

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

FINANCIAL STATEMENTS

JUNE 30, 2016

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

Financial Statements

June 30, 2016

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INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of Rhode Island College (a component unit of the State of Rhode Island and Providence Plantations) (the "College") which comprise the statement of net position as of June 30, 2016, and the related statements of revenues, expenses and changes in net position, and cash flows for the year then ended, and the related notes to the financial statements, which collectively comprise the College's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the financial statements of Rhode Island College Foundation (the "Foundation") as of June 30, 2016 as discussed in Note 1. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Foundation, 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 of America. 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 net position of Rhode Island College as of June 30, 2016, and the changes in net position, and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that management's discussion and analysis on pages 3-17, the schedule of proportionate share of the net pension liability on page 51, the schedule of contributions on page 52, and the notes to the required supplementary information on page 53 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 6, 2016, on our consideration of Rhode Island College'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 Rhode Island College's internal control over financial reporting and compliance.

O'Connor and Drew, P.C.

**Certified Public Accountants
Braintree, Massachusetts**

October 6, 2016

RHODE ISLAND COLLEGE
(A Component Unit of the State of Rhode Island and Providence Plantations)

Management's Discussion and Analysis (Unaudited)

June 30, 2016

Introduction

The following management discussion and analysis (MD&A) provides management's view of the financial position of Rhode Island College (the "College") as of June 30, 2016 and the results of operations for the year then ended, with selected comparative information for the year ended June 30, 2015. The purpose of the MD&A is to assist readers in understanding the accompanying financial statements by providing an objective and understandable analysis of the College'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, and it should be read in conjunction with the College's financial statements and notes thereto that follow this section.

The College, founded in 1854, is the oldest of the three public institutions of higher education that is governed by the Board of Education (the "BOE"). 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 College's primary mission is to make its academic programs available to any qualified students who can benefit from its educational services. The College fulfills its educational mission by offering undergraduate programs in liberal arts and sciences, and in a variety of professional and pre-professional fields. The College also offers a range of selected graduate programs in arts and sciences, education, and in areas of social, public and community service. The College offers its academic programs to undergraduates of traditional age as well as to older students who often study and or work part-time while earning undergraduate or advanced degrees. The majority of students are from Rhode Island. The College also contributes directly to the cultural life of the State through ongoing theatre and concert performances, art exhibits, lectures, and films, which are all open to the public.

The College was established in 1854 as the Rhode Island Normal School, focusing on teacher education. Due to diminished state support, the College was closed for a period between 1865 and 1869, when it reopened as the Rhode Island State Normal School. In 1920, the Normal School became the Rhode Island College of Education, offering a four-year program leading to the degree of Bachelor of Education. The graduate program originated in the early 1920s. During the 1958-59 academic year, the College was relocated from the downtown location to its current 180-acre campus on the border of Providence and North Providence. In 1959, the mission of the College was expanded to that of a comprehensive college. In 1960, the name of the institution was changed to Rhode Island College to reflect its expanded mission. The College now serves approximately 8,500 students in a variety of courses and programs both on and off campus.

RHODE ISLAND COLLEGE

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

Management’s Discussion and Analysis (Unaudited) - Continued

June 30, 2016

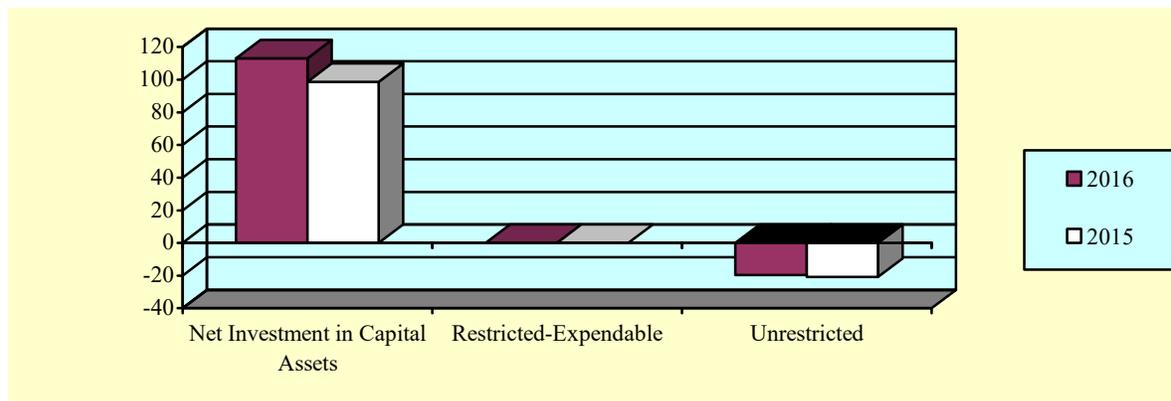
Introduction - Continued

The College is part of the Rhode Island system of public higher education that includes the Community College of Rhode Island and the University of Rhode Island, with which articulation agreements for matriculation exist for student transfers within the system. The Rhode Island Council on Postsecondary Education became the governing body for the college in 2013.

Financial Highlights

The College’s financial position remained strong as of June 30, 2016. At June 30, 2016, the College’s assets of \$194.7 million exceeded its liabilities of \$103.7 million by \$91.0 million, an increase over the prior year of \$13 million.

The resulting net position is summarized into the following categories (in \$ millions) for the fiscal years ended June 30, 2016 and 2015:



Restricted expendable net position may be expended only for the purposes authorized by the creditor, grantor, or enabling legislation. Unrestricted net position represents all other funds that do not meet the definition of Net Investment in Capital Assets or Restricted funds.

For fiscal year 2016 operating revenues increased by 3.9%, or \$3.7 million, from \$94.0 in fiscal year 2015 to \$97.7 million in fiscal year 2016. Similarly, operating expenses increased by 4.7%, or \$6.5 million from \$137.5 million in fiscal year 2015 to \$144.1 million in fiscal year 2016.

RHODE ISLAND COLLEGE

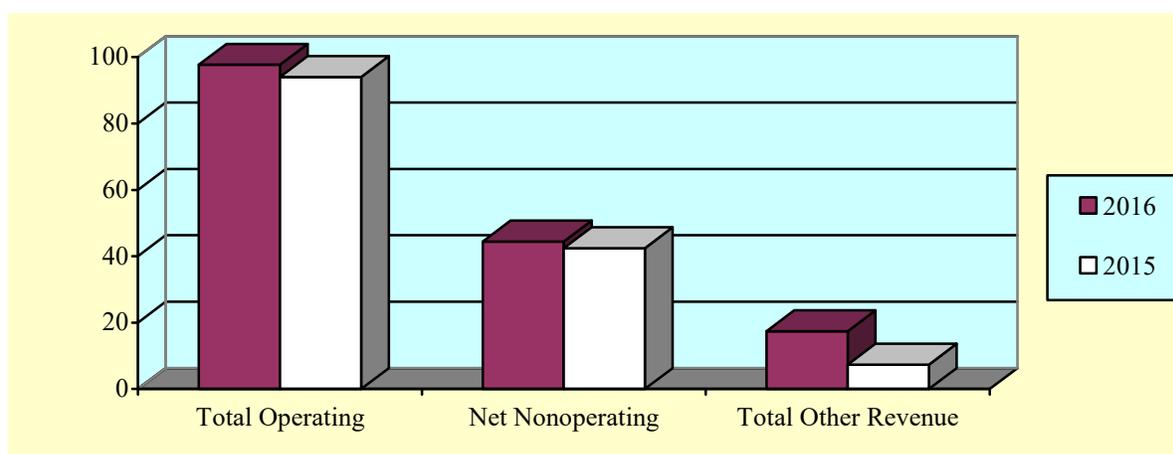
(A Component Unit of the State of Rhode Island and Providence Plantations)

Management's Discussion and Analysis (Unaudited) - Continued

June 30, 2016

Financial Highlights - Continued

The following chart provides a graphical breakdown of total revenues (in \$ millions) by category for the fiscal years ending June 30, 2016 and 2015:



Cash flow continued to be adequate for operations with a cash balance of \$30.7 million at June 30, 2016.

Overview of the Financial Statements

The financial statements focus on the College as a whole, rather than upon individual funds or activities, and have two primary components: 1) the financial statements and 2) the notes to the financial statements.

Rhode Island College Foundation (the “Foundation”) is a legally separate tax-exempt component unit of Rhode Island College. The Foundation acts primarily as a fund-raising organization to supplement the resources that are available to the College in support of its programs. The Board of the Foundation is self-perpetuating and primarily consists of graduates and friends of the College. Although the College does not control the timing or the amount of receipts from the Foundation, the majority of resources received or held by the Foundation are restricted to the activities of the College by the donors. Because these resources held by the Foundation can only be used by or are for the benefit of the College, the Foundation is considered a component unit of the College and is discretely presented in the College’s financial statements.

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

RHODE ISLAND COLLEGE
(A Component Unit of the State of Rhode Island and Providence Plantations)

Management's Discussion and Analysis (Unaudited) - Continued

June 30, 2016

The Financial Statements

The financial statements are designed to provide readers with a broad overview of the College's finances and are comprised of three basic statements. These statements present financial information in a form similar to that used by private institutions of higher education and corporations.

