

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

Financial Statements

June 30, 2004 and 2003

(With Independent Auditors' Report Thereon)

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

Financial Statements  
June 30, 2004 and 2003

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## **Independent Auditors' Report**

Board of Governors for Higher Education  
State of Rhode Island and Providence Plantations:

We have audited the accompanying financial statements of the University of Rhode Island (a component unit of the State of Rhode Island and Providence Plantations) (the University) and its discretely presented component units, where applicable, as of and for the years ended June 30, 2004 and 2003 as shown on pages 18 through 20. These financial statements are the responsibility of the University's management. Our responsibility is to express an opinion on these financial statements based on our audits. We did not audit the financial statements of the discretely presented component units. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for the discretely presented component units, is based on the reports of the other auditors.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits and the reports of other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audits and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the University of Rhode Island and of its discretely presented component units as of June 30, 2004 and 2003, and the respective changes in financial position and cash flows, where applicable, thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As described in note 1, the University adopted, effective July 1, 2003, Statement No. 39 of the Governmental Accounting Standards Board (GASB), *Determining Whether Certain Organizations are Component Units (an amendment of GASB Statement 14)*.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 24, 2004 on our consideration of the University'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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The Management's Discussion and Analysis on pages 3 through 17 is not a required part of the financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the supplementary information and express no opinion on it.

KPMG LLP

September 24, 2004

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

Required Supplementary Information  
Management's Discussion and Analysis  
(Unaudited)

June 30, 2004

**Introduction**

The following discussion and analysis (MD&A) provides management's view of the financial position of the University of Rhode Island (the University) as of June 30, 2004 and the results of operations for the year then ended, with selected comparative information for the years ended June 30, 2003 and 2002. The purpose of the MD&A is to assist readers in understanding the accompanying financial statements by providing an objective and understandable analysis of the University's financial activities based on currently known facts, decisions, and conditions. This analysis has been prepared by management, which is responsible for the completeness and fairness of the information contained therein. The MD&A consists of highly summarized information, and it should be read in conjunction with the University's financial statements and notes thereto that follow this section.

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

The mission of the University is firmly rooted in the tradition of America's unique land-grant idea that universities exist to expand knowledge, to transmit it and to foster its application in the daily life of the nation. As set forth in its Vision Statement, the University has three major responsibilities: (1) to provide traditional as well as innovative opportunities for education at undergraduate and graduate levels; (2) to pursue research and other scholarly and creative activities; and (3) to serve the unique need of the people of Rhode Island by making knowledge and information readily available to individual citizens, to community groups, and to business, industry, labor and government. This Vision Statement has served as a guideline for reconciling the University's past with its future, its mission with its resources.

The University has a combined enrollment of about 14,900 students and offers undergraduate and graduate degree programs through the doctoral level. Its main campus is located in Kingston, Rhode Island, 30 miles south of Providence in the northeastern metropolitan corridor between New York and Boston. In addition to the Kingston Campus, the University has three other campuses – the 165-acre Narragansett Bay Campus, which is the site of the Graduate School of Oceanography; the Alan Shawn Feinstein College of Continuing Education located in downtown Providence; and the W. Alton Jones Campus located in the western section of the State, 20 miles from Kingston. The 2,300 acres of woods, fields, streams and ponds of W. Alton Jones Campus is the site of the environmental education research programs and contains conference facilities for both public and private use.

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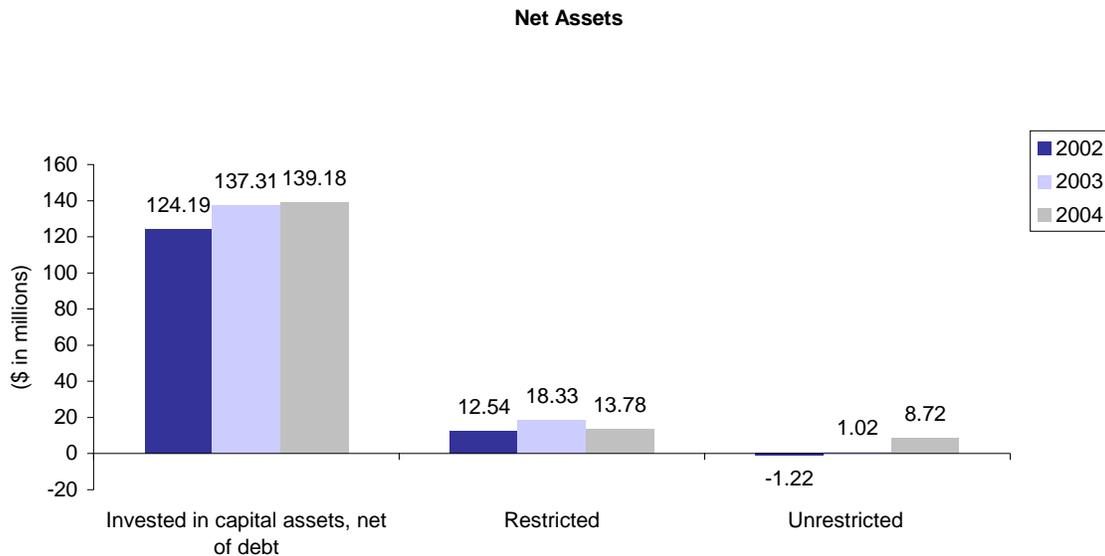
June 30, 2004

