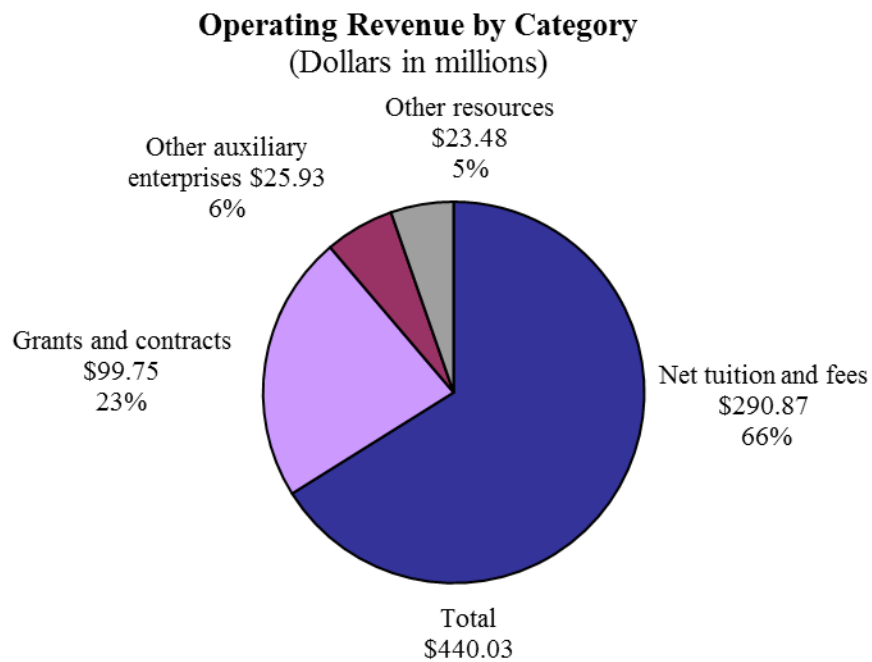
(a Component Unit of the State of Rhode Island and Providence Plantations)

Management's Discussion and Analysis (Unaudited) - Continued

June 30, 2018

Operating Revenues - Continued

The following provides a graphical breakdown of operating revenues by category for the year ended June 30, 2018.



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, 2018

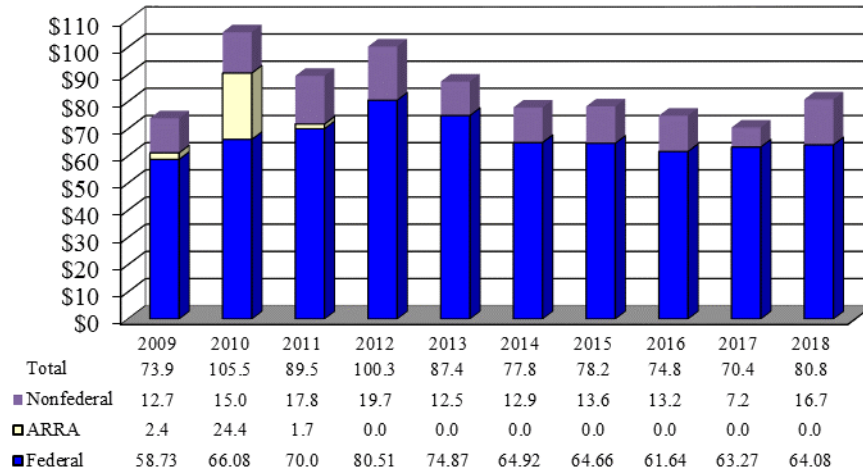
Grant and Contract Revenue

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 statement 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 \$73.9 million in 2009 to \$80.8 million in 2018 or an 9% 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

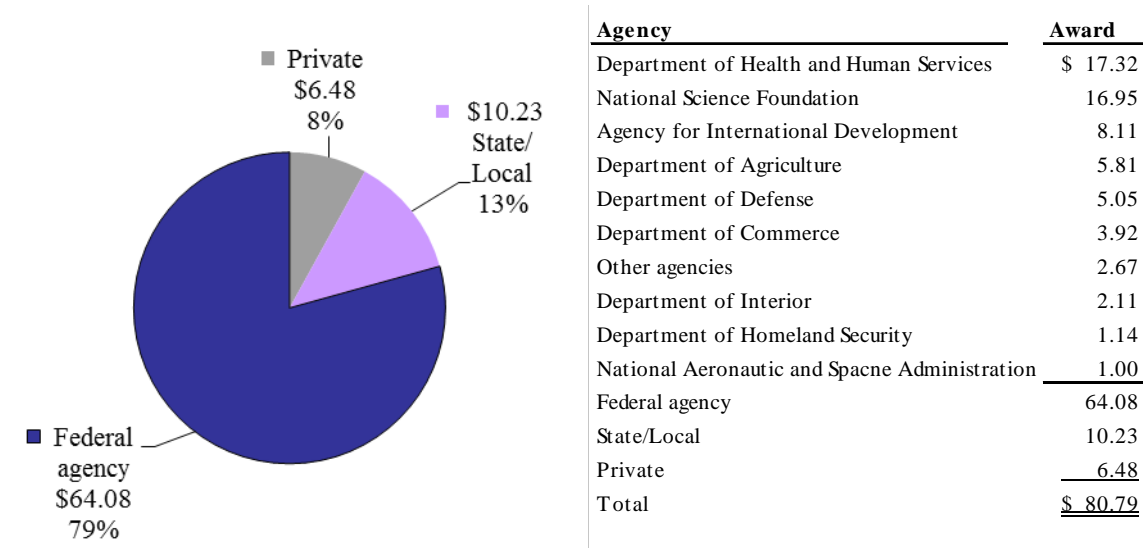
(a Component Unit of the State of Rhode Island and Providence Plantations)

Management's Discussion and Analysis (Unaudited) - Continued

June 30, 2018

Grant and Contract Revenue - Continued

The following summary shows the breakdown of grants awarded from sponsoring agencies during fiscal year 2018, with a pie chart for federal and nonfederal awards (dollars in millions).



Operating Expenses

The operating expenses for fiscal years 2018 and 2017 totaled \$531.58 million and \$507.37 million, which represent a change from prior year of an increase of \$24.21 million or an increase of 4.77%. The majority of increase in expenses relates to increases in salaries and benefits. In fiscal year 2016 there was a four year initiative to hire new faculty. There were fourteen new positions in 2016, twenty new positions in 2017, and twelve new positions in 2018.

UNIVERSITY OF RHODE ISLAND

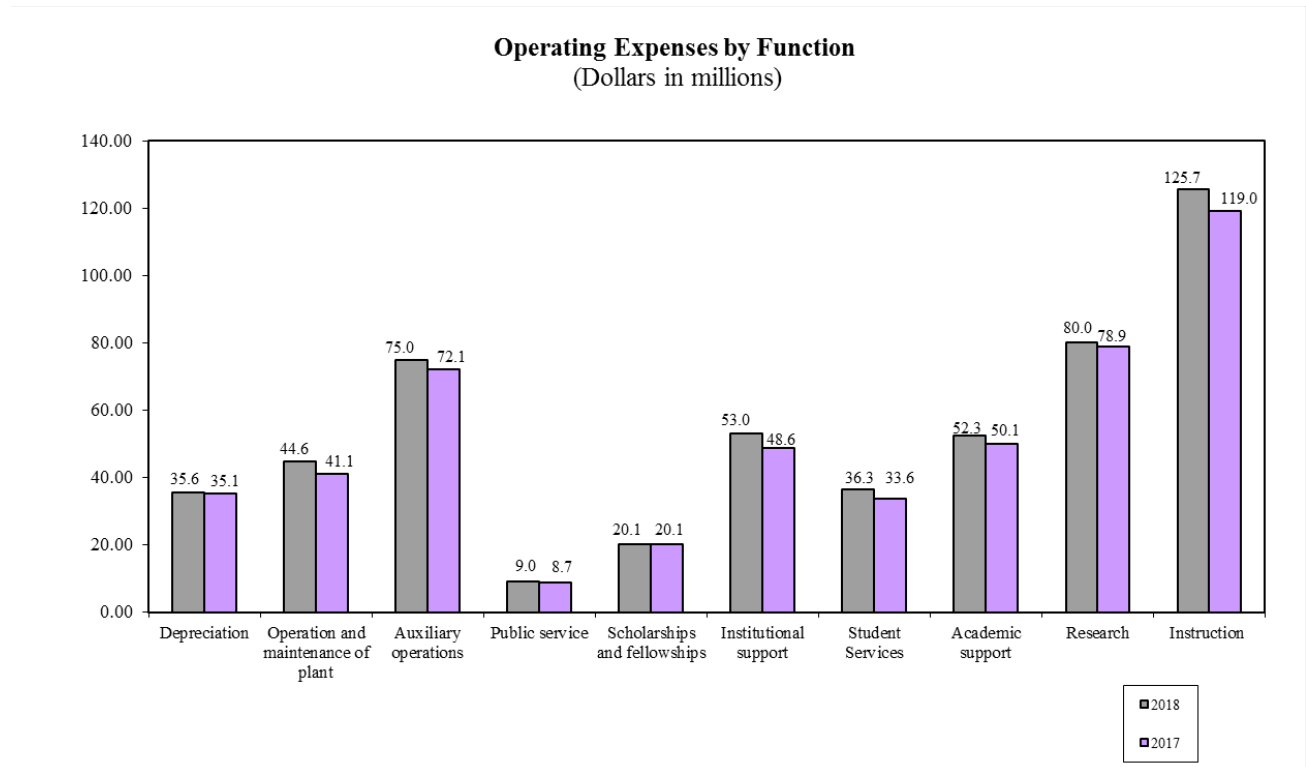
(a Component Unit of the State of Rhode Island and Providence Plantations)

Management's Discussion and Analysis (Unaudited) - Continued

June 30, 2018

Operating Expenses - Continued

The bar chart below illustrates the University's operating expenses by function for the fiscal years ended June 30, 2018 and 2017, excluding scholarship allowances applied against tuition and fee revenues.