The *Statement of Net Position* presents information on all of the College's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the College is improving or deteriorating. Other factors are also relevant to assessing the College's overall financial health. These include: the trend, quality, and retention and size of student enrollments; diversification of revenue streams; management of costs; and condition of facilities.

The *Statement of Revenues, Expenses and Changes in Net Position* shows how the College's net position changed during the most recent fiscal year. This statement reports total operating revenues and expenses, non-operating revenues and expenses, and capital additions and deletions. 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 *Statement 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 18 to 20 of this report.

The College reports its operations as a business-type activity using the economic measurement focus and full accrual basis of accounting. The College is a component unit of the State of Rhode Island and Providence Plantations. Therefore, the results of the College's operations, its net position and its cash flows are also summarized in the State's Comprehensive Annual Financial Report in its government-wide financial statements.

RHODE ISLAND COLLEGE
(A Component Unit of the State of Rhode Island and Providence Plantations)

Management's Discussion and Analysis (Unaudited) - Continued

June 30, 2016

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 College has adopted as well as additional detail of certain amounts contained in the financial statements. The notes to the financial statements and supplementary information can be found on pages 21 to 50 of this report.

Financial Analysis

As noted earlier, the difference between total assets and total liabilities may serve over time as a useful indicator of the College's financial position. For fiscal year 2016, assets exceeded liabilities by \$91.0 million and for fiscal year 2015 assets exceeded liabilities by \$78.0, as shown in the chart below:

Condensed Statement of Net Position
(Dollars in millions)

	2016	2015
Assets:		
Current assets	\$ 46.4	\$ 40.6
Noncurrent assets	148.3	135.5
Total assets	\$ 194.7	\$ 176.1
Deferred outflows of resources	\$ 3.2	\$ 3.1
Liabilities:		
Current liabilities	\$ 22.5	\$ 19.2
Noncurrent liabilities	81.2	78.9
Total liabilities	\$ 103.7	\$ 98.1
Deferred inflows of resources	\$ 0.8	\$ 3.1
Net position:		
Net investment in capital assets	\$ 113.0	\$ 98.8
Restricted:		
Expendable	0.1	-
Unrestricted	(19.7)	(20.8)
Total net position	\$ 93.4	\$ 78.0

RHODE ISLAND COLLEGE
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Management's Discussion and Analysis (Unaudited) - Continued

June 30, 2016

Financial Analysis – Continued

The largest portion of the College's net position, \$113.6 million and \$98.8 million in fiscal year 2016 and 2015, respectively, reflects its investment in capital assets (such as land, buildings, machinery, and equipment), less any related outstanding debt used to acquire those assets. The College uses these capital assets to provide services to students, faculty, and administration; consequently, these assets are not available for future spending.

Although the College'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 these liabilities. Also, in addition to the debt noted above, which is reflected in the College's financial statements, the State of Rhode Island regularly provides financing for certain capital projects through the issuance of general obligation bonds and appropriations from the Rhode Island Capital Fund.

Additional financing for certain capital projects is provided by the issuance of revenue bonds by the Rhode Island Health and Educational Building Corporation, a quasi-public state agency.

The liabilities-to-assets ratio was 53% in fiscal year 2016, down slightly from 56% in fiscal year 2015. Net pension liability at June 30, 2016 of \$39.8 and \$35.6 million at June 30, 2015 is the College's largest liability.

During fiscal year 2015, the College implemented GASB 68, *Accounting and Financial Reporting for Pensions*. This standard improves the reporting of pension liabilities and expenses shown on the financial statements. The total amount of pension benefits that have been earned by current and previous employees are reflected on the statement of net position in the noncurrent liabilities. The College's restated net position decreased by \$36.1 million from the previously reported amounts.

RHODE ISLAND COLLEGE
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Management's Discussion and Analysis (Unaudited) - Continued

June 30, 2016

Financial Analysis – Continued

Condensed Statement of Revenues, Expenses and Changes in Net Position

Years Ended June 30, 2016 and 2015

(Dollars in millions)

	2016	2015
Operating revenues:		
Tuition and fees	\$ 70.1	\$ 66.1
Auxiliary enterprises	21.2	21.2
Less: scholarship allowances	(23.0)	(21.9)
Grants, contracts, and other	29.4	28.6
Total operating revenues	97.7	94.0
Operating expenses:		
Salaries and benefits	103.3	96.6
Scholarships, grants, and contracts	6.6	6.6
Other expenses	25.5	25.7
Depreciation and amortization	8.6	8.6
Total operating expenses	144.0	137.5
Net operating loss	(46.3)	(43.5)
Nonoperating revenues (expenses):		
State appropriations	44.8	42.6
Other nonoperating revenues, net	(0.4)	(0.2)
Net nonoperating revenues	44.4	42.4
Increase (decrease) in net position before other revenues, expenses, gains, or losses	(1.9)	(1.1)
Capital appropriations	17.2	7.2
Capital gifts and grants	0.2	0.1
Total other revenues	17.4	7.3
Increase in net position	\$ 15.5	\$ 6.2

RHODE ISLAND COLLEGE
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Management's Discussion and Analysis (Unaudited) - Continued

June 30, 2016

Operating Revenues

Total operating revenues for fiscal year 2016 were \$97.7 million, an increase of \$3.7 million, or 3.9%, over the prior year. The most significant sources of operating revenue for the College are tuition and fees, grants and contracts, and auxiliary services. Significant changes in operating revenue resulted from:

- The College submitted a request to the Board of Education Council on Postsecondary Education for tuition and one fee increase for fiscal year 2016. Tuition rates for both in-state and out-of-state undergrad students increased 9%, while tuition for graduate students was not changed. Fees for fiscal year 2016 were increased by less than 1%.
- Auxiliary revenues remained steady year over year at \$21.2 million for both fiscal year 2016 and 2015.

The following summary shows major grant and contract expenses, including indirect cost charges, for the fiscal years ending June 30, 2016, and 2015 (\$ in thousands):

<u>Agency</u>	<u>Grant/Contract/Program</u>	<u>2016</u>	<u>2015</u>
R.I. Department of Education	Vision Services	\$ 1,813	\$ 920
R.I. Department of Children, Youth and Families	R.I. Child Welfare Institute	726	854
R.I. Department of Education	R.I. Technical Assistance Project	661	692
R.I. Department of Education	R.I. State Personnel Development	614	661
U.S. Department of Education	Upward Bound	611	613
R.I. Department of Human Services	Early Intervention	486	553
R.I. Department of Education	Education Advocates (Surrogate Parents)	620	511
U.S. Department of Health and Human Services	University Center on Developmental Disabilities	532	489
University of Rhode Island	INBRE	724	320
R.I. Office of Higher Education	Learning for Life	350	311
R.I. Department of Education	Institute for Early Childhood Development at Rhode Island College	580	286
University of Rhode Island	EPSCoR	87	215
R.I. Department of Children, Youth and Families	Medicaid Implementation Grant	69	132
R.I. Office of Higher Education	No Child Left Behind Partnership	-	132
U.S. Department of Health and Human Services	R15 - Neonatal Brain Injury: Mediating Factors for Improved	108	102
R.I. Office of Higher Education	R15 - Neonatal Brain Injury: Mediating Factors for Improved	138	-
University of Rhode Island	Project RITES	-	83
R.I. Department of Human Services	Job Placement Recertification	-	41
R.I. Department of Children, Youth and Families	R.I. Child Welfare / Early Care Partnership	-	27
Developmental Disabilities and Hospitals	Behavioral Health Workforce Education and Training	241	-
U.S. Department of Health and Human Services	Professionals and Paraprofessionals	175	-
U.S. Department of Education	Students with Intellectual Disabilities	103	-
U.S. Department of Education	Dual Sensory Impairment	100	-

RHODE ISLAND COLLEGE

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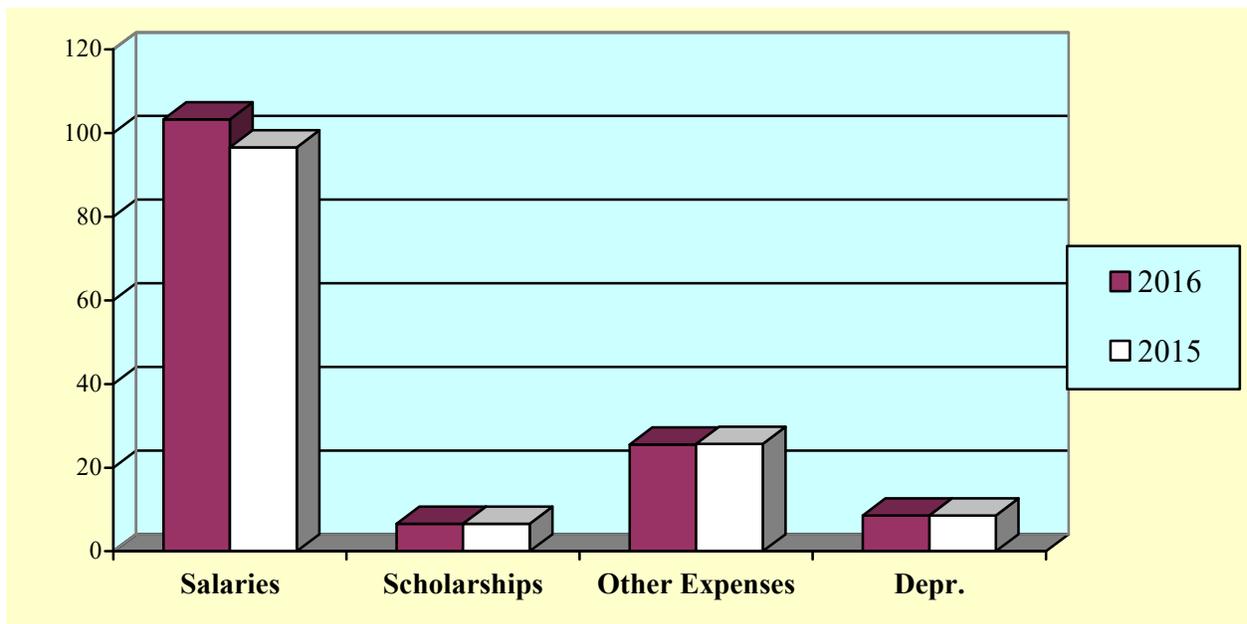
Management's Discussion and Analysis (Unaudited) - Continued