The University has adopted a three-year strategic plan, which seeks to: (1) enhance student enrollment and improve retention; (2) increase organizational and operational efficiency; and (3) support research and outreach which most directly support Rhode Island's goals for economic development. These strategic initiatives are being facilitated by community members, including University's senior management, the Joint Strategic Planning Committee and each of the on-campus divisions. Collectively, these initiatives should help guide the decision-making at all levels in order to align limited resources with University priorities.

**Financial Highlights**

The University's financial results for the year ended June 30, 2004 showed a net loss of \$2.10 million for the year, after nonoperating revenues and expenses, compared with \$8.68 million loss for fiscal 2003 and \$1.87 million income for fiscal 2002. The \$2.10 million loss in fiscal 2004 is largely due to depreciation expense, which increased by \$2.47 million over that of fiscal 2003. The increase from fiscal 2002 to fiscal 2003 was \$2.18 million. However, with the infusion of State capital appropriations and private funds totaling \$7.11 million, net assets increased by \$5.02 million during fiscal 2004 (\$21.15 million during fiscal 2003). These funds were used to finance about 52% of the costs of construction projects completed in 2004.

The following chart displays the components of the University's net assets for the fiscal years ended June 30, 2004, 2003, and 2002.



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On June 30, 2004, 2003, and 2002, the University's total assets of \$337.76 million, \$331.56 million, and \$303.08 million exceeded its total liabilities of \$176.08 million, \$174.90 million, and \$167.51 million by \$161.68 million, \$156.66 million, and \$135.51 million, respectively. The resulting net assets are summarized into the following categories (\$ in millions):

		<b>2004</b>	<b>2003</b>	<b>2002</b>
Invested in capital assets, net of related debt	\$	139.18	137.31	124.19
Restricted expendable		13.78	18.33	12.54
Unrestricted		8.72	1.02	(1.22)
Total net assets	\$	161.68	156.66	135.51

**Overview of the Financial Statements**

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

In May 2002, GASB issued Statement No. 39 of the Governmental Accounting Standards Board (GASB), *Determining Whether Certain Organizations are Component Units (an amendment of GASB Statement 14)*. GASB 39 establishes new criteria for evaluating the need to include component units of the University. The University adopted GASB 39 as of July 1, 2003.

University of Rhode Island Foundation (the Foundation) and University of Rhode Island Alumni Association (the Alumni Association) are legally separate tax-exempt component units of the University of Rhode Island. The Foundation and Alumni Association act primarily as fund-raising organizations to supplement the resources that are available to the University in support of its programs. The Boards of the Foundation and Alumni Association are self-perpetuating and primarily consist of graduates and friends of the University. Although the University does not control the timing or the amount of receipts from the Foundation and Alumni Association, the majority of resources received or held by the Foundation and Alumni Association are restricted to the activities of the University by the donors. Because these resources held by the Foundation and Alumni Association can only be used by or are for the benefit of the University, the Foundation and Alumni Association are considered component units of the University and are discretely presented in the University's financial statements.

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

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

The *Statement of Net Assets* presents information on all of the University's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the University is improving or deteriorating.

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The *Statement of Revenues, Expenses, and Changes in Net Assets* presents information showing how the University's net assets changed during the most recent fiscal year. All changes in net assets 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 University reports its operations as a business – type activity using the economic measurement focus and full accrual basis of accounting. As a component unit of the State of Rhode Island and Providence Plantations, the results of the University's operations, its net assets and cash flows are also summarized in the State's Comprehensive Annual Financial Report derived from its government-wide financial statements.

**Notes to the Financial Statements.** The notes provide additional information that is essential to a full understanding of the data provided in the financial statements. They also provide information regarding both the accounting policies and procedures the University has adopted as well as additional detail of certain amounts contained in the financial statements. The notes to the financial statements can be found on pages 21 to 43 of this report.

**Financial Analysis**

As mentioned earlier, net assets may serve over time as a useful indicator of the University's financial position. In the case of the University, total assets exceeded total liabilities by \$161.68 million, \$156.66 million, and \$135.5 million at the close of fiscal years 2004, 2003, and 2002, respectively.