UNIVERSITY OF RHODE ISLAND

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

Management's Discussion and Analysis (Unaudited) - Continued

June 30, 2018

Operating Expenses - Continued

The following summary shows where major grant and contract expenditures, including indirect cost charges, occurred during 2018 and 2017 (dollars in millions):

| Agency | Amount | |
|--|----------|-------|
| | 2018 | 2017 |
| Department of Health and Human Services | \$ 17.32 | 15.29 |
| National Science Foundation | 16.95 | 16.21 |
| Agency for International Development | 8.11 | 8.45 |
| Department of Agriculture | 5.81 | 6.00 |
| Department of Defense | 5.05 | 4.34 |
| Department of Commerce (NOAA) | 3.92 | 4.50 |
| Department of Interior | 2.11 | 3.23 |
| Other Federal Agencies | 1.54 | 2.75 |
| Department of Homeland Security | 1.14 | 1.34 |
| National Aeronautic and Space Administration | 1.00 | 1.04 |
| Department of Energy | 0.62 | 0.71 |
| Environmental Protection Agency | 0.28 | 0.32 |
| Department of Education | 0.23 | 0.12 |

Nonoperating Revenues and Expenses

The State's unrestricted appropriation is the largest component of the University's nonoperating revenues. The amount requested for fiscal year 2018 was \$80.27 million. However, the amount appropriated by the State was \$78.33 million resulting in an appropriation for fiscal year 2018 that was \$1.94 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, 2018

Nonoperating Revenues and Expenses - Continued

The University has a long tradition of using the state appropriation to support its operating expenses. During fiscal years 2018 and 2017, the University received state appropriations of \$78.33 million and \$76.67 million, which combined with operating revenue, was not sufficient to cover operating expenses in excess of \$13.22 million in fiscal year 2018 and \$7.31 million in fiscal year 2017. 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, 57% and 54% in fiscal years 2018 and 2017, respectively. A summary of net income after state appropriation is presented below (dollars in millions).

| | <u>2018</u> | <u>2017</u> |
|------------------------------------|--------------------------|----------------------|
| Net student fees | \$ 290.87 | 276.35 |
| Other operating revenue | 149.16 | 147.04 |
| Operating expenses | <u>(531.58)</u> | <u>(507.37)</u> |
| Operating loss | (91.55) | (83.98) |
| State direct appropriations | <u>78.33</u> | <u>76.67</u> |
| Net loss after state appropriation | \$ <u><u>(13.22)</u></u> | <u><u>(7.31)</u></u> |

UNIVERSITY OF RHODE ISLAND

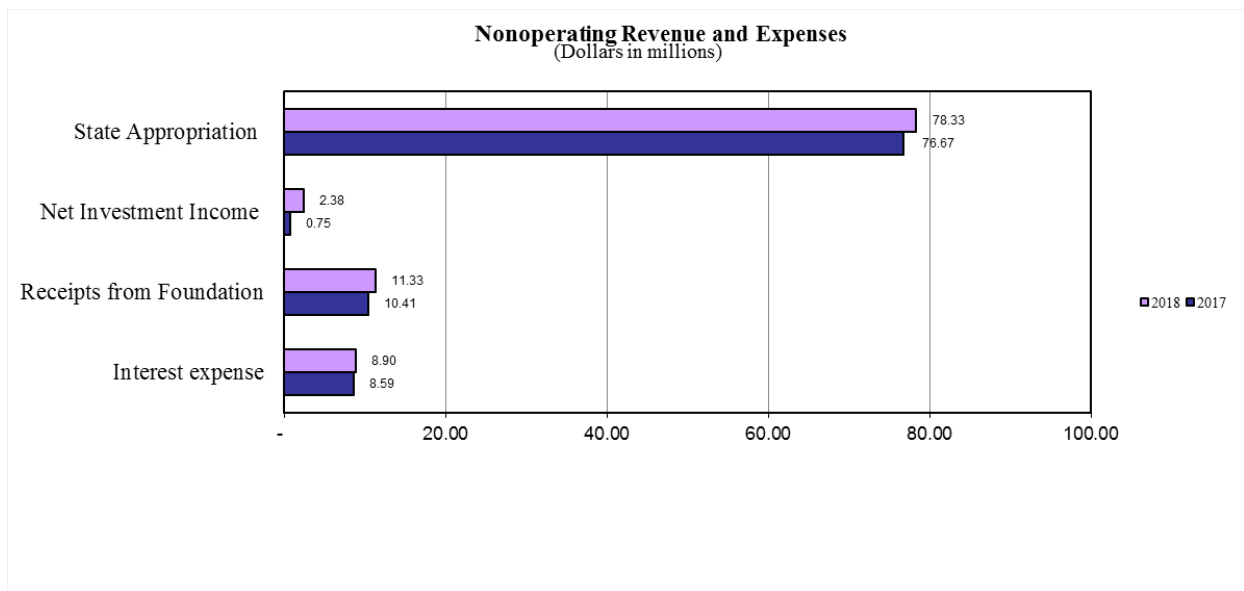
(a Component Unit of the State of Rhode Island and Providence Plantations)

Management's Discussion and Analysis (Unaudited) - Continued

June 30, 2018

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.

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.

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, 2018

Capital Assets and Debt Administration - Continued

Capital Assets

The University's investment in capital assets as of June 30, 2018 and 2017 net of accumulated depreciation, amounts to \$707.82 million and \$665.43 million, respectively. This investment in capital assets includes land, buildings (including improvements), and furnishings and equipment (including capital leases). Capital assets increased during fiscal year 2018 year by \$42.39 million and by \$12.92 million in fiscal year 2017. 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, 2018 and 2017 is presented below (dollars in millions).

| | <u>2018</u> | <u>2017</u> |
|--|------------------|---------------|
| Land and improvements | \$ 36.27 | 38.19 |
| Major capital additions to building and improvements | 549.32 | 567.97 |
| Furnishings and equipment | 28.81 | 28.26 |
| Construction in progress | <u>93.42</u> | <u>31.01</u> |
| Total | <u>\$ 707.82</u> | <u>665.43</u> |

Major capital additions in fiscal year 2018 included the engineering building renovation (\$39.97 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. Also included in construction in progress is the new apartment style student residence hall (\$12.14 million) adding an additional 500 beds as well as the new Robert J. Higgins Welcome Center (\$4.93 million) that will welcome future students and families that will open fall 2019.

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, 2018

Capital Assets and Debt Administration - Continued

Debt

As of June 30, 2018 and 2017 the University had \$313.52 million and \$238.05 million, respectively, in outstanding debt, an increase of \$75.47 million in 2018 and \$3.05 million in 2017. The table below summarizes the types of debt instruments (dollars in millions).

| | <u>2018</u> | <u>2017</u> |
|---------------------------|------------------|---------------|
| Loans payable | \$ 0.76 | 0.92 |
| Capital lease obligations | 2.41 | 3.54 |
| Due to primary government | 16.79 | 18.52 |
| Revenue bonds | <u>293.56</u> | <u>215.07</u> |
| Total | <u>\$ 313.52</u> | <u>238.05</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, 2018, the University's general revenue bonds are rated by Moody's as A1 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 year 2015, the pension liability as of June 30, 2018 and 2017 was \$127.13 million and \$123.02 million, respectively. More detailed information about the University's long-term liabilities is presented in Notes 8-10 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, 2018

Economic Factors that Will Affect the Future

The University is a tuition-dependent institution, serious attention to strategic enrollment management is a critical element of the University's financial stability and self-sufficiency. Over the past 5 years, the University has experienced strong/record enrollments. There has also been a strong interest in the University as evidenced by the record number of applications. Recognizing the increased competition for students, the University has expanded its recruitment to include growth areas throughout the country - for example, in the Mid-Atlantic and Northern Virginia. Furthermore, our in-state and out-state tuition rates are among the lowest for both in-state and out-state New England competitors.

To support strategic priorities and continue record enrollment the University continues to enhance its faculty and facilities to meet demands and offer a world-class education.

- Since 2010 the University has hired approximately 302 new full-time faculty which has triggered the renewal of the intellectual foundation of the institution.
- In August 2017, the Rhode Island Nursing Education Center ("RINEC") welcomed the University's College of Nursing graduate and undergraduate students. The RINEC occupies 133,000 square feet of state-of-the-art space that includes high-technology classrooms, laboratories, seminar rooms, and lecture halls as well as a "simulation-center".
- In 2014, \$125 million bond referendum passed to build a new 186,000 square foot engineering building. This will replace five existing engineering buildings on the Kingstown campus which were all opened in the late 1950's and early 1960's. In 2016 an additional \$25.5 million was approved for Phase II of the College of Engineering building construction to renovate and expand Bliss Hall. The new building is expected to be completed fall 2019, with the renovated Bliss Hall opening in spring 2020.
- New Robert J. Higgins Welcome Center opened in the fall 2018, designed to welcome future students, parents, families and visitors.

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, 2018

Economic Factors that Will Affect the Future - Continued

- Construction started in March 2018 on a new \$90 million, 500 bed, 203,000 square foot apartment style student resident's hall. The project is financed with Department of Housing and Residential Life and general revenue bonds that are supported by a combination of Department of Housing and Residential Life and University general revenues. This building is expected to be completed by fall 2019.
- Supported by a combination of a \$2.2 million grant from the Rhode Island Department of Environmental Management and University funding, the William C. O'Neill Bike Path will be connected to the Kingston Campus through the Villages of Peace Dale, Wakefield to Narragansett Beach. The extension is expected to be completed by fall 2019.

The University is sensitive to rising costs of higher education and strives to continue its efforts on achieving efficiencies to limit the size of tuition and fee increases. In fiscal year 2018 there was a 7.85% increase in In-State tuition and a 4.18% increase in Out-of-State tuition. There was no increase in tuition in fiscal year 2017.

Fiscal Planning

The University will continue to ensure that expenses are less than or equal to available resources. Approved strategic initiatives are reflected in the budget and have been and will continue to be funded by student enrollment, retention and tuition and fee resources. IPEDS data continues to show the University as one of the most efficient institutions.