June 30, 2016

Operating Expenses

Fiscal year 2016 operating expenses totaled \$144.1 million, an increase of \$6.5 million, or 4.7% from \$137.6 million in the prior year. Of this total, \$73.4 million, or 51.0% was used for instruction, academic support, student support and scholarships in fiscal year 2016 compared to \$70.6 million or 51.3% in fiscal year 2015. Depreciation and amortization expense totaled \$8.6 million in both fiscal year 2016 and 2015.

The following chart provides a graphical breakdown of significant operating categories of expenses (in \$ millions) for fiscal years ending June 30, 2016 and 2015:



RHODE ISLAND COLLEGE
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Management's Discussion and Analysis (Unaudited) - Continued

June 30, 2016

Non-operating Revenues and Expenses

Net non-operating revenues for fiscal years 2016 and 2015 were \$44.4 million and \$42.4 million, respectively, consisting of the state appropriations, gifts, and net investment earnings. These figures represent an increase of \$2.2 million over the prior year.

Other

Capital appropriations of \$17.2 million and \$7.2 million in fiscal years 2016 and 2015, respectively, represent funds to renovate the Academic Buildings as well as Rhode Island Capital Plan Funds utilized by the College to construct or acquire capital assets.

Due to the nature of public higher education, institutions incur a loss from operations. State appropriations to the College, reported as non-operating revenue, are the primary resource for offsetting the loss from operations.

Capital Asset and Debt Administration

Capital Plan

The Rhode Island Board of Education submits a running five-year capital improvement plan to the General Assembly and State Executive each year. The plan includes proposed capital asset protection projects for the College. The fiscal year 2016-2020 plan enacted by the RI General Assembly for the College totals \$92 million. During fiscal year 2016, the College expended \$7.3 million on Infrastructure and Asset Protection related projects. The College generally has funded its capital plans through a combination of funds received from college operations, State of Rhode Island Capital Fund appropriations, State of Rhode Island general obligation bonds and Rhode Island Health and Educational Building Corporation ("RIHEBC") bonds. The execution of the College's capital improvement plan is contingent upon approval and sufficient funding from the State.

In November 2010, the Rhode Island voters approved the issuance of \$78 million General Obligation Bonds to fund improvements the construction of a new chemistry building at the University of Rhode Island, and \$17 million for the renovation and construction of an addition to the Art Center at Rhode Island College. Construction began in April 2012 and was substantially completed in fiscal year 2015.

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Management's Discussion and Analysis (Unaudited) - Continued

June 30, 2016

Capital Asset and Debt Administration - Continued

Capital Plan - Continued

In November 2012 the Rhode Island voters approved the issuance of \$50 million General Obligation Bonds to renovate and modernize academic buildings at Rhode Island College including the renovation, upgrade and expansion of health and nursing facilities on the campus of Rhode Island College. The construction began in fiscal year 2015 and continued in fiscal year 2016.

Capital Assets

At June 30, 2016, the College had \$144.3 million invested in capital assets, net of accumulated depreciation compared to \$131.3 million at June 30, 2015. Included in the College's capital assets is \$22.4 million in construction in progress. Depreciation charges totaled \$8.6 million for the current fiscal year, consistent with the prior year. Legal title to all land and real estate assets is vested in the Rhode Island Board of Education. A summary of the capital asset balances is displayed below (in millions):

	<u>2016</u>	<u>2015</u>
Land and improvements	\$ 13.0	\$ 11.0
Construction in progress	22.4	6.6
Buildings and improvements	105.1	109.5
Furniture, fixtures, and equipment	3.8	4.2
Total	<u>\$ 144.3</u>	<u>\$ 131.3</u>

Major capital additions this year included:

Fogarty Life Science	\$6.5 million
Gaige Hall	\$5.4 million
Electrical upgrades	\$2.0 million
Roberts Hall	\$1.1 million

RHODE ISLAND COLLEGE
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Management's Discussion and Analysis (Unaudited) - Continued

June 30, 2016

Debt

At June 30, 2016 and 2015, the College had \$18.5 million and \$19.4 million, respectively, in debt outstanding, a net change of \$0.9 million. The table below summarizes the types of debt instruments as of June 30, 2016 and 2015 (in millions):

	<u>2016</u>	<u>2015</u>
General Obligation (Note Payable)	\$ 1.1	\$ 1.2
Premium on Bond Payable	1.0	1.1
Revenue Bonds	16.4	17.1
Total	<u>\$ 18.5</u>	<u>\$ 19.4</u>

Debt repayments made during the year were \$0.9 million.

As of June 30, 2016, the College has a \$20.2 million liability payable to the State. This obligation includes funds advanced for the construction of a new residence hall (Penfield Hall) and additional debt issued of \$7.5 million for an energy investment project. These amounts will be paid back to the State at varying interest rates ranging from 2% to 5%.

The College has no independent bonding authority. All bonds must be approved by and arranged through the Rhode Island Council on Postsecondary Education. All general obligation and revenue bond related indebtedness is reflected on the financial accounts of the entity issuing the bonds. The Board's revenue bonds and Rhode Island general obligation bonds are rated by Moody's and by Standard and Poor. More detailed information about the College's long-term liabilities is presented in Note 6 of the financial statements.

Economic Factors that will Affect the Future

The seasonally adjusted unemployment rate for the State of Rhode Island, from which the College primarily draws students, was 5.5% in June of 2016 and 5.9% in June of 2015, according to the RI Department of Labor and Training. This change compares to 4.9% and 5.3%, respectively, on a national level.

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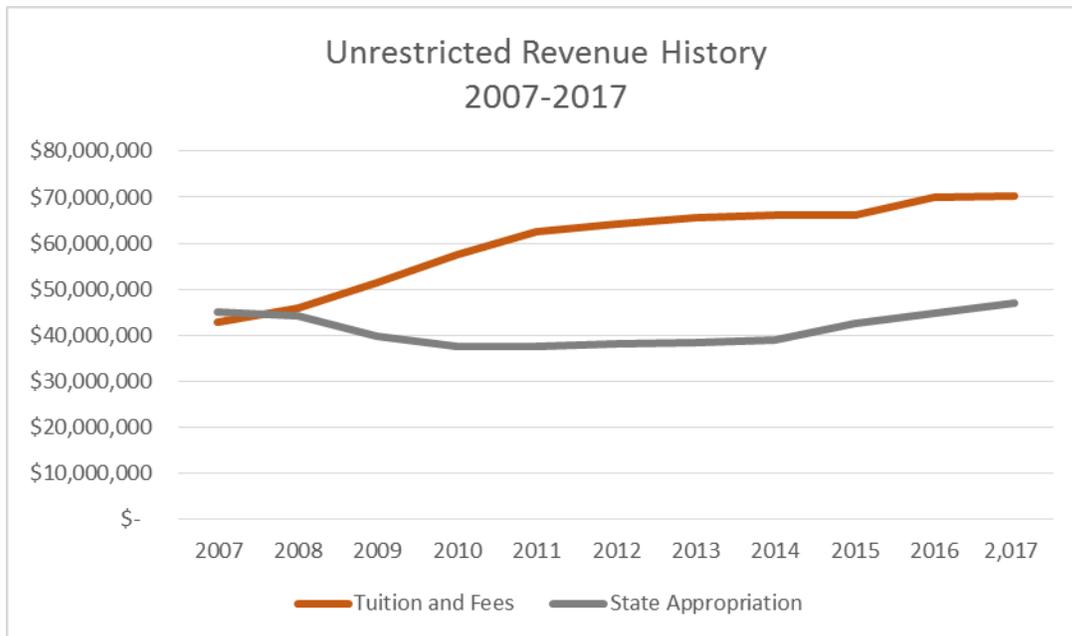
Management’s Discussion and Analysis (Unaudited) - Continued

June 30, 2016

Economic Factors that will Affect the Future - Continued

Historically, in times of economic slowdowns, public colleges/universities have experienced increases in their enrollments as unemployed and underemployed workers seek to update and upgrade their skills. This was evident during the national economic recession of 2008, in which the college saw increased enrollment. However, the State was under budget pressures as a result of the recession, which negatively impacted general revenue support for public higher education. The chart on the following page shows that since fiscal year 2008, the college has relied more on tuition and fees than state support for general education operations.