By far the largest portion of the University's net assets, \$139.18 million, \$137.31 million, and \$124.19 million, respectively, reflects its investment in capital assets (such as land, buildings, machinery, and equipment), net of any related outstanding debts, including capital leases, used to acquire those assets. The University uses these capital assets to provide services to students, faculty and administration; consequently, these assets are not available for future spending. Although the University's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. Also, in addition to the debts noted above, which are reflected in the University's financial statements, the State of Rhode Island regularly provides financing for certain capital projects through the issuance of general obligation bonds and appropriations from the Rhode Island Capital Plan 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. Borrowings by the State are not reflected in these financial statements.

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**University of Rhode Island's Net Assets**  
(\$ in millions)

	<u>2004</u>	<u>2003</u>	<u>2002</u>
Current assets	\$ 66.04	53.07	52.75
Noncurrent assets	271.72	278.49	250.33
Total assets	<u>\$ 337.76</u>	<u>331.56</u>	<u>303.08</u>
Current liabilities	38.81	37.93	41.32
Noncurrent liabilities	137.27	136.97	126.25
Total liabilities	<u>\$ 176.08</u>	<u>174.90</u>	<u>167.57</u>
Net assets:			
Invested in capital assets, net of related debt	\$ 139.18	137.31	124.19
Restricted, expendable	13.78	18.33	12.54
Unrestricted	<u>8.72</u>	<u>1.02</u>	<u>(1.22)</u>
Total net assets	<u>\$ 161.68</u>	<u>156.66</u>	<u>135.51</u>

During fiscal years 2004, 2003, and 2002, the University's net assets increased by \$5.02 million, \$21.15 million, and \$32.52 million, respectively, which is largely due to capital and private funds received. The University closed fiscal 2004 and 2003 with positive unrestricted net assets of \$8.72 million and \$1.02 million, respectively, and with negative unrestricted net assets of \$1.22 million in fiscal 2002. In addition, the current ratio, which measures the University's liquidity, improved from 1.40 at the close of fiscal 2003 to 1.70 at the close of fiscal 2004.

The University's current assets include cash and cash equivalents, accounts receivable and inventories, and current liabilities include accounts payable, accrued expenses, deposits, deferred revenues and the current portion of long-term debts.

During fiscal 2004, the University's net cash and cash equivalents increased by \$3.66 million which is largely attributed to the increase in net assets. During fiscal 2003, the University's net cash and cash equivalents decreased by \$6.45 million which is attributed to the increase in accounts receivable, inventories, and capital assets net of depreciation, as well as in accounts payable and accrued expenses, offset by the increase in long-term debts.

The major component of the University's current assets is accounts receivable. During fiscal 2004, accounts receivable increased by \$8.78 million (\$5.98 million during fiscal 2003). Of this amount, \$2.16 million (\$3.59 million in fiscal 2003) was due to timing differences between billing and collections of grant and contract receivables. With lagging collection efforts due to limited resources and staff preoccupied with the implementation of the student financial system, student accounts receivable increased by \$4.63 million over the preceding period.

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The restricted expendable net assets consist of resources that are subject to external restrictions on how they must be used, and represent 9%, 12%, and 9% of the University's net assets at June 30, 2004, 2003, and 2002, respectively.

**University of Rhode Island's Condensed Revenues,  
Expenses and Changes in Net Assets**  
(\$ in millions)

	<u>2004</u>	<u>2003</u>	<u>2002</u>
Operating revenues:			
Tuition and fees, net of tuition waivers and remissions	\$ 131.42	112.06	99.02
Operating grants and contributions	66.17	68.78	60.15
Other sources	33.72	33.55	28.39
Total operating revenues	<u>231.31</u>	<u>214.39</u>	<u>187.56</u>
Operating expenses:			
Salaries and benefits	212.78	210.48	197.84
Operating expenses	36.35	34.68	24.02
Scholarships, grants and contracts	9.11	7.71	6.11
Auxiliaries	48.45	45.57	39.34
Depreciation and amortization	14.59	12.12	9.94
Total operating expenses	<u>321.28</u>	<u>310.56</u>	<u>277.25</u>
Net operating loss	<u>(89.97)</u>	<u>(96.17)</u>	<u>(89.69)</u>
Nonoperating revenues (expenses):			
State appropriation	83.07	81.99	84.24
Net investment income	0.39	0.80	2.57
Private gifts	10.58	10.40	9.06
Interest expense	(6.17)	(5.70)	(4.31)
Total nonoperating revenues	<u>87.87</u>	<u>87.49</u>	<u>91.56</u>
(Loss) income before other revenues, expenses, gains or losses	(2.10)	(8.68)	1.87
Capital appropriations	4.57	9.38	13.76
State contributed capital	2.11	13.25	10.25
Capital gifts	0.44	7.20	6.64
Increase in net assets	<u>5.02</u>	<u>21.15</u>	<u>32.52</u>
Net assets – beginning of year	<u>156.66</u>	<u>135.51</u>	<u>102.99</u>
Net assets – ending of year	<u>\$ 161.68</u>	<u>156.66</u>	<u>135.51</u>