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, 2018

Assets and Deferred Outflows of Resources

| | University of Rhode Island | Component units |
|--|---------------------------------------|----------------------------|
| Current Assets: | | |
| Cash and equivalents (Note 3) | \$ 129,907,773 | \$ 17,753,371 |
| Net funds on deposit with primary government | 560,062 | - |
| Accounts receivable, net (Note 4) | 38,488,524 | 1,844,438 |
| Due from primary government | 3,713,811 | - |
| Due from component units | - | 1,584,922 |
| Current portion of pledges receivable | - | 8,190,036 |
| Inventory and other current assets | <u>4,671,700</u> | <u>1,127,714</u> |
| Total Current Assets | <u>177,341,870</u> | <u>30,500,481</u> |
| Noncurrent Assets: | | |
| Cash and equivalents – restricted (Note 3) | 514,853 | - |
| Funds on deposit with bond trustee | 103,339,991 | - |
| Investments (Note 3) | - | 166,177,807 |
| Pledges receivable, net of current portion | - | 10,805,932 |
| Loans receivable, net (Note 5) | 10,679,673 | - |
| Charitable remainder trusts | - | 338,442 |
| Capital assets, net of accumulated depreciation (Note 6) | <u>707,819,903</u> | <u>2,019,209</u> |
| Total Noncurrent Assets | <u>822,354,420</u> | <u>179,341,390</u> |
| Total Assets | <u>999,696,290</u> | <u>209,841,871</u> |
| Deferred Outflows of Resources: | | |
| Deferred loss on debt refunding | 7,213,818 | - |
| Deferred outflows of resources related to pension (Note 9) | 24,852,979 | - |
| Deferred outflows of resources related to OPEB (Note 10) | <u>8,534,314</u> | <u>-</u> |
| Total Deferred Outflows of Resources | <u>40,601,111</u> | <u>-</u> |

Liabilities, Deferred Inflows of Resources and Net Position

| | University of Rhode Island | Component units |
|---|---------------------------------------|----------------------------|
| Current Liabilities: | | |
| Accounts payable and accrued liabilities | 35,520,565 | 1,376,032 |
| Compensated absences (Note 8) | 1,412,964 | - |
| Funds held for others | 1,780,447 | 1,584,922 |
| Unearned revenue | 13,747,355 | 30,335 |
| Current portion of capital lease obligations (Note 8) | 1,175,000 | - |
| Current portion of due to primary government (Note 8) | 2,042,000 | - |
| Current portion of bonds and loans payable (Note 8) | 11,252,310 | - |
| Other current liabilities | - | 1,034,752 |
| Total Current Liabilities | 66,930,641 | 4,026,041 |
| Noncurrent Liabilities: | | |
| Compensated absences (Note 8) | 17,919,270 | - |
| Capital lease obligations (Note 8) | 1,230,000 | - |
| Due to primary government (Note 8) | 14,743,000 | - |
| Bonds and loans payable (Note 8) | 283,073,439 | - |
| Gift annuity payable | - | 730,727 |
| Grant refundable (Note 8) | 9,958,634 | - |
| Net pension liability (Note 9) | 127,132,520 | - |
| Net OPEB liability (Note 10) | 51,187,475 | - |
| Total Noncurrent Liabilities | 505,244,338 | 730,727 |
| Total Liabilities | 572,174,979 | 4,756,768 |
| Deferred Inflows of Resources: | | |
| Deferred inflows of resources related to pension (Note 9) | 5,540,452 | - |
| Deferred inflows of resources related to OPEB (Note 10) | 4,866,478 | - |
| Total Deferred Inflows of Resources | 10,406,930 | - |
| Net Position: | | |
| Net investment in capital assets | 490,849,097 | 2,019,209 |
| Restricted: | | |
| Expendable (Note 12) | 4,080,570 | 87,720,135 |
| Nonexpendable | - | 100,866,515 |
| Unrestricted | (37,214,175) | 14,479,244 |
| Total Net Position | \$ 457,715,492 | \$ 205,085,103 |

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

For the Year Ended June 30, 2018

| | University of Rhode Island | Component units |
|---|-------------------------------|----------------------|
| Operating Revenues: | | |
| Tuition and fees | \$ 316,820,438 | \$ - |
| Residence, dining, student union, and health fees | 82,111,613 | - |
| Less scholarship allowances | (108,058,521) | - |
| Net Student Fees | 290,873,530 | - |
| Federal, state, local, and private grants and contracts | 99,746,064 | 3,505,366 |
| Other auxiliary enterprises | 25,935,445 | - |
| Other sources | 23,479,211 | 4,135,304 |
| Total Operating Revenues | 440,034,250 | 7,640,670 |
| Operating Expenses (Note 14): | | |
| Instruction | 125,720,932 | - |
| Research | 79,969,118 | 4,353,568 |
| Academic support | 52,342,231 | - |
| Student services | 36,235,804 | 2,559,292 |
| Scholarships and fellowships | 20,073,188 | - |
| Public service | 9,033,826 | - |
| Operation and maintenance of plant | 44,633,300 | 647,137 |
| Depreciation | 35,636,132 | 101,014 |
| Institutional support | 52,972,232 | 4,503,555 |
| Auxiliary operations | 74,966,329 | - |
| Total Operating Expenses | 531,583,092 | 12,164,566 |
| Net Operating Loss | (91,548,842) | (4,523,896) |
| Nonoperating Revenues (Expenses): | | |
| State appropriation (Note 15) | 78,329,815 | - |
| Net investment income | 2,377,724 | 812,158 |
| Endowment income | - | 9,203,279 |
| Private gifts and contributions | - | 20,581,803 |
| Payments from component units | 11,331,276 | (12,436,482) |
| Additions to permanent endowments | - | 5,473,279 |
| Miscellaneous receipts | - | 1,761,978 |
| Interest expense | (8,899,326) | - |
| Net Nonoperating Revenues | 83,139,489 | 25,396,015 |
| Increase (Decrease) in Net Position Before Capital Contributions | (8,409,353) | 20,872,119 |
| Capital Contributions: | | |
| Capital appropriations (Note 15) | 52,352,298 | - |
| Capital gifts | 1,360,622 | (1,158,240) |
| Increase in Net Position | \$ 45,303,567 | \$ 19,713,879 |

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 Changes in Net Position

June 30, 2018

| | University | | | |
|--|---------------------------------|--------------------------|------------------------|-----------------------|
| | Investment in Capital Assets | Restricted Expendable | Unrestricted | Total |
| Balance June 30, 2017 as previously reported | \$ 456,373,104 | \$ 4,169,650 | \$ 314,378 | \$ 460,857,132 |
| Prior Period Adjustment - Implementation of newly effective accounting standard (Note 2) | - | - | (48,445,207) | (48,445,207) |
| Balance, June 30, 2017, as restated | 456,373,104 | 4,169,650 | (48,130,829) | 412,411,925 |
| Changes in net position as for 2018 | 34,475,993 | (89,080) | 10,916,654 | 45,303,567 |
| Balance, June 30, 2018 | \$ 490,849,097 | \$ 4,080,570 | \$ (37,214,175) | \$ 457,715,492 |

| | Component Units | | | | |
|---|---------------------------------|--------------------------|-----------------------------|----------------------|-----------------------|
| | Investment in Capital Assets | Restricted Expendable | Restricted Nonexpendable | Unrestricted | Total |
| Balance June 30, 2017 as previously reported | \$ 1,914,169 | \$ 75,688,804 | \$ 95,393,236 | \$ 12,326,935 | \$ 185,323,144 |
| Prior Period Adjustment - Correction of an error | - | - | - | 48,080 | 48,080 |
| Balance, June 30, 2017, as restated | 1,914,169 | 75,688,804 | 95,393,236 | 12,375,015 | 185,371,224 |
| Changes in net position as for 2018 | 105,040 | 12,031,331 | 5,473,279 | 2,104,229 | 19,713,879 |
| Balance, June 30, 2018 | \$ 2,019,209 | \$ 87,720,135 | \$ 100,866,515 | \$ 14,479,244 | \$ 205,085,103 |

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, 2018

| | <u>University of Rhode Island</u> |
|---|---|
| Cash Flows From Operating Activities: | |
| Tuition and fees | \$ 289,789,998 |
| Federal, state, local, and private grants | 99,071,475 |
| Payments to suppliers | (135,154,105) |
| Payments to employees | (319,302,267) |
| Payments for scholarships, fellowships, and sponsored programs | (30,446,678) |
| Other auxiliary enterprises | 25,346,619 |
| Other sources | <u>32,163,079</u> |
| Net Cash Applied to Operating Activities | <u>(38,531,879)</u> |
| Cash Flows from Noncapital Financing Activities: | |
| State appropriations | 78,329,815 |
| Payments from component units | 11,331,276 |
| Funds held for others | <u>775,962</u> |
| Net Cash Provided by Noncapital Financing Activities | <u>90,437,053</u> |
| Cash Flows from Capital and Related Financing Activities: | |
| Capital appropriations | 52,352,298 |
| Purchase of capital assets | (78,316,940) |
| Proceeds from issuance of loans and bonds | 131,080,585 |
| Principal paid on capital debt and leases | (54,475,673) |
| Interest paid on capital debt and leases | (12,408,745) |
| Bond proceeds deposited with trustee | <u>(82,637,734)</u> |
| Net Cash Applied to Capital and Related Financing Activities | <u>(44,406,209)</u> |
| Cash Flows from Investing Activities: | |
| Net investment income | 2,377,724 |
| Proceeds from the sale of investments | <u>944,000</u> |
| Net Cash Provided by Investing Activities | <u>3,321,724</u> |
| Net Increase in Cash and Equivalents | 10,820,689 |
| Cash and Equivalents, Beginning of the Year | <u>119,601,937</u> |
| Cash and Equivalents, End of the Year | <u><u>\$ 130,422,626</u></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, 2018

| | University of Rhode Island |
|--|---------------------------------------|
| Reconciliation of Net Operating Loss to Net Cash Applied to Operating Activities: | |
| Net operating loss | \$ (91,548,842) |
| Adjustments to reconcile net operating loss to net cash applied to operating activities: | |
| Depreciation | 35,636,132 |
| Loss on disposal of assets | 1,650,190 |
| Bad debts | 414,048 |
| Net pension activity | 2,041,421 |
| Net OPEB activity | (925,568) |
| Changes in assets and liabilities: | |
| Net funds on deposit with primary government | 3,634,249 |
| Accounts receivable | (2,987,112) |
| Due from primary government | 6,777,583 |
| Inventory and other current assets | 139,689 |
| Loans receivable | 488,823 |
| Accounts payable and accrued liabilities | 6,478,593 |
| Compensated absences | 273,665 |
| Unearned revenue | (343,665) |
| Refundable grant | (261,085) |
| Net Cash Applied to Operating Activities | \$ (38,531,879) |
| Noncash Transactions: | |
| Capital gifts | \$ 1,360,622 |

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, 2018

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 transfers 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, 2018

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 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, 2018

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, 2018

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.