The College submitted a balanced budget to the Council on Postsecondary Education for fiscal year 2017. The 2017 budget includes State general revenue appropriation of \$47.0 million (excluding the general obligation debt service appropriation of \$2.6 million), which represents an increase of approximately \$2.2 million over fiscal year 2016.



To support its strategic priorities in this financially challenging environment, the College and the Board of Education increased tuition and mandatory fees in fiscal year 2016 by 7.8% for in-state students. For fiscal year 2017, the College and the Board of Education held tuition constant for both in-state and out-of-state students.

RHODE ISLAND COLLEGE

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Management's Discussion and Analysis (Unaudited) - Continued

June 30, 2016

Economic Factors that will Affect the Future - Continued

In large part due to an increase in state funding, the College's current financial and capital plans indicate that the infusion of additional financial resources from the foregoing BOE and management actions will enable it to maintain its present level of services. The College has also attempted to maintain affordability by limiting the size of tuition and fee increases. The College continues to rank well below other New England Comprehensive Public Institutions for tuition and fees for the 2015-2016 school year.

Institution Name	Total Tuition & Fees
University of Wisconsin-Oshkosh	\$7,594
Buffalo State SUNY	\$7,700
Rhode Island College	\$8,206
Frostburg State University	\$8,702
University of Southern Maine	\$8,920
Worcester State University	\$9,202
Westfield State University	\$9,275
Framingham State University	\$9,340
Saginaw Valley State University	\$9,345
Bridgewater State University	\$9,627
Salem State University	\$9,736
Central Connecticut State University	\$9,741
Western Connecticut State University	\$10,017
Southern Connecticut State University	\$10,054
Fitchburg State University	\$10,135
Eastern Connecticut State University	\$10,500

RHODE ISLAND COLLEGE
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Management's Discussion and Analysis (Unaudited) - Continued

June 30, 2016

Request for Information

This financial report is designed to provide a general overview of the College's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Office of the Controller, Rhode Island College, 600 Mount Pleasant Avenue, Providence, Rhode Island 02908.

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

Statement of Net Position

June 30, 2016

	<u>College</u>	<u>Foundation</u>
Assets and Deferred Outflows of Resources		
Current Assets:		
Cash and equivalents (Note 2)	\$ 29,986,516	\$ 717,081
Accounts receivable, net (Note 3)	5,534,081	5,646
Due from primary government	10,620,790	-
Inventories and other current assets	261,930	35,494
Current portion of pledges receivable	-	<u>232,753</u>
Total Current Assets	<u>46,403,317</u>	<u>990,974</u>
Noncurrent Assets:		
Restricted cash and equivalents (Note 2)	713,638	-
Pledges receivable	-	463,565
Investments (Note 2)	-	26,454,371
Loans receivable, net (Note 4)	3,283,400	-
Restricted assets	-	1,181,767
Capital assets, net of accumulated depreciation (Note 5)	<u>144,273,188</u>	<u>7,024</u>
Total Noncurrent Assets	<u>148,270,226</u>	<u>28,106,727</u>
Total Assets	<u>194,673,543</u>	<u>29,097,701</u>
Deferred Outflows of Resources:		
Contributions made after the measurement date (Note 7)	3,184,670	-
Changes in proportion and differences between employer contributions and proportionate share of contributions (Note 7)	<u>57,845</u>	<u>-</u>
Total Deferred Outflows of Resources	<u>3,242,515</u>	<u>-</u>
Liabilities, Deferred Inflows of Resources and Net Position		
Current Liabilities:		
Accounts payable and accrued liabilities	11,884,045	159,888
Current portion of compensated absences (Note 6)	3,934,637	-
Student deposits and unearned revenues	3,410,408	-
Funds held for others	1,251,871	191,387
Current portion of Alumni Association grant payable	-	148,275
Current portion of bonds and note payable (Note 6)	946,050	2,809
Current portion of due to State of Rhode Island (Note 6)	1,032,982	-
Current portion of annuities payable	-	<u>6,532</u>
Total Current Liabilities	<u>22,459,993</u>	<u>508,891</u>
Noncurrent Liabilities:		
Compensated absences (Note 6)	1,229,504	-
Alumni Association grant payable	-	924,053
Note and bonds payable (Note 6)	17,586,649	3,278
Due to State of Rhode Island (Note 6)	19,141,843	-
Annuities payable	-	35,544
Grant refundable (Note 4)	3,455,554	-
Net pension liability (Note 7)	<u>39,783,475</u>	<u>-</u>
Total Noncurrent Liabilities	<u>81,197,025</u>	<u>962,875</u>
Total Liabilities	<u>103,657,018</u>	<u>1,471,766</u>
Deferred Inflows of Resources:		
Difference between expected and actual experience (Note 7)	460,254	-
Change in pension plan actuarial assumptions (Note 7)	299,322	-
Net difference between projected and actual earnings on pension plan investments (Note 7)	<u>32,745</u>	<u>-</u>
Total Deferred Inflows of Resources	<u>792,321</u>	<u>-</u>
Net Position:		
Net investment in capital assets	113,030,664	937
Restricted:		
Expendable (Note 9)	89,723	5,813,786
Nonexpendable	-	17,509,234
Unrestricted	<u>(19,653,668)</u>	<u>4,301,978</u>
Total Net Position	<u>\$ 93,466,719</u>	<u>\$ 27,625,935</u>

See accompanying notes to the financial statements.

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

Statement of Revenues, Expenses and Changes in Net Position

For the Year ended June 30, 2016

	College	Foundation
Operating Revenues:		
Tuition and fees	\$ 70,074,572	\$ -
Less: scholarship allowances	<u>(22,963,305)</u>	<u>-</u>
Net Student Fees	47,111,267	-
Auxiliary enterprises	21,240,155	-
Federal, state, local, and private grants and contracts	26,078,357	-
Sales and services of educational departments	<u>3,307,565</u>	<u>-</u>
Total Operating Revenues	<u>97,737,344</u>	<u>-</u>
Operating Expenses (Note 11):		
Instruction	46,769,284	-
Research	11,640,680	-
Academic support	11,270,623	-
Student services	8,784,957	-
Scholarships and fellowships	6,587,507	602,733
Public service	1,396,204	-
Operation and maintenance of plant	14,563,433	-
Institutional support	18,087,320	2,419,460
Depreciation and amortization	8,628,045	2,809
Auxiliary enterprises	<u>16,329,483</u>	<u>-</u>
Total Operating Expenses	<u>144,057,536</u>	<u>3,025,002</u>
Net Operating Loss	<u>(46,320,192)</u>	<u>(3,025,002)</u>
Nonoperating Revenues (Expenses):		
State appropriations (Note 12)	44,790,694	-
Gifts	-	2,624,960
Payments between the College and Foundation	699,842	(699,842)
Net investment income (loss)	75,580	(509,652)
Interest expense	(1,541,902)	-
Other	<u>366,113</u>	<u>85,792</u>
Net Nonoperating Revenues	<u>44,390,327</u>	<u>1,501,258</u>
Decrease in Net Position Before Capital Contributions	<u>(1,929,865)</u>	<u>(1,523,744)</u>
Capital Contributions:		
Capital appropriations (Note 12)	17,158,075	-
Capital gifts from Foundation	<u>223,552</u>	<u>(223,552)</u>
Total Capital Contributions	<u>17,381,627</u>	<u>(223,552)</u>
Total Increase (Decrease) in Net Position	<u>15,451,762</u>	<u>(1,747,296)</u>
Net Position, Beginning of Year	<u>78,014,957</u>	<u>29,373,231</u>
Net Position, End of Year	<u>\$ 93,466,719</u>	<u>\$ 27,625,935</u>

See accompanying notes to the financial statements.

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

Statement of Cash Flows

For the Year Ended June 30, 2016

	<u>College</u>
Cash Flows from Operating Activities:	
Tuition, residence, dining and other student fees	\$ 47,366,346
Grants and contracts	27,951,461
Payments to suppliers	(23,485,267)
Payments to employees	(99,901,597)
Payments for scholarships, fellowships and sponsored programs	(6,587,507)
Loans to students	(425,386)
Collection of loans from students	755,036
Other auxiliary enterprise receipts and other sources	<u>21,822,898</u>
Net Cash Used by Operating Activities	<u>(32,504,016)</u>
Cash Flows from Noncapital and Related Financing Activities:	
State appropriations	44,790,694
Funds held for others	102,179
Payments from Foundation	<u>699,842</u>
Net Cash Provided by Noncapital and Related Financing Activities	<u>45,592,715</u>
Cash Flows from Capital and Related Financing Activities:	
Capital appropriations	17,158,075
Capital gifts and grants from Foundation	223,552
Purchases of capital assets	(21,565,931)
Principal paid to State of Rhode Island and on note and bonds payable	(1,789,215)
Interest paid to State of Rhode Island and on note and bonds payable	<u>(1,603,440)</u>
Net Cash Used by Capital and Related Financing Activities	<u>(7,576,959)</u>
Cash Flows from Investing Activity:	
Interest income	<u>75,580</u>
Net Increase in Cash and Equivalents	<u>5,587,320</u>
Cash and Equivalents, Beginning of Year	<u>25,112,834</u>
Cash and Equivalents, End of Year	<u>\$ 30,700,154</u>
Reconciliation of Net Operating Loss to Net Cash Used by Operating Activities:	
Net operating loss	\$ (46,320,192)
Adjustments to reconcile net operating loss to net cash used by operating activities:	
Recovery of bad debts	(273,092)
Depreciation	8,628,045
Amortization of bond premium	107,034
Inventory write-downs	140,431
Net pension activity	1,715,473
Changes in assets and liabilities:	
Accounts receivable	1,945,641
Due from primary government	(2,320,536)
Inventories	94,825
Loans receivable	329,650
Accounts payable and accrued liabilities	3,618,393
Compensated absences	(177,046)
Student deposits and unearned revenues	153,527
Grant refundable	<u>(146,169)</u>
Net Cash Used by Operating Activities	<u>\$ (32,504,016)</u>

See accompanying notes to the financial statements.