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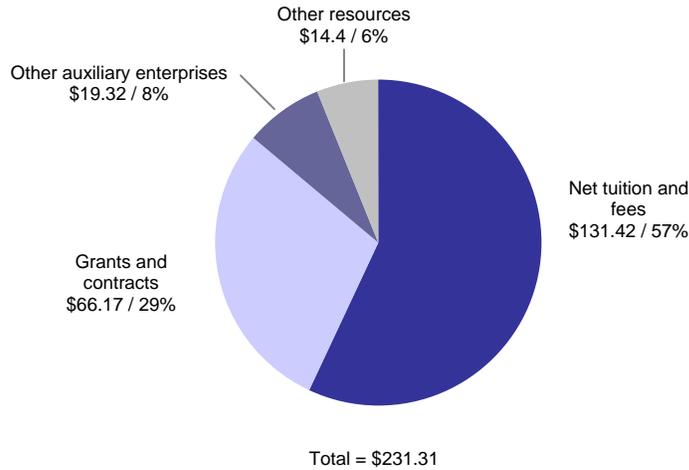
(Unaudited)

June 30, 2004

**Operating Revenues**

The following provides a graphical breakdown of operating revenues by category for the year ended June 30, 2004.

**Operating Revenue by Category**  
(\$ in millions)



The total operating revenues increased \$16.92 million or 8% in fiscal 2004 (\$26.83 or 14% in fiscal 2003) as compared with those of the preceding year. This is largely attributable to the tuition and fee rate increase as well as the increase in enrollment as envisioned in the University's three-year strategic plan.

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

	<u>2004</u>	<u>2003</u>	<u>2002</u>
Tuition	\$ 99.25	88.08	78.72
Student service fees	18.91	14.33	14.37
Health service fees	3.89	3.57	3.37
Housing fees	17.20	16.12	14.32
Dining service fees	12.73	10.56	9.42
Miscellaneous student fees	4.57	4.00	2.00
<b>Total</b>	<u>156.55</u>	<u>136.66</u>	<u>122.20</u>
Tuition waived or remitted	<u>(25.13)</u>	<u>(24.60)</u>	<u>(23.18)</u>
<b>Net</b>	<u>\$ 131.42</u>	<u>112.06</u>	<u>99.02</u>

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The following summary shows a steady growth of grants and contracts awarded to the University during the last five years (\$ in millions). This positive development is a reflection of the University's vision to pursue research and to enhance creative and entrepreneurial activities on campus.

Year:	<u>Amount</u>
1999-2000	\$ 48.98
2000-2001	57.14
2001-2002	58.11
2002-2003	60.03
2003-2004	60.15

The recognition of revenue from grants and contracts awarded are deferred until services have been performed to fulfill the requirements of the grants and contracts. Hence, awards received are not reflected in the accompanying financial statements.

The University has been awarded close to \$25 million in federal grant for biomedical research in Rhode Island. The new award for \$16.5 million is a five-year grant to continue the University's work as a catalyst for biomedical research in the State. With funding from the previous \$8 million grant, the University has completed the third year of Biomedical Research Infrastructure Network (BRIN) award, which resulted in increased collaboration among researchers from the University and other colleges and universities in the State. The new grant cements such relationships and focuses researchers' attention to the University's strength in molecular toxicology. Also, a core research instrumentation laboratory was established at the University's Kingston campus with the funding from a previous grant. This facility is open to all biomedical researchers in the State, and provides the latest analytical equipment to investigate cancer generation, the effect of toxic chemicals on reproductive, nervous and cardiovascular systems, organs, and drug metabolism.