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 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, 2018

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

Component Units - continued

During the year ended June 30, 2018, the Foundation distributed \$13,836,844 to the University for both restricted and unrestricted purposes.

During the year ended June 30, 2018, the Alumni Association distributed \$2,559,292 to the University for Scholarships and Athletic Club expenses.

As of June 30, 2018, the Component Units have a liability to the University of \$746,069, which is reflected in accounts payable and accrued liabilities.

The University has fundraising agreements with the Foundation and Alumni Association and paid \$6,254,229 and \$737,288 respectively. The University has a support agreement with the Research Foundation and paid \$379,608.

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, 2018

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, 2018 are as follows:

| | 2018 | | | |
|----------------------------------|----------------|-----------------------|------------------------|----------------|
| | Foundation | Alumni Association | Research Foundation | Total |
| Current assets | \$ 24,740,383 | \$ 1,830,755 | \$ 3,929,343 | \$ 30,500,481 |
| Noncurrent assets | 173,291,474 | 5,939,223 | 110,693 | 179,341,390 |
| Total assets | 198,031,857 | 7,769,978 | 4,040,036 | 209,841,871 |
| Current liabilities | 2,631,978 | 466,542 | 927,521 | 4,026,041 |
| Noncurrent liabilities | 730,727 | - | - | 730,727 |
| Total liabilities | 3,362,705 | 466,542 | 927,521 | 4,756,768 |
| Net position: | | | | |
| Net investment in capital assets | 2,001,016 | - | 18,193 | 2,019,209 |
| Restricted: | | | | |
| Expendable | 86,360,571 | 1,359,564 | - | 87,720,135 |
| Nonexpendable | 100,866,515 | - | - | 100,866,515 |
| Unrestricted | 5,441,050 | 5,943,872 | 3,094,322 | 14,479,244 |
| Total net position | \$ 194,669,152 | \$ 7,303,436 | \$ 3,112,515 | \$ 205,085,103 |

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, 2018

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, 2018 are as follows:

| | Foundation | Alumni Association | Research Foundation | Total |
|---|-----------------------|-----------------------|------------------------|-----------------------|
| Operating Revenues: | | | | |
| Federal, state, local, and private grants and contracts | \$ - | \$ - | \$ - | \$ - |
| Other sources | - | 3,046,040 | 4,594,630 | 7,640,670 |
| Total Operating Revenues | <u>-</u> | <u>3,046,040</u> | <u>4,594,630</u> | <u>7,640,670</u> |
| Operating Expenses: | | | | |
| Research | - | - | 4,353,568 | 4,353,568 |
| Student services | - | 2,559,292 | - | 2,559,292 |
| Operation and maintenance of plant | - | 416,299 | 230,838 | 647,137 |
| Depreciation | 101,014 | - | - | 101,014 |
| Institutional support | 2,112,402 | 2,391,153 | - | 4,503,555 |
| Total Operating Expenses | <u>2,213,416</u> | <u>5,366,744</u> | <u>4,584,406</u> | <u>12,164,566</u> |
| Net Operating Loss | <u>(2,213,416)</u> | <u>(2,320,704)</u> | <u>10,224</u> | <u>(4,523,896)</u> |
| Nonoperating Revenues (Expenses): | | | | |
| Net investment income (loss) | 97,806 | 575,981 | 138,371 | 812,158 |
| Endowment income | 9,203,279 | - | - | 9,203,279 |
| Private gifts | 19,021,807 | 1,559,996 | - | 20,581,803 |
| Gifts from (to) the University | (12,816,090) | - | 379,608 | (12,436,482) |
| Additions to permanent endowments | 5,473,279 | - | - | 5,473,279 |
| Miscellaneous receipts | 1,761,978 | - | - | 1,761,978 |
| Net Nonoperating Revenues | <u>22,742,059</u> | <u>2,135,977</u> | <u>517,979</u> | <u>25,396,015</u> |
| Increase in Net Position Before Capital Gifts | 20,528,643 | (184,727) | 528,203 | 20,872,119 |
| Capital Gifts | (1,158,240) | - | - | (1,158,240) |
| Increase in Net Position | <u>19,370,403</u> | <u>(184,727)</u> | <u>528,203</u> | <u>19,713,879</u> |
| Net Position, at Beginning of Year, as restated | 175,298,749 | 7,488,163 | 2,584,312 | 185,371,224 |
| Net Position, at End of Year | <u>\$ 194,669,152</u> | <u>\$ 7,303,436</u> | <u>\$ 3,112,515</u> | <u>\$ 205,085,103</u> |

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, 2018

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.

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, 2018 totaled \$3,274,741.

UNIVERSITY OF RHODE ISLAND
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Notes to the Financial Statements - Continued

For the Year Ended June 30, 2018

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

Capital Assets

Real estate assets, including improvements, are generally stated at cost. Furnishings and equipment are stated at cost at date of acquisition or, in the case of gifts, at fair value at date of donation. In accordance with the 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 lives of the assets. 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.

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.

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, 2018

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

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.

Postemployment Benefits

For purposes of measuring the net postemployment benefits other than pension obligations ("OPEB") liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the State Employees' OPEB Cost-Sharing Plan ("SEP") and the Board of Education Cost-Sharing OPEB Plan ("BOEP") (collectively referred to as the "Plans") and additions to/deductions from the Plans' fiduciary net position have been determined on the same basis as they are reported by the Plans. For this purpose, the Plans recognize benefit payments when due and payable in accordance with the benefit terms. Investments are reported at fair value.

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 2018 healthcare premiums amounted to \$42,358,496. Employee contributions for the 2018 fiscal year were \$7,834,440.

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, 2018

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

Assessed Fringe Benefit Administrative Fund

In July 2000, the State established the Assessed Fringe Benefit Administrative Fund. This fund is used to make all payments relating to workers' compensation charges, unemployment 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 rates for 2018 were 4.20% for non-faculty and 3.48% for faculty. The assessed fringe benefit cost for the University was \$8,053,981 for fiscal 2018.

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.

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.

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, 2018

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

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 and the net OPEB 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, 2018

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 years ended June 30, 2016, 2017, or 2018.

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* (“ARO’s”) 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 ARO’s 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, 2018

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 completed its review of the requirements of this standard and its applicability

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 results 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 has not completed its review of the requirements of this standard and its applicability.

GASB Statement 88 – *Certain Disclosures Related to Debt, Including Borrowings and Direct Placements* is effective for periods beginning after June 15, 2018. The primary objective of this Statement is to improve the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt. 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, 2018

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

New Governmental Accounting Pronouncements - continued

GASB Statement 89 – *Accounting for Interest Costs Incurred before the End of a Construction Period* is effective for reporting periods beginning after December 15, 2019. The objectives of this Statement are (1) to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and (2) to simplify accounting for interest cost incurred before the end of a construction period. Management has not completed its review of the requirements of this standard and its applicability.

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

Because of implementing GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, a replacement of GASB Statement No. 45, the University has restated net position in the statement of net position by \$48,445,207. The prior period restatement of net position reflected the recognition of a net OPEB liability as of June 30, 2017 as required by the application of GASB 75.

| | As originally reported | As restated |
|--------------------------------|---------------------------|-----------------|
| <u>As of June 30, 2017</u> | | |
| Statement of Net Position: | | |
| Net OPEB liability | \$ - | \$ (52,487,159) |
| Deferred outflows of resources | - | 4,041,952 |
| Unrestricted net position | 314,378 | (48,130,829) |

In addition, the beginning of year net position of the Research Foundation has been restated by \$48,080, from \$2,536,232 to \$2,584,312, to correct an error in prior 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, 2018

Note 3 - **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, 2018, the carrying amount of the University's cash deposits was \$89,085,892, and the bank balance was \$94,704,656. 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, \$73,828,242 was covered by federal depository insurance ("FDIC"), and \$20,815,956 was collateralized with securities held by the pledging financial institution in the University's name as of June 30, 2018. The remaining amount, \$60,458 was uninsured and uncollateralized. The insured balance reflects FDIC insurance and guarantee programs in effect during 2018.

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, 2018

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

Cash and Equivalents - continued

At June 30, 2018, the University had investments (cash equivalents) consisting of \$41,336,734 in the Ocean State Investment Pool Trust (“OSIP”), an investment pool established by the State General Treasurer. The University’s investment accounted for 10.6% of the total investment in OSIP at June 30, 2018. 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. 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, 2018, the First American Treasury Obligations Fund had a rating of A+ by Standard and Poor’s and A1 by Moody’s.