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

Notes to the Financial Statements

June 30, 2016

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

Organization

Rhode Island College (the “College”), founded in 1854, is a comprehensive public institution of higher education in the State of Rhode Island (the “State”) that offers undergraduate and graduate programs in the liberal arts and sciences and in a variety of professional fields. The College is supported by the State of Rhode Island as its only comprehensive college and is part of the system of public higher education. The College, a component unit of the State of Rhode Island and Providence Plantations, is governed by the Rhode Island Board of Education (the “BOE”), 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 the 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. The public higher education system consists of three entities: the University of Rhode Island, Rhode Island College, and the Community College of Rhode Island. Articulation agreements exist between the schools for student transfers within the system.

The Rhode Island General Assembly established the BOE effective January 1, 2013, to oversee 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: the Council for Elementary and Secondary Education and the Council for Post-Secondary Education (the “Councils”). Each of the Councils will be responsible for a significant portion of the governance and regulation per RIGL 16-60-1 and 16-60-4 for Elementary/Secondary and per RIGL 16-59-1 and 16-59-4 for Post-Secondary.

The mission of the BOE is to provide long-range planning, 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 frame to be implemented by the two Councils and the commissioners.

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

Notes to the Financial Statements - Continued

June 30, 2016

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

Organization - Continued

- 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 BOE.

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 revenue as soon as all eligibility requirements have been met. The College 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 College’s policies for defining operating activities in the statement of revenues and expenses 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 nonoperating activities in accordance with GASB Statement No. 35. These nonoperating activities include the College’s operating and capital appropriations from the State of Rhode Island, net investment income, gifts, and interest expense.

The accompanying statement of revenues and expenses demonstrates 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.

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

Notes to the Financial Statements - Continued

June 30, 2016

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

Basis of Presentation - Continued

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.

Rhode Island College Foundation

Rhode Island College Foundation (the "Foundation") is a legally separate tax-exempt component unit of the College. The Foundation acts primarily as a fundraising organization to supplement the resources that are available to the College in support of its programs. The Board of the Foundation is self-perpetuating and primarily consists of graduates and friends of the College. Although the College does not control the timing or the amount of receipts from the Foundation, the majority of resources received or held by the Foundation are restricted to the activities of the College by the donors. Because these resources held by the Foundation can only be used by, or are for the benefit of the College, the Foundation is considered a component unit of the College and is discretely presented in the College's financial statements. During the year ended June 30, 2016, the Foundation distributed \$223,552 to the College for capital purposes. The Foundation is a private nonprofit organization that reports in accordance with standards of the Financial Accounting Standards Board ("FASB"), 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's financial information in the College's financial reporting entity for these differences.

A complete copy of the financial statements for the Foundation can be obtained from: Office of the Controller, Rhode Island College, 600 Mount Pleasant Avenue, Providence, Rhode Island 02908.

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

Notes to the Financial Statements - Continued

June 30, 2016

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

Net Position

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

Net investment in capital assets: Capital assets, net of accumulated depreciation, accounts payable, accrued expenses and 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 specific actions of the College or by the passage of time.

Unrestricted: All other categories of net position. Unrestricted net position may be designated by the College.

The College 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 debt 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.

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

Notes to the Financial Statements - Continued

June 30, 2016

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

Inventories

Inventories are stated at the lower of cost (first-in, first-out and retail inventory methods) or market, and consist primarily of dining center and bookstore items.

Capital Assets

Real estate assets, including improvements, are generally stated at cost. Furnishings and equipment are stated at cost as of date of acquisition or, in the case of gifts, at fair value as of the 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 at least \$5,000 are capitalized. Building, leasehold, and infrastructure improvements with a unit cost of \$50,000 or more are capitalized. Interest costs on debt related to capital assets are capitalized during the construction period and then depreciated over the life of the asset. The College did not capitalize any interest costs during the year ended June 30, 2016. College 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 3 to 30 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.

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 plan ("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.

Compensated Absences and Salary Reduction Plan

Certain College employees are granted vacation and sick leave in varying amounts. In the event of termination, an employee is paid for 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 College policy.

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

Notes to the Financial Statements - Continued

June 30, 2016

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

Compensated Absences and Salary Reduction Plan - Continued

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

Amounts related to Salary Reduction Plans adopted during fiscal years 1991, 1992, and 1993 can be distributed in the form of paid leave, payment at the time of separation from the College, or to an employee's estate.

Post Employment Benefits

GASB 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions*, requires governments to account for other postemployment benefits ("OPEB") on the accrual basis, rather than pay-as-you go basis (cash basis). Furthermore, the determination of the OPEB liability is dependent upon the type of plan in which the employer participates. Effective July 1, 2011, the State of Rhode Island established an independent entity titled the OPEB Board, to manage OPEB benefits for all state government employers including the College.

A separate legal OPEB entity classified as a cost sharing multiple employer plan, as established by the State, assesses the annual required contribution ("ARC") of each participating entity based on the plan's parameters to each participating employer. To the extent the employer does not pay the entire ARC or contractual obligation, they will have an OPEB related liability.

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 their number of eligible employees. All employees share in healthcare costs. Employee co-pays range from 10% to 15% of healthcare premiums for non-classified staff, and from 15% to 25% for classified employees. The employee contributions are automatically deducted through the payroll system on a bi-weekly basis. Amounts paid by the College for 2016 health premiums amounted to approximately \$11,146,000. Employee contributions for 2016 were approximately \$2,020,000.

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

Notes to the Financial Statements - Continued

June 30, 2016

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

Assessed Fringe Benefit Administrative Fund

In July 2000, the State established the Assessed Fringe Benefit Administrative Fund. This fund is used to make all payments relating to workers' compensation charges, unemployment payments, and payments to employees for unused vacation and sick leave at the time of retirement or termination from State service. The State funds this account by assessing a charge based on bi-weekly payrolls of all State agencies. The fringe benefit assessment rate was 4.6% for non-faculty and 3.78% for faculty. The assessed fringe benefit cost for the College for fiscal year 2016 was approximately \$2,226,000.

Student Deposits and Unearned Revenue

Student deposits and advance payments received for tuition and fees related to certain summer programs and tuition received for the following academic year are reported as unearned revenue in the current year, and as earned revenue in the following year.

Student Fees

Student tuition, dining, residence, and other fees are presented net of scholarships applied to students' accounts. Certain other scholarship amounts are paid directly to, or refunded to, the student and are reflected as expenses.

Funds Held for Others

The College holds funds for students and other organizations affiliated with the College. These funds are pooled with the College's funds and net returns are allocated to the College organizations' asset balances.

Tax Status

The College 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.

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

Notes to the Financial Statements - Continued

June 30, 2016

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

Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Risk Management

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

Insurance is maintained for general liability, property and casualty, workers' compensation, unemployment, and employee health insurance claims.

The College is insured for general liability with limits of \$1 million per occurrence and \$3 million in the aggregate with a \$25,000 deductible, as well as \$25 million in umbrella coverage. Coverage under the General Liability Policy extends to employed health care providers, excluding physicians who have separate coverage. This policy does not apply to actions relating to federal/civil rights, eminent domain, and breach of employment contract or educational contract. Such claims are insured under a separate policy for wrongful acts with limits of \$4 million per claim and \$4 million for the annual aggregate with a \$150,000 deductible. Crime coverage for College employees is carried with a limit of \$25 million with a \$150,000 deductible.

As an agency of the State of Rhode Island and Providence Plantations, the College participates in a group property program. In fiscal year 2016, buildings and contents carry a \$100,000 per occurrence deductible with a limit of \$200 million. A separate inland marine policy insures specifically listed high value property items such as computer equipment, valuable papers, fine arts, contractor's equipment, and miscellaneous property at various limits of insurance and deductibles.

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

Notes to the Financial Statements - Continued

June 30, 2016

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

Risk Management - Continued

All vehicles are owned by the State, which insures them for liability through an outside carrier. The policy is a loss retrospective program where premiums can be adjusted for claims incurred. Workers' compensation, unemployment, and employee health and life insurance claims are self-insured and managed by the State. The amounts of settlement have not exceeded insurance coverage in each of the past four years.

New Governmental Accounting Pronouncements

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

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

Cash and Equivalents

The College's policy is in accordance with Chapter 35-10.1 of the R.I. General Laws regarding depository institutions holding deposits of the State, its agencies, or governmental subdivisions of the State, which indicates that the College shall at a minimum, insure or pledge eligible collateral equal to one hundred percent of time deposits with maturities greater than 60 days. Any of these institutions which do not meet minimum capital standards prescribed by federal regulations shall insure or pledge eligible collateral equal to one hundred percent of deposits, regardless of maturity.