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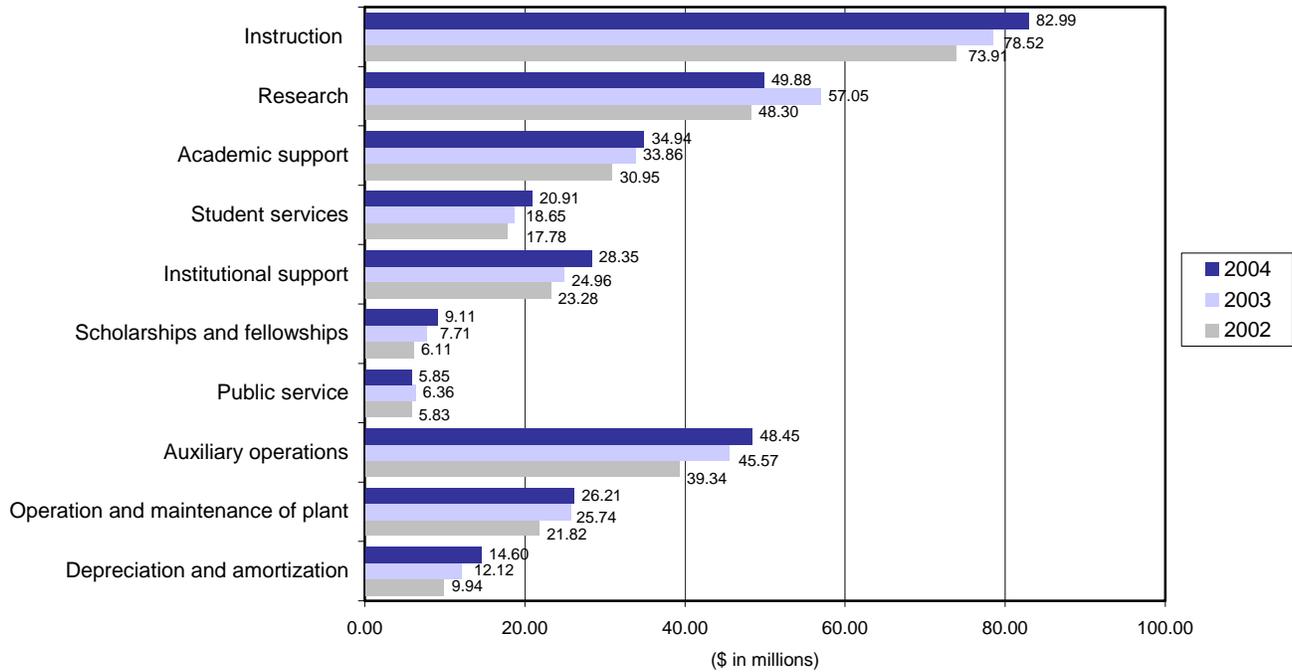
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**Operating Expenses**

The chart below illustrates the University's operating expenses by function for the fiscal years ended June 30, 2004, 2003, and 2002, excluding scholarship allowances applied against tuition and fees.

**Operating Expenses by Function**



The operating expenses for fiscal 2004 and 2003 totaled \$321.28 million and \$310.56 million, respectively, an increase of \$10.73 million and \$33.31 million or 3.46% and 12.01% over those of fiscal 2003 and 2002, which is due in large part to medical and dental benefit costs increases and depreciation expense. In addition, personnel service costs increased due to the Blue Cross/Blue Shield settlement, additional temporary help, consulting related to the PeopleSoft implementation, funding of faculty positions, prescription drug reimbursements, and funding of actuarial consultants associated with the retiree health program.

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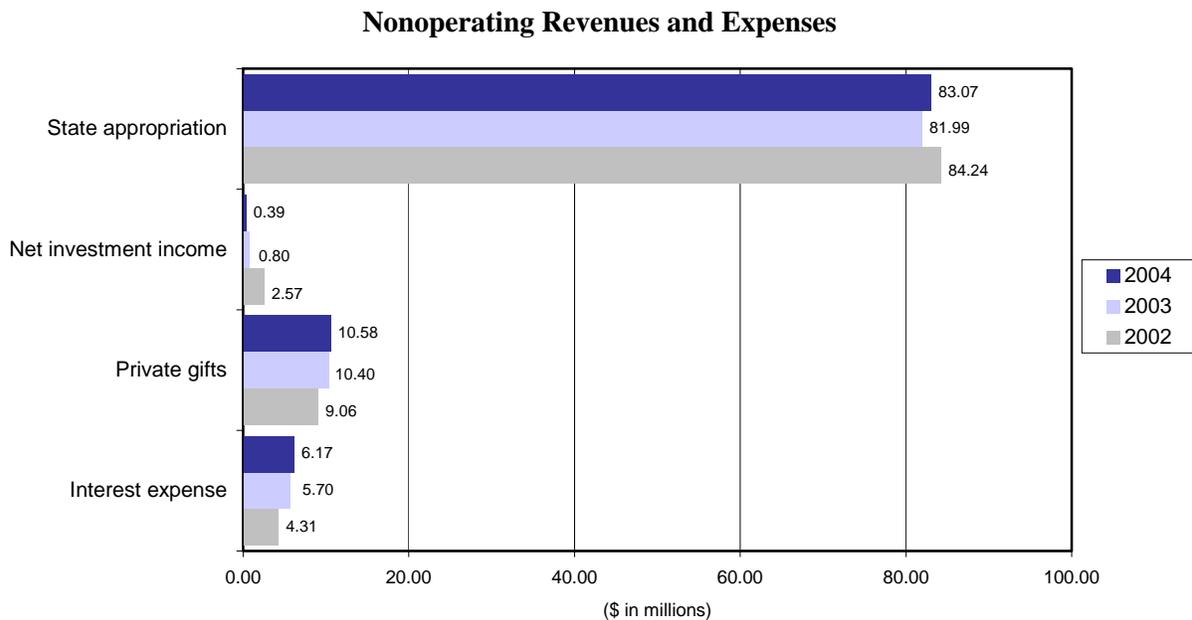
June 30, 2004

The following summary shows where major grant and contract expenditures, including indirect cost charges, occurred during 2004, 2003, and 2002 (\$ in millions).