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, 2018

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

Component Units

The Foundation, the Alumni Association, and the Research Foundation investments at June 30, 2018 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> |
|--------------------------------------|-----------------------|-------------------------------|--------------------------------|-----------------------|
| Equity securities | \$ 82,673,754 | \$ 3,968,888 | \$ - | \$ 86,642,642 |
| Fixed income | 42,682,725 | - | - | 42,682,725 |
| Government bonds | - | 968,485 | - | 968,485 |
| Capital funds | 2,884,717 | - | - | 2,884,717 |
| Hedge funds | 23,969,639 | - | - | 23,969,639 |
| Corporate bonds | - | 1,001,850 | - | 1,001,850 |
| Real assets funds | 7,935,249 | - | - | 7,935,249 |
| Equity investment in private company | - | - | 92,500 | 92,500 |
| | <u>\$ 160,146,084</u> | <u>\$ 5,939,223</u> | <u>\$ 92,500</u> | <u>\$ 166,177,807</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 4 - **Accounts Receivable**

Accounts receivable, which are anticipated to be collected within one year, include the following at June 30, 2018:

| | |
|---------------------------------------|----------------------|
| Student accounts receivable | \$ 10,751,776 |
| Grants receivable | 6,980,218 |
| Unbilled grants receivables | 17,134,625 |
| Other receivables | <u>10,720,473</u> |
| | 45,587,092 |
| Less: allowance for doubtful accounts | <u>(7,098,568)</u> |
| | <u>\$ 38,488,524</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, 2018

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, 2018:

| | | |
|---------------------------------------|----|-------------------|
| Perkins loans | \$ | 7,286,219 |
| Nursing loans | | 1,613,859 |
| Health profession loans | | 1,790,423 |
| Other | | <u>780,544</u> |
| | | 11,471,045 |
| Less: allowance for doubtful accounts | | <u>(791,372)</u> |
| | \$ | <u>10,679,673</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 were eligible to receive a spring semester Perkins loan disbursement. No further extensions were granted for the program as of the date of issuance of these 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, 2018

Note 6 - **Capital Assets**

Capital assets of the University consist of the following at June 30, 2018:

| | 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 | - | 31,007,788 | 72,966,407 | (312,310) | (10,241,886) | 93,419,999 |
| Total not depreciated | | <u>33,194,909</u> | <u>72,966,407</u> | <u>(312,310)</u> | <u>(10,241,886)</u> | <u>95,607,120</u> |
| Capital assets depreciated: | | | | | | |
| Land improvements | 15-25 | 69,624,801 | - | - | 740,708 | 70,365,509 |
| Buildings, including improvements | 10-50 | 895,191,549 | - | (5,820,276) | 9,501,178 | 898,872,451 |
| Furnishings and equipment (including cost of capital leases) | 5-15 | 104,602,473 | 6,711,155 | (1,845,926) | - | 109,467,702 |
| Total depreciated | | <u>1,069,418,823</u> | <u>6,711,155</u> | <u>(7,666,202)</u> | <u>10,241,886</u> | <u>1,078,705,662</u> |
| Less accumulated depreciation: | | | | | | |
| Land improvements | | 33,625,151 | 2,668,333 | - | - | 36,293,484 |
| Building, including improvements | | 327,214,266 | 27,209,084 | (4,881,808) | - | 349,541,542 |
| Furnishings and equipment | | 76,345,652 | 5,758,715 | (1,446,514) | - | 80,657,853 |
| Total accumulated depreciation | | <u>437,185,069</u> | <u>35,636,132</u> | <u>(6,328,322)</u> | <u>-</u> | <u>466,492,879</u> |
| Capital assets, net | | <u>\$ 665,428,663</u> | <u>\$ 44,041,430</u> | <u>\$ (1,650,190)</u> | <u>\$ -</u> | <u>\$ 707,819,903</u> |

UNIVERSITY OF RHODE ISLAND
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Notes to the Financial Statements - Continued

For the Year Ended June 30, 2018

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, 2018, the remaining liability is \$9,689.

Note 8 - **Long-Term Liabilities**

Long-term liabilities consist of the following at June 30, 2018:

| | (Restated) Beginning balance | Additions | Reductions | Ending balance | Current portion |
|--------------------------------------|------------------------------------|-----------------------|----------------------|-----------------------|----------------------|
| Leases and bonds payable: | | | | | |
| Lease obligations | \$ 3,538,197 | \$ - | \$ 1,133,197 | \$ 2,405,000 | \$ 1,175,000 |
| Due to primary government | | | | | |
| Certificate of participation | 18,523,000 | - | 1,738,000 | 16,785,000 | 2,042,000 |
| Revenue bonds payable | 196,122,344 | 123,215,000 | 51,422,283 | 267,915,061 | 9,108,005 |
| Premium on bonds payable | 18,947,095 | 8,944,006 | 2,244,556 | 25,646,545 | 1,956,805 |
| Loans payable | 918,803 | 27,533 | 182,193 | 764,143 | 187,500 |
| Total leases and bonds payable | <u>238,049,439</u> | <u>132,186,539</u> | <u>56,720,229</u> | <u>313,515,749</u> | <u>14,469,310</u> |
| Other long-term liabilities: | | | | | |
| Compensated absences | 19,058,569 | 2,244,313 | 1,970,648 | 19,332,234 | 1,412,964 |
| Grant refundable | 10,219,719 | - | 261,085 | 9,958,634 | - |
| Net pension liability | 123,019,948 | 4,112,572 | - | 127,132,520 | - |
| Net OPEB liability | 52,487,159 | - | 1,299,684 | 51,187,475 | - |
| Total other long-term liabilities | <u>204,785,395</u> | <u>6,356,885</u> | <u>3,531,417</u> | <u>207,610,863</u> | <u>1,412,964</u> |
| Total long-term liabilities | <u>\$ 442,834,834</u> | <u>\$ 138,543,424</u> | <u>\$ 60,251,646</u> | <u>\$ 521,126,612</u> | <u>\$ 15,882,274</u> |

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Notes to the Financial Statements - Continued

For the Year Ended June 30, 2018

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 | 1,115,000 |
| Series 2009 B University of Rhode Island Auxiliary Revenue Issue, 3% to 5.25%, due semiannually through 2029 | 14,125,000 |
| Series 2010 A University of Rhode Island Educational and General Revenue Issue, 3% to 5%, due semiannually through 2041 | 11,240,000 |
| Series 2010 B University of Rhode Island Auxiliary Enterprise Revenue Issue, 3% to 5%, due semiannually through 2031 | 2,580,000 |
| Series 2013 A University of Rhode Island Educational and General Revenue Refunding Issue, 2% to 3%, due semiannually through 2024 | 3,355,000 |
| Series 2013 B University of Rhode Island Educational and General Revenue Refunding Issue, 2% to 3%, due semiannually through 2024 | 3,168,966 |
| Series 2013 C University of Rhode Island Auxiliary Revenue Issue, 2% to 5%, due semiannually through 2025 | 15,125,000 |
| Series 2013 D University of Rhode Island Auxiliary Revenue Issue, 2% to 5%, due semiannually through 2024 | 4,536,095 |
| Series 2016 A University of Rhode Island Educational and General Revenue Refunding Issue, 3% to 5%, due semiannually through 2036 | 33,220,000 |
| Series 2016 B University of Rhode Island Auxiliary Revenue Issue, 4% to 5%, due semiannually through 2035 | 52,405,000 |
| Series 2017 A University of Rhode Island Auxiliary Revenue Issue, 4% to 5%, due semiannually through 2047 | 76,895,000 |
| Series 2017 B University of Rhode Island Auxiliary Revenue Refunding Issue, 4% to 5%, due semiannually through 2040 | 35,560,000 |
| Series 2017 C University of Rhode Island Educational and General Revenue Issue, 3% to 3.5%, due semiannually through 2047 | 4,235,000 |
| Series 2017 D University of Rhode Island Educational and General Revenue Refunding Issue, 3% to 5%, due semiannually through 2024 | 6,525,000 |
| | \$ 267,915,061 |

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Notes to the Financial Statements - Continued

For the Year Ended June 30, 2018

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

Bonds Payable - continued

The bonds issued by the Rhode Island Health and Education Building Corporation (the "Corporation") are special limited obligations of the 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.

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.

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Notes to the Financial Statements - Continued

For the Year Ended June 30, 2018

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

Bonds Payable - continued

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

On June 18, 2013, the Corporation issued the Higher Education Facility Revenue Bonds, University of Rhode Island Educational and General Revenue Refunding Issue, Series 2013 A with a par amount of \$6,195,000. The proceeds of the Series 2013 A Bond were used to refund all Higher Education Facility Revenue Bonds, University of Rhode Island, Series 1997 and to refund all University of Rhode Island Educational & General Revenue, Series 2002 bonds. The University entered into the bond refunding with the goal to achieve cost savings primarily through the reduction of interest expense. 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.

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Notes to the Financial Statements - Continued

For the Year Ended June 30, 2018

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 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.

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.

UNIVERSITY OF RHODE ISLAND
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Notes to the Financial Statements - Continued

For the Year Ended June 30, 2018

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

Bonds Payable - continued

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.

On October 17, 2017 the Corporation issued the Higher Education Facility Revenue Bonds, University of Rhode Island Auxiliary Enterprise Revenue Issue, Series 2017 A with a par amount of \$76,895,000. The proceeds of the Series 2017 A Bond were used for the design and construction of a new, multi-story apartment style student residence building with 500 beds, located west of White Horn Brook on the University's Kingston Campus.

On October 17, 2017, the Corporation issued the Higher Education Facility Revenue Bonds, University of Rhode Island Auxiliary Enterprise Revenue Refunding Issue, Series 2017 B with a par amount of \$35,560,000. The proceeds of the Series 2017 B Bond were used to refund the Higher Education Facility Revenue Bonds, University of Rhode Island, Series 2010 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 \$4,386,919 and resulted in an economic gain (difference between the present value of the old and new debt service payments) of \$3,024,162.

On October 17, 2017 the Corporation issued the Higher Education Facility Revenue Bonds, University of Rhode Island Educational and General Revenue Issue, Series 2017 C with a par amount of \$4,235,000. The proceeds of the Series 2017 C Bond were used for site-enabling facility relocation, utility and hardscape and landscape infrastructure, and site work related to the design and construction of a new, multi-story apartment style student residence building.

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Notes to the Financial Statements - Continued

For the Year Ended June 30, 2018

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

Bonds Payable - continued

On October 17, 2017, the Corporation issued the Higher Education Facility Revenue Bonds, University of Rhode Island Educational and General Revenue Refunding Issue, Series 2017 D with a par amount of \$6,525,000. The proceeds of the Series 2017 D Bond were used to refund the Higher Education Facility Revenue Bonds, University of Rhode Island, Series 2009 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 \$739,416 and resulted in an economic gain (difference between the present value of the old and new debt service payments) of \$621,173.