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

Notes to the Financial Statements - Continued

June 30, 2016

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

Cash and Equivalents - Continued

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

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 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.

Bank balances covered by the Federal Depository Insurance Corporation ("FDIC") at June 30, 2016 approximated \$265,000. In addition, approximately \$31,388,000 was collateralized with securities held by the pledging financial institution in the College's name. These balances reflect FDIC insurance and guarantee programs in effect at their respective periods.

Restricted Cash and Equivalents

At June 30, 2016, the College had restricted cash and equivalents of approximately \$714,000 that represents amounts required to be set aside in accordance with the terms of certain loan covenants.

Investments of the Foundation

The Foundation investments in marketable securities with readily determinable fair values and all investments in debt securities are valued at their fair values in the statement of net position. The Foundation records purchased securities at quoted market value on the date of receipt. Other contributed assets are recorded at appraised value at the time of donation. Unrealized gains and losses are reflected in the statement of revenues and expenses.

The Foundation pools the investments of its various funds. The income from such investments and the realized and unrealized gains and losses on the investments are allocated to the participating funds based on book value of the fund groups.

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

Notes to the Financial Statements - Continued

June 30, 2016

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

Investments - Continued

The June 30, 2016 investment portfolio concentration is as follows:

	<u>Foundation</u>	
	<u>Amount</u>	<u>Percentage</u>
Common stocks	\$ 19,077,683	72%
Bonds	6,306,440	24%
Cash and equivalents	1,070,248	4%
	\$ 26,454,371	100%

Note 3 - **Accounts Receivable**

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

Student accounts receivable	\$ 4,312,391
Grant receivable	1,943,345
Other receivable	875,739
	7,131,475
Less: allowance for doubtful accounts	(1,597,394)
Total accounts receivable, net	\$ 5,534,081

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

Notes to the Financial Statements - Continued

June 30, 2016

Note 4 - **Loans Receivable and Grant Refundable**

The College participates in the Federal Perkins Loan program. The program is funded through a combination of federal and institutional resources. The portion of the program that has been funded with federal funds is ultimately refundable back to the U.S. Government upon the termination of the College's participation in the program. The grant refundable is \$3,455,554 at June 30, 2016.

Loans receivable include the following at June 30:

Perkins loans receivable	\$ 4,653,356
Less: allowance for doubtful accounts	<u>(1,369,956)</u>
Total accounts receivable, net	<u>\$ 3,283,400</u>

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

Notes to the Financial Statements - Continued

June 30, 2016

Note 5 - Capital Assets

Capital assets of the College consist of the following at June 30:

	Estimated lives (in years)	Beginning balance*	Additions	Retirements	Reclassifications	Ending balance
Capital assets not depreciated:						
Construction in progress	-	\$ 6,616,770	\$ 16,780,001	\$ -	\$ (1,024,965)	\$ 22,371,806
Land	-	<u>2,480,968</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,480,968</u>
Total not depreciated		<u>9,097,738</u>	<u>16,780,001</u>	<u>-</u>	<u>(1,024,965)</u>	<u>24,852,774</u>
Capital assets depreciated:						
Land improvements	15 – 25	16,118,883	2,595,662	-	393,314	19,107,859
Buildings, including improvements	10 – 30	200,309,169	1,466,664	-	631,651	202,407,484
Furnishings and equipment	5 – 15	<u>27,340,623</u>	<u>723,604</u>	<u>-</u>	<u>-</u>	<u>28,064,227</u>
Total depreciated		<u>243,768,675</u>	<u>4,785,930</u>	<u>-</u>	<u>1,024,965</u>	<u>249,579,570</u>
Total capital assets		<u>252,866,413</u>	<u>21,565,931</u>	<u>-</u>	<u>-</u>	<u>274,432,344</u>
Less: accumulated depreciation:						
Land improvements		7,630,922	910,096	-	-	8,541,018
Buildings and improvements		90,728,858	6,603,984	-	-	97,332,842
Furnishings and equipment		<u>23,171,331</u>	<u>1,113,965</u>	<u>-</u>	<u>-</u>	<u>24,285,296</u>
Total accumulated depreciation		<u>121,531,111</u>	<u>8,628,045</u>	<u>-</u>	<u>-</u>	<u>130,159,156</u>
Capital assets, net		<u>\$ 131,335,302</u>	<u>\$ 12,937,886</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 144,273,188</u>

* - Certain beginning balances have been reclassified for consistency with the current period presentation. These reclassifications had no effect on net position.

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

Notes to the Financial Statements - Continued

June 30, 2016

Note 6 - **Long-Term Liabilities**

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

	Beginning balance*	Additions	Reductions	Ending balance	Current portion
Note and bonds payable:					
Note payable	\$ 1,231,198	\$ -	\$ 109,038	\$ 1,122,160	\$ 115,117
Premium on bonds payable	1,140,985	-	107,034	1,033,951	107,034
Revenue bonds payable	<u>17,070,450</u>	<u>-</u>	<u>693,862</u>	<u>16,376,588</u>	<u>723,899</u>
Total note and bonds payable	19,442,633	-	909,934	18,532,699	946,050
Other long-term liabilities:					
Due to State of Rhode Island	21,161,140	-	986,315	20,174,825	1,032,982
Compensated absences	5,341,187	-	177,046	5,164,141	3,934,637
Grant refundable	3,601,723	-	146,169	3,455,554	-
Net pension liability	<u>35,620,863</u>	<u>4,162,612</u>	<u>-</u>	<u>39,783,475</u>	<u>-</u>
Total long-term liabilities	<u>\$ 85,167,546</u>	<u>\$ 4,162,612</u>	<u>\$ 2,219,464</u>	<u>\$ 87,110,694</u>	<u>\$ 5,913,669</u>

* - Certain beginning balances have been reclassified for consistency with the current period presentation. These reclassifications had no effect on net position.

Bonds and Notes Payable

The following is a summary of the College's long-term debt at June 30:

Rhode Island Health and Educational Building

Corporation Higher Education Facility Revenue Bonds, Series 2010 A. The bonds original amount issued was \$10,280,000, carry interest rates ranging from 2.0% - 5.0%. The bonds are due in varying annual installments from \$130,000 - \$700,000, plus interest, through September 15, 2040.

\$ 9,590,000

Rhode Island Health and Educational Building

Corporation Higher Education Facility Revenue Bonds, Series 2013 D. The bonds, original amount issued was \$4,501,756, carry interest rates ranging from 2.0% - 5.0%. The bonds are due in varying annual installments from \$330,902 - \$508,504, plus interest, through September 15, 2023.

3,452,966

RHODE ISLAND COLLEGE
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Notes to the Financial Statements - Continued

June 30, 2016

Note 6 - **Long-Term Liabilities - Continued**

Bonds and Notes Payable - Continued

Rhode Island Health and Educational Building	
Corporation Higher Education Facility Revenue Bonds, Series 2005 E. The bonds original amount issued was \$3,530,000, carry interest rates ranging from 3.5% - 4.5%. The bonds are due in varying annual installments from \$25,000 - \$230,000, plus interest, through September 15, 2030.	2,570,000
Rhode Island Health and Educational Building	
Corporation Higher Education Facility Revenue Bonds, Series 2013 B. The bonds original amount issued was \$1,014,773, carry interest rates ranging from 2.0% - 3.0%. The bonds are due in varying annual installments from \$81,396 - \$105,494, plus interest, through September 15, 2023.	763,622
United States Department of Education Note Payable	
utilized to renovate and restore the Sylvan R. Forman Center. The note original amount issued \$2,561,000, is payable in level semi-annual installments of \$87,637, inclusive of interest at 5.5%, through February 1, 2024.	1,122,160
	\$ 17,498,748

The Series 2010 A bonds are collateralized by fees generated by the related facilities. The Series 2013 D and 2005 E bonds are collateralized by the revenues of the auxiliary enterprises operated under the authority of the BOE. The 2013 B bonds are collateralized by all educational and general revenues derived by the College, except auxiliary enterprise revenues. The U.S. Department of Education note payable is collateralized by the building that was renovated by the note proceeds.

RHODE ISLAND COLLEGE
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Notes to the Financial Statements - Continued

June 30, 2016

Note 6 - **Long-Term Liabilities - Continued**

Bonds and Notes Payable - Continued

Principal and interest on notes and bonds payable for the next five years and in subsequent five-year periods are as follows:

Years ending	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
June 30:			
2017	\$ 839,016	\$ 799,471	\$ 1,638,487
2018	876,807	762,150	1,638,957
2019	914,956	724,822	1,639,778
2020	949,744	685,196	1,634,940
2021	993,208	641,030	1,634,238
2022 - 2026	4,290,017	2,519,843	6,809,860
2027 - 2031	2,990,000	1,770,988	4,760,988
2032 - 2036	2,475,000	1,114,375	3,589,375
2037 - 2041	<u>3,170,000</u>	<u>412,000</u>	<u>3,582,000</u>
	<u>\$ 17,498,748</u>	<u>\$ 9,429,875</u>	<u>\$ 26,928,623</u>

Interest expense related to bonds and notes payable for the year ended June 30, 2016 was approximately \$806,000.