<u>Agency</u>	<u>Amount</u>		
	<u>2004</u>	<u>2003</u>	<u>2002</u>
National Science Foundation	\$ 10.53	8.94	7.68
Department of Health and Human Services	10.39	9.28	6.90
Department of Defense	7.38	7.03	5.64
Agency for International Development	2.37	5.94	4.74
Department of Agriculture	6.02	4.73	4.12
Department of Commerce	4.36	4.08	3.75
NASA	1.64	1.59	1.64
Department of Education	1.25	1.50	1.64

**Nonoperating Revenues and Expenses**

The following chart provides a graphical breakdown of the University's nonoperating revenues and expenses.



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The State's unrestricted appropriation is the largest component of the University's nonoperating revenues. The amount requested for fiscal 2004 was \$85.16 million. However, the amount appropriated by the State was \$83.07 million resulting in an appropriation for fiscal 2004 that was \$2.09 million less than the amount requested. Although the budget request for fiscal 2004 did not fully meet the real needs of the University, it did provide for a balanced budget and an acceptable level of quality in carrying out the University's mission as it currently exists.

Investment income was down \$0.41 million or 51% (\$1.77 million or 69% in fiscal 2003) due to reduced short-term rates of return and the major decline in funds available for investment by the bond trustee during the year. Interest expense was up \$0.47 million or 8% (\$1.39 million or 32% in fiscal 2003) because of the interest that became due during the year on new bond issues.

**Direct State Appropriation**

The University has a long tradition of using the state appropriation to support its operating expenses. During fiscal years 2004, 2003, and 2002, the University received state appropriation of \$83.07 million, \$81.99 million, and \$84.24 million, respectively, which was not sufficient to cover operating expenses to the extent of \$6.9 million, \$14.18 million, and \$5.46 million, respectively, as the schedule below indicates. Operating costs have increased over the years and the state appropriation has not risen enough to cover operating expenses, therefore student tuition and fees have played an increasingly important role in funding (41% in fiscal 2004 and 36% in fiscal 2003 and 2002) of the University's operations. It is important to note that the Rhode Island General Assembly presets tuition and fees after reviewing recommendations from the Board of Governors for Higher Education and the University.

	<b>2004</b>	<b>2003</b>	<b>2002</b>
	(\$ in millions)		
Tuition and fee revenue	\$ 131.42	112.06	99.02
Other revenue	99.89	102.33	88.53
Operating expenses	(321.28)	(310.56)	(277.25)
Operating loss	(89.97)	(96.17)	(89.70)
State direct appropriations	83.07	81.99	84.24
Net loss	\$ (6.90)	(14.18)	(5.46)

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**Capital Assets and Debt Administration**

***Capital Assets***

The University's investment in capital assets as of June 30, 2004, 2003, and 2002 amounted to \$252.61 million, \$250.16 million and \$227.32 million, respectively, net of accumulated depreciation. This investment in capital assets includes land, buildings (including improvements), and furnishings and equipment (including the cost of capital leases). Capital assets increased \$2.45 million during fiscal 2004 and \$22.84 during fiscal 2003. Legal title to all land and real estate assets is vested in the Rhode Island Board of Governors for Higher Education or the State of Rhode Island. A summary of capital asset balances as of June 30, 2004, 2003, and 2002 is presented below.

**Summary Schedule of Net Capital Assets**  
(\$ in millions)

	<b>2004</b>	<b>2003</b>	<b>2002</b>
Land and improvements	\$ 27.79	27.70	22.17
Major capital additions to building and improvements	196.90	189.25	112.18
Furnishings and equipment	21.34	21.72	19.24
Construction in progress	6.58	11.49	73.73
Total	\$ 252.61	250.16	227.32

Major capital additions in fiscal 2004 included academic buildings and student residence halls with total costs of \$2.00 million and \$8.50 million, respectively. Such renovations were largely funded with state capital appropriations.

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

**Capital Plan**

The University generally has funded its capital plans through a combination of funds received from University operations, bonds issued by the Rhode Island Health and Educational Building Corporation, state appropriations and general obligation bonds, federal appropriations, and private fund raising. The execution of the University's capital improvement plan is contingent upon approval and sufficient funding from the State.

The Board of Governors for Higher Education submits a running five fiscal year capital improvement plan to the General Assembly and State Executive each year. The plan for the proposed capital projects for the entire system of public higher education in Rhode Island includes the University. The FY 2006-2010 plan for the University totals \$387 million, and it includes all continuing and planned projects, whether funded or not. This plan forms the basis for discussions on funding the various projects from all available funding sources.