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: | | | |
| 2019 | \$ 9,108,005 | \$ 11,862,999 | \$ 20,971,004 |
| 2020 | 9,512,468 | 11,457,826 | 20,970,294 |
| 2021 | 10,051,814 | 11,018,215 | 21,070,029 |
| 2022 | 10,473,550 | 10,556,058 | 21,029,608 |
| 2023 | 10,799,679 | 10,066,357 | 20,866,036 |
| 2024-2028 | 61,814,545 | 41,182,855 | 102,997,400 |
| 2029-2033 | 57,255,000 | 25,408,463 | 82,663,463 |
| 2034-2038 | 38,655,000 | 15,481,316 | 54,136,316 |
| 2039-2043 | 31,390,000 | 8,645,450 | 40,035,450 |
| 2044-2048 | 28,855,000 | 2,963,750 | 31,818,750 |
| | \$ 267,915,061 | \$ 148,643,289 | \$ 416,558,350 |

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, 2018 were \$8,899,326.

UNIVERSITY OF RHODE ISLAND
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Notes to the Financial Statements - Continued

For the Year Ended June 30, 2018

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 | \$ 4,195,000 |
| 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 | 4,095,000 |
| 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 | 1,585,000 |
| | <hr style="border-top: 1px solid black;"/> \$ 16,785,000 <hr style="border-top: 1px solid black;"/> |

UNIVERSITY OF RHODE ISLAND
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Notes to the Financial Statements - Continued

For the Year Ended June 30, 2018

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

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

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: | | | |
| 2019 | \$ 2,042,000 | \$ 780,925 | \$ 2,822,925 |
| 2020 | 2,607,000 | 689,437 | 3,296,437 |
| 2021 | 2,550,000 | 564,638 | 3,114,638 |
| 2022 | 1,132,000 | 442,325 | 1,574,325 |
| 2023 | 1,234,000 | 390,375 | 1,624,375 |
| 2024-2028 | 4,615,000 | 1,168,575 | 5,783,575 |
| 2029-2032 | 2,605,000 | 277,500 | 2,882,500 |
| | \$ 16,785,000 | \$ 4,313,775 | \$ 21,098,775 |

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: | | | |
| 2019 | \$ 187,500 | \$ 25,205 | \$ 212,705 |
| 2020 | 165,275 | 21,451 | 186,726 |
| 2021 | 97,787 | 17,465 | 115,252 |
| 2022 | 92,841 | 13,232 | 106,073 |
| 2023 | 97,333 | 8,741 | 106,074 |
| 2024-2025 | 123,407 | 4,185 | 127,592 |
| | \$ 764,143 | \$ 90,279 | \$ 854,422 |

UNIVERSITY OF RHODE ISLAND
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Notes to the Financial Statements - Continued

For the Year Ended June 30, 2018

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

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.

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: | | | |
| 2019 | 1,175,000 | 121,000 | 1,296,000 |
| 2020 | 1,230,000 | 25,625 | 1,255,625 |
| | \$ 2,405,000 | \$ 146,625 | \$ 2,551,625 |

UNIVERSITY OF RHODE ISLAND
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Notes to the Financial Statements - Continued

For the Year Ended June 30, 2018

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.

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Notes to the Financial Statements - Continued

For the Year Ended June 30, 2018

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 2018, 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 24.87% of annual covered payroll for the fiscal year ended June 30, 2018. The University contributed \$9,531,977, \$9,903,769 and \$9,223,974 for the fiscal years ended June 30, 2018, 2017 and 2016, 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, 2018, the University reported a liability of \$127,132,520 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, 2017, 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, 2016 rolled forward to June 30, 2017. The University proportion of the net pension liability was based on its share of contributions to the ERS for fiscal year 2017 relative to the total contributions of all participating employers for that fiscal year. At June 30, 2017, the University proportion was 5.64%.

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Notes to the Financial Statements - Continued

For the Year Ended June 30, 2018

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, 2018, the University recognized pension expense of \$11,573,399. At June 30, 2018, the University reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

Deferred Outflows of Resources Related to Pension

| | | |
|---|----|--------------------------|
| Changes of assumptions | \$ | 10,716,005 |
| Net difference between projected and actual investment earnings | | 2,856,824 |
| Changes in proportion and differences between employer contributions and proportionate share of contributions | | 1,748,173 |
| Contributions made after the measurement date | | <u>9,531,977</u> |
| Total | \$ | <u><u>24,852,979</u></u> |

Deferred Inflows of Resources Related to Pension

| | | |
|--|----|-------------------------|
| Differences between expected and actual experience | \$ | 2,593,375 |
| Changes of assumptions | | 345,585 |
| Changes in proportion and difference between employer contributions and proportionate share of contributions | | <u>2,601,492</u> |
| Total | \$ | <u><u>5,540,452</u></u> |

UNIVERSITY OF RHODE ISLAND
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Notes to the Financial Statements - Continued

For the Year Ended June 30, 2018

Note 9 - **Pension - Continued**

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

Contributions of \$9,531,977 are reported as deferred outflows of resources related to pensions resulting from the University's contributions in fiscal year 2018 subsequent to the measurement date and will be recognized as a reduction of the net pension liability at the June 30, 2018 measurement date. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as a reduction as an increase (decrease) in pension expense as follows:

| Year ended June 30: | | |
|---------------------|-----------|------------------|
| 2019 | \$ | 1,893,464 |
| 2020 | | 3,971,932 |
| 2021 | | 2,751,884 |
| 2022 | | 826,807 |
| 2023 | | 336,463 |
| | <u>\$</u> | <u>9,780,550</u> |

Actuarial Assumptions

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

| | |
|---------------------------|----------------|
| Inflation | 2.50% |
| Salary increases | 3.25% to 6.25% |
| Investment rate of return | 7.00% |

Mortality rates were based on the RP-2014 combined healthy for males with blue collar adjustments, projected with Scale Ultimate MP16 mortality tables and RP-2014 combined healthy for females, projected with Scale Ultimate MP16 mortality tables.

The actuarial assumptions used in the June 30, 2016 valuations rolled forward to June 30, 2017 and the calculation of the total pension liability at June 30, 2017 were consistent with the results of an actuarial experience study performed as of June 30, 2016.

UNIVERSITY OF RHODE ISLAND
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Notes to the Financial Statements - Continued

For the Year Ended June 30, 2018

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, 2018 expected arithmetic returns over the long-term (20 years) by asset class are summarized in the following table:

| <u>Asset Class</u> | <u>Long-Term Target Asset Allocation</u> | <u>Long-Term Expected Real Rate of Return</u> |
|--------------------------------|--|---|
| Global Equity | | |
| U.S. Equity | 20.60% | 6.85% |
| International Developed Equity | 15.90% | 6.71% |
| International Emerging Markets | 3.50% | 8.91% |
| Private Growth | | |
| Private Equity | 11.30% | 9.62% |
| Non-Core RE | 2.20% | 5.17% |
| OPP Private Credit | 1.50% | 9.62% |
| Income | | |
| High Yield Infrastructure | 1.00% | 4.26% |
| REITS | 1.00% | 5.17% |
| Liquid Credit | 2.80% | 4.26% |
| Private Credit | 3.20% | 4.26% |
| Crisis Protection Class | | |
| Treasury Duration | 4.00% | 0.83% |
| Systematic Trend | 4.00% | 3.81% |
| Inflation Protection | | |
| Core Real Estate | 3.60% | 5.17% |
| Private Infrastructure | 2.40% | 5.57% |
| TIPs | 1.00% | 1.72% |
| Natural Resources | 1.00% | 3.98% |
| Volatility Protection | | |
| IG Fixed Income | 11.50% | 2.12% |
| Absolute Return | 6.50% | 3.81% |
| Cash | 3.00% | 0.83% |

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Notes to the Financial Statements - Continued

For the Year Ended June 30, 2018

Note 9 - **Pension - Continued**

Actuarial Assumptions - continued

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.

Discount rate

The discount rate used to measure the total pension liability was 7.0 percent. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current contribution rate and that contributions from the employers will be made at statutorily required rates, actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

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

The following presents the net pension liability (asset) calculated using the discount rate of 7.0 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 (6.0) | Current Discount Rate (7.0) | 1.00 % Increase (8.0) |
|--------------------------|-----------------------------------|--------------------------|
| \$ 158,312,120 | \$ 127,132,520 | \$ 103,908,435 |

Pension Plan Fiduciary Net Position

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

UNIVERSITY OF RHODE ISLAND
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Notes to the Financial Statements - Continued

For the Year Ended June 30, 2018

Note 10 - **Other Post-Employment Benefits**

Plan Description

Certain employees of the University participate in one of two OPEB plans: the State Employees' OPEB Cost-Sharing Plan ("SEP") and the Board of Education Cost-Sharing OPEB Plan ("BOEP") (collectively referred to as the "Plans"). The Plans are cost-sharing multiple-employer defined benefit OPEB plans included within the State Employees' and Electing Teachers OPEB System (the "OPEB System").

Under a cost sharing plan, OPEB 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 OPEB benefits through the plan, regardless of the status of the employers' payment of its OPEB obligation to the plan. The Plans provide health care benefits to plan members.

The OPEB System is administered by the OPEB Board and was authorized, created, and established under Chapter 36-12.1 of the RI General Laws. The OPEB Board was established under Chapter 36-12.1 as an independent board to hold and administer, in trust, the funds of the OPEB System. The four members of the OPEB Board are: the State Controller, the State Budget Officer, the State Personnel Administrator and the General Treasurer, or their designees.

The OPEB System issues a separate publicly available financial reports that includes financial statements and required supplementary information for each plan. The reports may be obtained at <http://www.oag.ri.gov/reports.html>.

Membership and Benefit Provisions

The Plans within the OPEB System generally provide healthcare coverage to pre-Medicare eligible retirees and health reimbursement account contributions or Medicare supplement coverage for members who are Medicare eligible. Members may purchase coverage for spouses and dependents. Dental and vision coverage may be purchased by these groups with no state subsidy.

Members of the OPEB System must meet the eligibility and services requirements set forth in the RI General Laws or other governing documents. RIGL Sections 16-17.1-1 and 2, 36-10-2, 36-12.1, 36-12-2.2 and 36-12-4 govern the provisions of the OPEB System, and they may be amended in the future by action of the General Assembly.