The State of Rhode Island has issued bonds for the development of certain College facilities. These bonds are not obligations of the College and, therefore, are not recorded as liabilities in the accompanying financial statements.

Due to State of Rhode Island

As part of a \$30 million general obligation bond issuance authorized by the voters for the construction of a new residence hall, the College agreed to repay the State \$20 million. The residence hall was completed in September 2007, at which time the College commenced repayment over the remaining life of the bonds which bear interest at rates ranging from 3.0% to 5.0%. In addition, the \$10 million, for which the State remained as the primary obligor, was recorded as a capital appropriation by the College.

RHODE ISLAND COLLEGE
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Notes to the Financial Statements - Continued

June 30, 2016

Note 6 - **Long-Term Liabilities - Continued**

Due to State of Rhode Island - Continued

The Certificate of Participation (“COPS”) agreement between the College and the State of Rhode Island relates to an energy investment project. The College was allocated \$7,465,000 of a COPS issuance by the State. Fiscal years ending June 30, 2016 and 2017 require interest only payments, with principal and interest payments beginning during fiscal year 2018. The obligation bears interest at rates ranging from 2.0% to 5.0% through the fiscal year ended June 30, 2030.

Principal and interest on amounts owed to the State of Rhode Island for the next five years and in subsequent five-year periods are as follows:

Years ending	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
<u>June 30:</u>			
2017	\$ 1,032,982	\$ 864,753	\$ 1,897,735
2018	1,422,983	810,868	2,233,851
2019	1,506,316	750,568	2,256,884
2020	1,594,649	682,748	2,277,397
2021	1,686,316	613,561	2,299,877
2022 - 2026	9,831,579	1,879,910	11,711,489
2027 - 2030	<u>3,100,000</u>	<u>203,428</u>	<u>3,303,428</u>
	<u>\$ 20,174,825</u>	<u>\$ 5,805,836</u>	<u>\$ 25,980,661</u>

Interest expense related to bonds due to State of Rhode Island for the year ended June 30, 2016 was approximately \$798,000.

RHODE ISLAND COLLEGE
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Notes to the Financial Statements - Continued

June 30, 2016

Note 7 - **Pensions**

Plan Description

Certain employees of the College participate in a cost-sharing multiple-employer defined benefit pension plan - the Employees' Retirement System plan - administered by the Employees' Retirement System of the State of Rhode Island (the "System"). Under a cost-sharing plan, pension obligations for employees of all employers are pooled and plan assets are available to pay the benefits of the employees of any participating employer providing pension benefits through the plan, regardless of the status of the employers' payment of its pension obligation to the plan. The plan provides retirement and disability benefits and death benefits to plan members and beneficiaries.

The System issues a publicly available financial report that includes financial statements and required supplementary information for the plans. The report may be obtained at <http://www.ersri.org>.

Benefit Provisions

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

The ERS 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.

RHODE ISLAND COLLEGE
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Notes to the Financial Statements - Continued

June 30, 2016

Note 7 - **Pensions - Continued**

Benefit Provisions – Continued

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

The ERS also provides nonservice-connected disability benefits after 5 years of service and service-connected disability benefits with no minimum service requirement.

Contributions

The funding policy, as set forth in the General Laws, Section 36-10-2, provides for actuarially determined periodic contributions to the plan. For fiscal 2016, Rhode Island College employees were required to contribute 3.75% of their annual covered salary. The College is required to contribute at an actuarially determined rate; the rate was 23.64% of annual covered payroll for the fiscal year ended June 30, 2016. The College contributed \$3,184,670, \$3,122,348, and \$3,016,206 for the fiscal years ended June 30, 2016, 2015, and 2014, respectively, equal to 100% of the required contributions for each year.

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

At June 30, 2016 the College reported a liability of \$39,783,475 for its proportionate share of the net pension liability related to its participation in ERS. The net pension liability was measured as of June 30, 2015, the measurement date, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2014 rolled forward to June 30, 2015. The College proportion of the net pension liability was based on its share of contributions to the ERS for fiscal year 2015 relative to the total contributions of all participating employers for that fiscal year. At June 30, 2015, the College proportion was 2.00%.

For the year ended June 30, 2016 the College recognized pension expense of \$4,900,140.

RHODE ISLAND COLLEGE
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Notes to the Financial Statements - Continued

June 30, 2016

Note 7 - **Pensions - Continued**

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

At June 30, 2016 the College reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

Deferred Outflows of Resources

Contributions made after the measurement date	\$ 3,184,670
Changes in proportion and differences between employer contributions and proportionate share of contributions	<u>57,845</u>
Total	<u>\$ 3,242,515</u>

Deferred Inflows of Resources

Difference between expected and actual experience	\$ 460,254
Change in pension plan actuarial assumptions	299,322
Net difference between projected and actual earnings on pension plan investments	<u>32,745</u>
Total	<u>\$ 792,321</u>

RHODE ISLAND COLLEGE
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Notes to the Financial Statements - Continued

June 30, 2016

Note 7 - **Pensions - Continued**

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

Contributions of \$3,184,670 are reported as deferred outflows of resources related to pensions resulting from the College contributions in fiscal year 2016 subsequent to the measurement date, will be recognized as a reduction of the net pension liability for the year ended June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Years ending <u>June 30,</u>	
2017	\$ (368,226)
2018	(368,226)
2019	(368,226)
2020	<u>370,202</u>
	<u>\$ (734,476)</u>

Actuarial Assumptions

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

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

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

RHODE ISLAND COLLEGE
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Notes to the Financial Statements - Continued

June 30, 2016

Note 7 - **Pensions - Continued**

Actuarial Assumptions - Continued

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

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

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-term expected real rate of return</u>
Global Equity:	38.0%	
U.S Equity		6.93%
International Developed		7.32%
International Emerging Markets		9.52%
Equity Hedge Funds	8.0%	3.98%
Private Equity	7.0%	9.99%
Core Fixed Income	15.0%	2.18%
Absolute Return Hedge Funds	7.0%	3.98%
Infrastructure	3.0%	5.70%
Real Estate	8.0%	4.85%
Other Real Return Assets:	11.0%	
Master Limited Partnerships		4.51%
Credit		4.51%
Inflation Linked Bonds		1.24%
Cash, Overlay and Money Market	<u>3.0%</u>	0.78%
Total	<u>100.0%</u>	

RHODE ISLAND COLLEGE
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Notes to the Financial Statements - Continued

June 30, 2016

Note 7 - **Pensions - 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 7.5 percent. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current contribution rate and that contributions from the employers will be made at statutorily required rates, actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

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

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

1.00% Decrease (6.50%)	Current Discount Rate (7.50%)	1.00% Increase (8.50%)
\$ 49,322,833	\$ 39,783,475	\$ 31,974,151

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.

RHODE ISLAND COLLEGE
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Notes to the Financial Statements - Continued

June 30, 2016

Note 8 - **Other Retirement Plans**

State of Rhode Island Employees' Retirement System ("ERS") Defined Contribution

Plan Description

Employees participating in the defined benefit plan, as described in Note 7, also participate in a defined contribution plan of the Employees' Retirement System as authorized by General Law Chapter 36-10.3. The defined contribution plan is established under IRS section 401(a) and is administered by TIAA-CREF. Employees may choose among various investment options available to plan participants. Employees contribute 5% of their annual covered salary. Employers contribute amounts ranging from 1.0% to 1.5% of annual covered salary depending upon the individual employee's years of service. Employee contributions are immediately vested while employer contributions are vested after three years of contributory service. Contributions required under the plan by both the employee and employer are established by the General Laws, which are subject to amendment by the General Assembly. Amounts in the defined contribution plan are available to participants in accordance with Internal Revenue Service guidelines for such plans.

The College contributed \$108,000, \$134,000, and \$131,000 for the fiscal years ended June 30, 2016, 2015, and 2014, respectively, equal to 100% of the required contributions for each year.

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

Rhode Island Board of Governors for Higher Education Alternate Retirement Plan

Plan Description

Certain employees of the College (principally faculty and administrative personnel) are covered by individual annuity contracts under a defined contribution retirement plan, Alternate Retirement Plan, established by the Rhode Island Board of Education 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 bi-weekly earnings. These contributions may be made on a pre-tax basis.

RHODE ISLAND COLLEGE
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Notes to the Financial Statements - Continued

June 30, 2016

Note 8 - **Other Retirement Plans - Continued**

Rhode Island Board of Governors for Higher Education Alternate Retirement Plan - Continued

Funding Policy

The College contributes 9% of the employee's gross bi-weekly earnings. Total expenditures by the College for such 403(b) annuity contracts amounted to approximately \$3,566,000 during fiscal 2016. The employee contribution amounted to approximately \$1,981,000 during the fiscal year ended June 30, 2016.

Note 9 - **Restricted Net Position**

The College is the recipient of funds that are subject to various external constraints upon their use, either as to purpose or time. At June 30, 2016, these funds are restricted primarily for capital project programs.

Note 10 - **Contingencies**

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

The College 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 College. In the opinion of management, such adjustments, if any, are not expected to materially affect the financial condition of the College.