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**Debt**

As of June 30, 2004 and 2003, the University had \$113.43 million and \$112.85 million, respectively, in outstanding debt, with increases of \$0.58 million and \$9.72 million, respectively, over that of the prior years. The table below summarizes the types of debt instruments.

**Summary Schedule of Debt**  
(\$ in millions)

	2004	2003	2002
Loans payable	\$ 0.32	0.25	0.80
Capital lease obligations	16.16	16.25	16.01
Revenue bonds	96.95	96.35	86.32
Total	\$ 113.43	112.85	103.13

Additions to debt and repayments made during fiscal 2004 were \$21.99 million and \$21.41 million, respectively. Such additions and repayments included the \$20.30 million revenue bonds issued to refinance prior bonds' outstanding balance of \$19.40 million as of June 30, 2003. Debt repayments of \$2.45 million were made during fiscal 2003. Additions to revenue bonds payable included \$7.98 million to finance the construction of parking facilities and \$3.10 million to finance the construction of a three-story Alumni Center building.

The University has no independent bonding authority. All bonds must be approved by and arranged through the Board of Governors for Higher Education. All general obligation and revenue bond related indebtedness is reflected on the financial accounts of the entity issuing the bonds. Both Moody's and Standard and Poor's rating services have given the Board of Governors' for Higher Education general revenue bonds a rating of AAA. The State of Rhode Island general obligation bonds are rated by Moody's at Aa3, Fitch's at AA, and Standard and Poor's at AA-. More detailed information about the University's long-term liabilities is presented in note 7 to the financial statements.

**Economic Factors and Next Year's Tuition and Student Fee Rates**

The seasonally adjusted unemployment rate for the State of Rhode Island, from which the University draws students, increased from 4.8% in June of 2002 to 5.7% in June of 2003 and 5.8% in June of 2004, according to the Federal Reserve Bank of Boston. This compares to an increase from 5.8% to 6.4% and a decrease to 5.6%, respectively, on a national level. Rhode Island's job growth rate for the first six months of 2004 of 0.2% also trailed the national average of 0.9% for the period.

Historically, in times of economic slowdowns, public colleges/universities have experienced increases in their enrollment as unemployed and underemployed workers seek to update and upgrade their skills. The University cannot predict the extent to which enrollment may vary in this current environment. As with many state governments, Rhode Island faced a state budget deficit in fiscal year 2004, of approximately \$14 million, and a budget shortfall of \$24 million is projected for fiscal year 2005. To support their strategic priorities in this

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financially challenging environment, the University and the Board of Governors took the following actions during fiscal 2004.

- Fiscal 2004 tuition and mandatory fees increased by 9% and 7% for in-state and out-of-state students, respectively.
- A hiring freeze was imposed on all but critical positions, which were reviewed on a case-by-case basis; the number of visiting lectures authorized to academic departments was reduced as was the out-of-state travel budget and the part-time support staff budget.

In July 2004, the General Assembly amended Rhode Island General Law 16-59-9 – Educational Budget and Appropriations, transferring the power to allocate budgets to institutions of public higher education from the Board of Higher Education to the General Assembly. This transfer of budget allocation authority is not anticipated to have a significant financial impact on the University during fiscal year 2005.

Despite the reductions in state funding per student and the change in budget allocation authority, the University's current financial and capital plans indicate that the infusion of additional financial resources from the foregoing Board and management actions will enable it to maintain its present level of services at all campuses.

The University's enrollment over the last five years showed slight increases through 2004, consistent with the University's efforts to manage housing and class enrollment.

Increases in in-state undergraduate student charges at the University have been held to an average of 6.10% since 1999. Out-of-state undergraduate student charges have been held to an average of 5.09% over the same period. Based upon in-state undergraduate mandatory tuition and fee charges during the 2002-2003 academic year, the University ranks second from the last among the six New England public university systems. Future University enrollments may be affected by a number of factors, including any material increase in tuition and other mandatory charges and any material decrease in State appropriations.

### **Fiscal Planning**

The University will continue to control expenses in accordance with available resources and established priorities by increasing resources through retention programs as well as increasing efficiencies throughout the organization. The Program Contribution Analysis along with other financial and programmatic analyses continues to be utilized as one of the tools to balance mission and resources. The University has established plans to increase revenue over the next three years as reflected in the University's Three-Year Strategic Plan.

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**Information System**

One of the major initiatives with technology continues to be the implementation of PeopleSoft's Student Administration, Financials, and Human Resources software modules. The University implemented major portions of these modules on July 1, 2003. These modules and those that will be implemented in the future will improve and integrate the University's data tracking system on student recruitment, enrollment, matriculation, transfer, attrition and graduation. The University continues to reassess the progress of the actual implementation on a regular basis and refocus efforts on the PeopleSoft systems to yield the most effective outcome for students, faculty, and staff.

**Requests for Information**

This financial report is designed to provide a general overview of the University's finances for all those with an interest in the University's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to: Mr. Robert Weygand, Vice President for Administration, University of Rhode Island, 108 Carlotti Administration Building, 75 Lower College Road, Room 108, Kingston, RI 02881.