UNIVERSITY OF RHODE ISLAND
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Notes to the Financial Statements - Continued

For the Year Ended June 30, 2018

Note 10 - **Other Post-Employment Benefits - Continued**

Contributions

SEP

The funding policy, as set forth in the General Laws and which may be amended at any time, provides for actuarially determined periodic contributions to the plans. The University is required to contribute at an actuarially determined rate; the rate was 5.98% of annual covered payroll for the fiscal year ended June 30, 2018. The University contributed \$2,312,135, \$2,405,449 and \$2,343,583 for the fiscal years ended June 30, 2018, 2017 and 2016, respectively, equal to 100% of the required contributions for each year.

Active employees do not make contributions to the plan. Retired member contributions consist of the required retiree share of coverage based on the time of retirement and years of service.

BOEP

The funding policy, as set forth in the General Laws and which may be amended at any time, provides for actuarially determined periodic contributions to the plans. The University is required to contribute at an actuarially determined rate; the rate was 4.36% of covered payroll for the fiscal year ended June 30, 2018. The University contributed \$2,396,416, \$1,636,503, and \$1,502,284 for the fiscal years ended June 30, 2018, 2017 and 2016, respectively, equal to 100% of the required contributions for each year.

Active employees contribute 0.9% of payroll to the plan. Retired employees have varying co-pay percentages ranging from 0% to 50% based on age and years of service at retirement.

UNIVERSITY OF RHODE ISLAND
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Notes to the Financial Statements - Continued

For the Year Ended June 30, 2018

Note 10 - **Other Post-Employment Benefits - Continued**

OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

At June 30, 2018, the University reported a liability of \$29,240,408 and \$21,947,067 for its proportionate share of the net OPEB liability related to its participation in the SEP and BOEP, respectively. The net OPEB liability was measured as of June 30, 2017, the measurement date, and the total OPEB liability used to calculate the net OPEB liability was determined for each plan by a separate actuarial valuation as of June 30, 2017. The University's proportion of the net OPEB liability was based on its share of contributions to the Plans for fiscal year 2017 relative to the total contributions of all participating employers for that fiscal year. At June 30, 2017, the University's proportion was 5.63% and 41.84% for the SEP and the BOEP, respectively.

For the year ended June 30, 2018, the University recognized OPEB expense of \$2,179,134 and \$1,603,849 for the SEP and the BOEP, respectively. At June 30, 2018, the University reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

| | <u>SEP</u> | <u>BOEP</u> | <u>Total</u> |
|---|---------------------|---------------------|---------------------|
| Deferred Outflows of Resources Related to OPEB | | | |
| Changes in assumptions | \$ 1,754,388 | \$ 2,071,375 | \$ 3,825,763 |
| Contributions subsequent to measurement date | <u>2,312,135</u> | <u>2,396,416</u> | <u>4,708,551</u> |
| Total | \$ <u>4,066,523</u> | \$ <u>4,467,791</u> | \$ <u>8,534,314</u> |
| Deferred Inflows of Resources Related to OPEB | | | |
| Difference between expected and actual experience | \$ 1,524,530 | \$ 2,564,558 | \$ 4,089,088 |
| Net difference between projected and actual investment earnings | <u>358,364</u> | <u>419,026</u> | <u>777,390</u> |
| Total | \$ <u>1,882,894</u> | \$ <u>2,983,584</u> | \$ <u>4,866,478</u> |

UNIVERSITY OF RHODE ISLAND
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Notes to the Financial Statements - Continued

For the Year Ended June 30, 2018

Note 10 - **Other Post-Employment Benefits - Continued**

OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB - continued

Contributions of \$4,708,551 are reported as deferred outflows of resources related to OPEB resulting from the University's contributions in fiscal year 2018 subsequent to the measurement date, and will be recognized as a reduction of the net OPEB liability determined at the June 30, 2018 measurement date. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized as an increase (decrease) in OPEB expense as follows:

| Year ended | Net Deferred Outflows (Inflows) of Resources: | | | |
|-------------------|--|------------|--------------|----------------|
| | June 30: | SEP | BOEP | Total |
| 2019 | \$ | (53,487) | \$ (186,049) | \$ (239,536) |
| 2020 | | (53,487) | (186,049) | (239,536) |
| 2021 | | (53,487) | (186,049) | (239,536) |
| 2022 | | (53,487) | (186,049) | (239,536) |
| 2023 | | 36,104 | (81,292) | (45,188) |
| Thereafter | | 49,338 | (86,721) | (37,383) |
| | \$ | (128,506) | \$ (912,209) | \$ (1,040,715) |

Actuarial Assumptions

The total OPEB liability was determined using the following significant actuarial assumptions:

| | |
|-----------------------------|---|
| Inflation | 2.75% |
| Salary Increases | 3.00% to 6.00% |
| Investment Rate of Return | 5.00% |
| Health Care Cost Trend Rate | 9.00% in fiscal year 2018 decreasing annually to 3.5% in fiscal year 2031 and later |

UNIVERSITY OF RHODE ISLAND
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Notes to the Financial Statements - Continued

For the Year Ended June 30, 2018

Note 10 - **Other Post-Employment Benefits - Continued**

Actuarial Assumptions - continued

The long-term expected rate of return best-estimate on the Plans' 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 OPEB plan investment expense and inflation) for each major asset class, based on a collective summary of capital market expectations from 8 nationally recognized investment consulting firms. The June 30, 2017 expected arithmetic returns over the long-term (20 years) by asset class are summarized in the following table for the Plans:

| <u>Asset Class</u> | <u>Long-Term Target Asset Allocation</u> | <u>Long-Term Expected Real Rate of Return</u> |
|--------------------|--|---|
| Domestic Equity | 65% | 5.58% |
| Fixed Income | 35% | 0.52% |

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.

Discount Rate

The discount rate used to measure the total OPEB liability for the Plans was 5.0% for the Plans. The projection of cash flows used to determine the discount rate assumed that contributions from plan members, if any, 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 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 the Plans' investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

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Notes to the Financial Statements - Continued

For the Year Ended June 30, 2018

Note 10 - **Other Post-Employment Benefits - Continued**

Sensitivity of the Net OPEB Liability to Changes in the Discount Rate

The following presents the net OPEB liability calculated using the discount rate of 5.0% as well as what the net OPEB liability 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% Decrease | | 1% Increase | | 1% Increase |
|------|----|------------------------------------|----|------------------------------------|----|------------------------------------|
| | | <u>(4.0% Discount Rate)</u> | | <u>(5.0% Discount Rate)</u> | | <u>(6.0% Discount Rate)</u> |
| SEP | \$ | 34,119,682 | \$ | 29,240,408 | \$ | 25,177,707 |
| BOEP | \$ | 26,907,718 | \$ | 21,947,067 | \$ | 17,879,420 |

Sensitivity of the Net OPEB Liability to Changes in the Healthcare Cost Trend Rate

The following table presents the net OPEB liability calculated using the healthcare cost trend rate of 9.0% and gradually decreasing to an ultimate rate of 3.5%, as well what the employers' net OPEB liability would be if it were calculated using a trend rate that is 1-percentage point lower or 1-percentage point higher than the current rate:

| | | 1% Lower | | Baseline | | 1% Higher |
|------|----|------------------------|----|------------------------|----|-------------------------|
| | | <u>1% Lower</u> | | <u>Baseline</u> | | <u>1% Higher</u> |
| SEP | \$ | 24,607,851 | \$ | 29,240,408 | \$ | 34,997,539 |
| BOEP | \$ | 17,342,998 | \$ | 21,947,067 | \$ | 27,768,453 |

OPEB Plan Fiduciary Net Position

The OPEB System issues a separate publicly available financial reports that includes financial statements and required supplementary information for each plan. The reports may be obtained at <http://www.oag.ri.gov/reports.html>. The report contains detailed information about the OPEB plans' fiduciary net position.

UNIVERSITY OF RHODE ISLAND
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Notes to the Financial Statements - Continued

For the Year Ended June 30, 2018

Note 11 - **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 \$380,352 for the fiscal year ended June 30, 2018, equal to 100% of the required contributions for that year.

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Notes to the Financial Statements - Continued

For the Year Ended June 30, 2018

Note 11 - **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
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Notes to the Financial Statements - Continued

For the Year Ended June 30, 2018

Note 11 - **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 \$12,298,149 during 2018. The employee contribution amounted to \$6,832,305 during 2018.

Note 12 - **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, 2018:

| | | |
|--------------------------|----|-------------------------|
| Restricted – expendable: | | |
| Student loans | \$ | 4,076,820 |
| Capital programs | | <u>3,750</u> |
| | \$ | <u><u>4,080,570</u></u> |

Note 13 - **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 (the "Site"). A cap was placed to cover the 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 \$854,527 relating to the remediation project, operation and maintenance costs, and site reviews. The related costs for the year ended June 30, 2018 were \$123,677.

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Notes to the Financial Statements - Continued

For the Year Ended June 30, 2018

Note 13 - **Contingencies - Continued**

Legal

On May 31, 2018, a State of Rhode Island Superior court jury awarded the plaintiff a judgement in the amount of \$32.15 million from injuries sustained at the Alton Jones Campus of the University of Rhode Island in 2014. The judgement includes interest that accrues annually at 12%. The University is insured through United Educators Insurance with a \$1 million underlying policy and a \$25 million excess liability policy. An appeal has been filed by the University and its insurance carrier with the Rhode Island Supreme Court. The University and United Educators Insurance intend to seek reversal of the judgment based on well-established precedents under Rhode Island Law. The case will also be subject to mandatory mediation while it is on appeal. Mediation is scheduled for November 2018. The impact of this matter, if any, cannot presently be determined, therefore, no liability in these financial statements has been recognized for this contingency.

On January 15, 2018, a woman filed suit against the University of Rhode Island, the Council for Postsecondary Education and the Board of Education in the death of her husband, who died as a result of injuries suffered at the hands of a University employee after the employee left work. Discovery is ongoing. No settlement demands or offers have been made as of this date, which is not unusual since the case is relatively new. The impact of this matter, if any, cannot presently be determined.

Other

In addition to the judgement and suit noted above, various lawsuits are pending or threatened against the University that arose from the ordinary course of operations. In the opinion of management, no other litigation is now pending, or threatened that would materially affect the University's financial position.