RHODE ISLAND COLLEGE
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Notes to the Financial Statements - Continued

June 30, 2016

Note 11 - **Operating Expenses**

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

Compensation and benefits	\$ 103,302,862
Supplies and services	25,539,122
Depreciation and amortization	8,628,045
Scholarships and fellowships	<u>6,587,507</u>
	<u>\$ 144,057,536</u>

Note 12 - **State Appropriations**

Direct Appropriations

Pursuant to Rhode Island General Law 16-59-9, the legislative enacted budget reflects the budget passed by the General Assembly and signed by the Governor, as well as any re-appropriations. The BOE 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 College's annual budget process for unrestricted and restricted funds, the General Assembly 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 2016, the State reserved 3% of its general revenues to fund a Budget Reserve Fund and Cash Stabilization Fund. Once the fund reaches a maximum threshold (5% of total fiscal year financial resources), the balance is transferred to the RICAP Fund. The RICAP Fund is used for capital expenditures and for debt reduction. The technique is a "pay-as-you-go" process that avoids increasing the State's debt burden. Higher education has received allocations through this program since fiscal 1995.

During fiscal year 2016, the College expended \$7,326,607 in State Capital Plan funds.

RHODE ISLAND COLLEGE
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Notes to the Financial Statements - Continued

June 30, 2016

Note 12 - **State Appropriations – Continued**

State Contributed Capital

In November 2010, Rhode Island voters approved the issuance of \$78 million General Obligation Bonds to fund improvements and the construction of a new chemistry building at the University of Rhode Island, and for \$17 million for the renovation and construction of an addition to the Art Center at Rhode Island College. During fiscal year 2016 the College recorded \$211,561 for this project.

In November 2012, Rhode Island voters approved the issuance of \$50 million General Obligation Bonds to fund the renovation of the Clarke Science facility and Gaige Hall, as well as an addition to Fogarty Hall. During fiscal year 2016 the College recorded \$9,619,906 for this project.

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

Direct appropriations	\$ 44,790,694
State capital plan funds	7,326,607
State contributed capital	<u>9,831,468</u>
	<u>\$ 61,948,769</u>

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

RHODE ISLAND COLLEGE
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Notes to the Financial Statements - Continued

June 30, 2016

Note 13 - **Other Post-Employment Benefits (OPEB)**

Rhode Island Retiree Health Care Benefit Plan (RIRHCBP)

Plan Description

The College contributes (for certain employees) to the State Employees' defined benefit post-employment health care plan, a cost sharing multiple employer plan administered through the Rhode Island State Employees' and Electing Teachers' OPEB System (the "OPEB System"). The State of Rhode Island's OPEB Board (the "Board") was authorized, created, and established under Chapter 36-12.1 of the RI General Laws. The Board was established to independently hold and administer, in trust, the funds of the OPEB System. The plan provides medical benefits to certain retired employees of participating employers including the College.

Pursuant to legislation enacted by the General Assembly, a trust has been established to accumulate assets and pay benefits and other costs associated with the OPEB System.

The OPEB System issues a stand-alone financial report. A copy can be obtained from the State Controller's Office, 1 Capitol Hill, Providence, RI 02908.

Funding Policy

RIGL Sections 36-12.1, 36-12-2.2, and 36-12-4 govern the provisions of the OPEB System. The contribution requirements of plan members, the State, and other participating employers are established and may be amended by the General Assembly. Active employees make no contribution to the OPEB plan. Employees who retired after October 1, 2008 must contribute 20% of the annual estimated benefit cost (working rate) or annual premium for Medicare supplemental coverage. Employees retiring before October 1, 2008 have varying co-pay percentages ranging from 0% to 50% based on age and years of service at retirement. Further information about the contributions of plan members can be found in the financial report of the OPEB System.

For fiscal year 2016, employers were required to contribute 5.97% of covered payroll. The employer required contribution rate is determined on an actuarially determined basis consistent with a funding approach outlined in the General Laws and as adopted by the OPEB System Board. The College fully funded its required contribution to the plan for the years ended June 30, 2016, 2015, and 2014 which were approximately \$804,000, \$904,000, and \$925,000 respectively, which represents 100% of the ARC.

RHODE ISLAND COLLEGE
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Notes to the Financial Statements - Continued

June 30, 2016

Note 13 - **Other Post-Employment Benefits (OPEB) - Continued**

Rhode Island Board of Education Health Care Insurance Retirement Plan

Plan Description

The College contributes (for certain employees) to the Rhode Island Board of Education (“BOE”) health care insurance retirement program (the “Plan”), medical coverage only, for eligible employees who participate in the BOE’s Alternate Retirement Plan (“ARP”) and per union contracts. The BOE established a defined benefit healthcare plan effective July 1, 1998 for employees of the University of Rhode Island (“URI”), Rhode Island College (“RIC”), and Community College of Rhode Island (“CCRI”). The BOE’s ARP is considered a cost-sharing multiple employer plan. Rhode Island State law established the “Rhode Island State Employees’ and Electing Teachers’ OPEB System” (the “OPEB System”), as defined in G.L. 36-12.1-5, which is managed by an OPEB Board for the purpose of providing and administering OPEB Benefits for retired employees of the State, includes the Board Plan. The State of Rhode Island OPEB Board (the “Board”) was authorized, created, and established under Chapter 36-12.1 of the RI General Laws.

The Board was established to independently hold and administer, in trust, the funds of the OPEB system. The plan provides medical benefits to certain retired employees of participating employers including the College.

Pursuant to legislation enacted by the General Assembly, a trust was established in fiscal year 2011 to accumulate assets and pay benefits and other costs associated with the system. The OPEB system issues a stand-alone financial report. A copy can be obtained from the State Controller’s Office, 1 Capitol Hill, Providence, RI 02908.

Funding Policy

RIGL Sections 36-12.1, 36-12-2.2, and 36-12-4 govern the provisions of the OPEB System. The contribution requirements of plan members and the College are established and may be amended by the Board. Effective in fiscal year 2011, all participating employers are required by law to fund the actuarially required contribution (“ARC”), which for fiscal year 2016 was 3.1% and for 2015 and 2014 was 2.30% of payroll covered by the Board Plan. Active employees contribute 0.9% of payroll to the OPEB plan. Retired employees have varying co-pay percentages ranging from 0% to 50% based on age and years of service at retirement. Further information about the contributions of plan members can be found in the financial report of the OPEB System.

RHODE ISLAND COLLEGE
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Notes to the Financial Statements - Continued

June 30, 2016

Note 13 - **Other Post-Employment Benefits (OPEB) - Continued**

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

Funding Policy - Continued

For fiscal years 2016, 2015, and 2014, the College's contributions to the plan were approximately \$1,175,000, \$826,000, and \$858,000, respectively, and active employees contributed 0.9% of covered payroll, approximately \$329,000, \$322,000, and \$331,000, respectively.

Note 14 - **Subsequent Event**

As of September 30, 2016, the College was in the process of finalizing the issuance of \$2,290,000 of bonds through the Rhode Island Health and Educational Building Corporation. The proceeds of the bond issuance would be used to refund the Series 2005 E bonds that had a principal balance of \$2,445,000 at September 30, 2016.

**REQUIRED SUPPLEMENTARY
INFORMATION**

RHODE ISLAND COLLEGE

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

Schedule of the College's Proportionate Share of the Net Pension Liability (Unaudited)

Employees' Retirement System

Valuation date	June 30, 2014	June 30, 2013
Measurement date	June 30, 2015	June 30, 2014
College's proportion of the net pension liability	2.00%	2.00%
College's proportionate share of the net pension liability	\$ 39,783,475	\$ 35,620,863
College's covered-employee payroll as of the measurement date	\$ 13,383,403	\$ 13,067,081
College's proportionate share of the net pension liability as a percentage of its covered-employee payroll	297.26%	272.60%
Plan fiduciary net position as a percentage of the total pension liability	55.03%	58.58%

Notes:

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

See accompanying notes to the required supplementary information.

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

Schedule of the College's Contributions (Unaudited)

For the Years Ended June 30,

	2016	2015
Contractually required contribution	\$ 3,184,670	\$ 3,122,348
Contributions in relation to the contractually required contribution	(3,184,670)	(3,122,348)
Contribution excess	\$ -	\$ -
College's covered-employee payroll	\$ 13,471,531	\$ 13,383,403
Contribution as a percentage of covered-employee payroll	23.64%	23.33%

Notes:

Employers participating in the State Employees' 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, 2014 and is intended to provide data for the most recent ten years.

See accompanying notes to the required supplementary information.

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

Notes to the Required Supplementary Information (Unaudited)

For the Year Ended June 30, 2016

Note 1 - **Change in Assumptions**

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

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

**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 Rhode Island College (the "College"), which comprise the statement of net position as of June 30, 2016, and the related statements of revenues, expenses and changes in net position, and cash flows for the year then ended, and the related notes to the financial statements, which collectively comprise Rhode Island College's basic financial statements and have issued our report thereon dated October 6, 2016. Our report includes a reference to other auditors who audited the financial statements of Rhode Island College Foundation, as described in our report on Rhode Island College'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 Rhode Island College'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 College's internal control. Accordingly, we do not express an opinion on the effectiveness of the College'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 Rhode Island College'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 College's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

O'Connor and Drew, P.C.

**Certified Public Accountants
Braintree, Massachusetts**

October 6, 2016