At June 30, 2018, the University is a guarantor of loans to fraternities and sororities in the amount of \$50,000.

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.

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Notes to the Financial Statements - Continued

For the Year Ended June 30, 2018

Note 14 - **Operating Expenses**

The University's operating expenses, as presented on a natural classification basis, are as follows for the year ended June 30, 2018:

| | |
|------------------------------|-----------------------|
| Compensation and benefits | \$ 324,531,546 |
| Supplies and services | 141,229,821 |
| Depreciation | 35,636,132 |
| Scholarships and fellowships | 30,185,593 |
| | <u>\$ 531,583,092</u> |

Note 15 - **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 2018, 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. 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.

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Notes to the Financial Statements - Continued

For the Year Ended June 30, 2018

Note 15 - **State Appropriation - Continued**

State Capital Plan Funds - continued

The University's State Capital Plan Allocations are composed of the following for the year ended June 30, 2018:

| | | |
|----------------------------|-----------|------------------|
| Asset Protection | \$ | 8,367,873 |
| Fine Arts Center | | 487,290 |
| Substation | | 392,033 |
| Vivaria | | 370,644 |
| Nursing White Hall | | 228,969 |
| Fire and Safety Protection | | 140,464 |
| | <u>\$</u> | <u>9,987,273</u> |

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 2018, the University spent \$188,000.

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 2018, the University spent \$719,000.

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 2018, the University spent \$38.5 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. During fiscal year 2018, the University spent \$3.0 million.

The expenditures funded from the proceeds of the above-mentioned general obligation bonds and capitalized as fixed assets during fiscal year 2018 totaled \$42.4 million.

UNIVERSITY OF RHODE ISLAND
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Notes to the Financial Statements - Continued

For the Year Ended June 30, 2018

Note 15 - **State Appropriation - Continued**

State Contributed Capital - continued

The University's State appropriations are composed of the following for the year ended June 30, 2018:

| | | |
|---------------------------|----|--------------------|
| Direct Appropriations | \$ | 78,329,815 |
| State Capital Plan Funds | | 9,987,273 |
| State Contributed Capital | | 42,365,025 |
| | \$ | <u>130,682,113</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 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 \$1,544,379 to the Student Senate during the 2018 fiscal year representing student fees collected on the Student Senate's behalf. At June 30, 2018, \$11,208 was due to the Student Senate and no amounts were due from the Student Senate. Revenues of the Student Senate for fiscal year 2018 were \$2,617,261 and expenses totaled \$2,244,234. Net position of the Student Senate at June 30, 2018 totaled \$3,297,147.

UNIVERSITY OF RHODE ISLAND
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Notes to the Financial Statements - Continued

For the Year Ended June 30, 2018

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 2018 share of capital expenditures amounted to \$59,590.

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 \$593,258 in 2018. 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 \$90,335,716 during fiscal 2018, 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
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Schedule of the University's Proportionate Share of the Net Pension Liability (unaudited)

Employees' Retirement System

| Year ended | June 30, 2018 | June 30, 2017 | June 30, 2016 | June 30, 2015 |
|---|----------------|----------------|----------------|----------------|
| Measurement date | June 30, 2017 | June 30, 2016 | June 30, 2015 | June 30, 2014 |
| Valuation date | June 30, 2016 | June 30, 2015 | June 30, 2014 | June 30, 2013 |
| University's proportion of the net pension liability | 5.64% | 5.80% | 5.69% | 5.63% |
| University's proportionate share of the net pension liability | \$ 127,132,520 | \$ 123,019,948 | \$ 113,015,599 | \$ 100,312,100 |
| University's covered-employee payroll | \$ 39,083,540 | \$ 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 | 325.28% | 315.29% | 297.26% | 272.60% |
| Plan fiduciary net position as a percentage of the total pension liability | 51.83% | 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
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Schedule of the University's Contributions - Pension (unaudited)

Employees' Retirement System

| Year ended | <u>June 30, 2018</u> | <u>June 30, 2017</u> | <u>June 30, 2016</u> | <u>June 30, 2015</u> |
|--|----------------------|----------------------|----------------------|----------------------|
| Statutorily required contribution | \$ 9,531,977 | \$ 9,903,769 | \$ 9,223,974 | \$ 8,869,864 |
| Contributions in relation to the statutorily required contribution | <u>(9,531,977)</u> | <u>(9,903,769)</u> | <u>(9,223,974)</u> | <u>(8,869,864)</u> |
| Contribution deficiency (excess) | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> |
| University's covered-employee payroll | \$ 38,327,209 | \$39,083,540 | \$39,018,501 | \$38,019,134 |
| Contribution as a percentage of covered-employee payroll | 24.87% | 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 Pension Required Supplemental Information (Unaudited)

Pension Schedules

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

Measurement Date - June 30, 2017

There were no changes in benefits reflected in the calculation of the net pension liability as of the June 30, 2017 measurement date compared to the June 30, 2016 measurement date. The following is a listing of actuarial methods or assumptions for the following measurement dates:

| <u>Measurement Date</u> | <u>June 30, 2017</u> | <u>June 30, 2016</u> |
|----------------------------|--|---|
| Investment rate of return | 7.00% | 7.50% |
| Projected salary increases | 3.25% - 6.25% | 3.50% - 6.50% |
| Inflation rate | 2.50% | 2.75% |
| Mortality rates - males | Male employees - RP-2014 Combined Healthy for Males with Blue Collar adjustments, projected with Scale Ultimate MP16 | Male employees - 115% of RP-2000 Combined Healthy for Males with White Collar adjustments, projected with Scale AA from 2000 |
| Mortality rates - females | Male employees - RP-2014 Combined Healthy for Females, projected with Scale Ultimate MP16 | Female employees - 95% of RP-2000 Combined Healthy for Females with White Collar adjustments, projected with Scale AA from 2000 |

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

Notes to the Pension Required Supplemental Information (Unaudited) - Continued

Pension Schedules

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

Measurement Date - June 30, 2016

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.

Measurement Date - June 30, 2015

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 is 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.

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 OPEB Liability (unaudited)

State Employees' and Electing Teachers OPEB System Plan

State Employees' Cost-Sharing OPEB Plan

| | |
|---|---------------|
| Year ended | June 30, 2018 |
| Measurement date | June 30, 2017 |
| Valuation date | June 30, 2017 |
| University's proportion of the net OPEB liability | 5.63% |
| University's proportionate share of the net OPEB liability | \$ 29,240,408 |
| University's covered payroll | \$ 40,292,278 |
| University's proportionate share of the net OPEB liability as a percentage of its covered-employee payroll | 72.57% |
| Plan fiduciary net position as a percentage of the total OPEB liability | 22.38% |

Board of Education OPEB Cost-Sharing Plan

| | |
|---|---------------|
| Year ended | June 30, 2018 |
| Measurement date | June 30, 2017 |
| Valuation date | June 30, 2017 |
| University's proportion of the net OPEB liability | 41.84% |
| University's proportionate share of the net OPEB liability | \$ 21,947,067 |
| University's covered payroll | \$ 52,620,675 |
| University's proportionate share of the net OPEB liability as a percentage of its covered-employee payroll | 41.71% |
| Plan fiduciary net position as a percentage of the total OPEB liability | 32.05% |

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, 2017 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 - OPEB (unaudited)

State Employees' and Electing Teachers OPEB System Plan

State Employees' Cost-Sharing OPEB Plan

| Year ended | <u>June 30, 2018</u> |
|--|----------------------|
| Statutorily determined contribution | \$ 2,312,135 |
| Contributions in relation to the statutorily determined contribution | (2,312,135) |
| Contribution deficiency (excess) | <u><u>\$ -</u></u> |
| University's covered-employee payroll | \$ 38,664,465 |
| Contributions as a percentage of covered payroll | 5.98% |

Board of Education OPEB Cost-Sharing Plan

| Year ended | <u>June 30, 2018</u> |
|--|----------------------|
| Statutorily determined contribution | \$ 2,396,416 |
| Contributions in relation to the statutorily determined contribution | (2,396,416) |
| Contribution deficiency (excess) | <u><u>\$ -</u></u> |
| University's covered-employee payroll | \$ 54,963,670 |
| Contributions as a percentage of covered payroll | 4.36% |

Notes:

Employers participating in the State Employee's Retirement System are required by RI General Laws, Section 36-10-2, to contribute an actuarially 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, 2017 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 OPEB Required Supplemental Information (Unaudited)

OPEB Schedules

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

The actuarial methods and assumptions used to calculate the net OPEB liability of the participating employers are described in Note 10 to the financial statements. The following information is presented about factors that significantly affect trends in the amounts reported between years.

Measurement Date - June 30, 2017

Certain actuarial assumptions for the State Employees' OPEB Cost-Sharing Plan ("SEP") and the Board of Education Cost-Sharing OPEB Plan ("BOEP") (collectively referred to as the "Plans") were updated to match the assumptions used for State Employees in the pension valuation for the Employees' Retirement System of Rhode Island ("ERSRI") and the results of an actuarial experience investigation performed for ERSRI at June 30, 2016. Changes were made to the following assumptions:

- Merit and longevity portion of the salary increase assumption
- Rates of separation from active membership
- Rates of retirement
- Rates of disability
- The rate of wage inflation
- The mortality assumption
- The trend assumption
- Aging factors and health and inflation trends

The excise tax load on pre-65 liabilities was changed from 13.8% to 11.0%. The Patient Protection and Affordable Care Act includes an excise tax on high cost health plans beginning in 2022. The excise tax is 40% of costs above a threshold. The actual actuarial assumptions used in the most recent valuations assume that the Plans will be subject to the excise tax in 2022.

Note 2 - **Actuarially Determined Contributions**

The annual required contributions for fiscal year 2017 were determined based on the June 30, 2013 valuation of the Plans.

**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, 2018, the related statements of revenues and expenses, changes 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 30, 2018. 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, 2018. Our report includes a reference to other auditors who audited the financial statements of the University of Rhode Island Foundation, Inc. and the University of Rhode Island Research 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'Connell and Drew, P.C.

Certified Public Accountants
Braintree, Massachusetts

September 30, 2018