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Statements of Net Assets

June 30, 2004 and 2003

<b>Assets</b>	<b>2004 University of Rhode Island</b>	<b>2003 University of Rhode Island</b>	<b>2004 Component Units</b>
<b>Current assets:</b>			
Cash and cash equivalents (note 2)	\$ 29,400,183	24,154,095	5,268,444
Cash held by State Treasurer – capital projects (notes 2 and 3)	1,298,704	1,257,245	—
Cash held by State Treasurer – other (notes 2 and 3)	373,063	—	—
Accounts receivable, net (note 4)	31,754,497	22,976,875	—
Current portion of pledges receivable (note 4)	—	—	4,708,949
Current portion of notes receivable (note 1)	—	—	63,094
Current portion of net investment in sales types leases	—	—	208,773
Inventory and other current assets	3,214,996	4,684,296	1,062,026
Total current assets	66,041,443	53,072,511	11,311,286
<b>Noncurrent assets:</b>			
Cash and cash equivalents – restricted (note 2)	—	1,830,856	—
Cash held by State Treasurer – restricted (notes 2 and 3)	—	67,808	—
Funds on deposit with bond trustee – restricted	8,436,466	15,128,022	—
Investments (note 2)	—	—	72,228,261
Net investment in sales – type leases	—	—	21,000
Pledges receivable (note 4)	—	—	1,639,890
Loans receivable, net (note 5)	10,669,416	11,305,102	—
Notes receivable	—	—	165,318
Charitable remainder trusts	—	—	643,417
Capital assets, net of accumulated depreciation (notes 6 and 7)	252,607,979	250,156,736	2,334,694
Total noncurrent assets	271,713,861	278,488,524	77,032,580
Total assets	\$ 337,755,304	331,561,035	88,343,866
<b>Liabilities</b>			
<b>Current liabilities:</b>			
Cash overdraft implicitly financed (note 2)	\$ 100,492	—	—
Accounts payable and accrued liabilities	23,626,467	24,719,746	495,067
Current portion of contributions payable to University of Rhode Island	—	—	1,817,719
Compensated absences (note 8)	734,217	700,457	13,913
Funds held for others	924,931	416,295	—
Deferred revenues	11,009,862	9,865,693	—
Current portion of capital lease obligations (notes 6 and 7)	1,150,355	1,081,903	—
Current portion of bonds and loans payable (notes 6 and 7)	1,258,951	1,144,175	—
Current portion of gift annuity payable	—	—	78,920
Total current liabilities	38,805,275	37,928,269	2,405,619
<b>Noncurrent liabilities:</b>			
Compensated absences (note 7)	15,644,275	15,937,408	—
Pledges payable	—	—	250,000
Contributions payable to University of Rhode Island	—	—	240,000
Capital lease obligations (notes 6 and 7)	15,011,684	15,165,264	—
Bonds and loans payable (notes 6 and 7)	96,010,532	95,455,399	—
Gift annuity payable	—	—	435,369
Grant refundable (note 8)	10,606,882	10,415,033	—
Total noncurrent liabilities	137,273,373	136,973,104	925,369
Total liabilities	\$ 176,078,648	174,901,373	3,330,988
<b>Net Assets</b>			
Invested in capital assets, net of related debt	\$ 139,176,457	137,309,995	2,334,694
Restricted:			
Expendable (note 9)	13,784,667	18,326,283	23,492,551
Non-expendable	—	—	54,166,361
Unrestricted (note 10)	8,715,532	1,023,384	5,019,272
Contingencies (note 11)	—	—	—
Total net assets	\$ 161,676,656	156,659,662	85,012,878

See accompanying notes to financial statements.

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Statements of Revenues, Expenses, and Changes in Net Assets

Years ended June 30, 2004 and 2003

	<b>2004</b>	<b>2003</b>	<b>2004</b>
	<b>University of</b>	<b>University of</b>	<b>Component</b>
	<b>Rhode Island</b>	<b>Rhode Island</b>	<b>Units</b>
Operating revenues:			
Tuition and fees	\$ 117,658,595	102,438,954	—
Residence, dining, student union, and health fees	38,886,213	34,215,423	—
Less scholarship allowances	(25,127,913)	(24,596,383)	—
Net student fees	131,416,895	112,057,994	—
Federal, State, local, and private grants and contracts	66,172,241	68,775,528	—
Other auxiliary enterprises	19,324,223	19,334,328	—
Endowment income	—	—	15,692,637
Other sources	14,396,163	14,219,315	2,835,485
Total operating revenues	<u>231,309,522</u>	<u>214,387,165</u>	<u>18,528,122</u>
Operating expenses (note 12):			
Instruction	82,987,781	78,521,491	—
Research	49,881,316	57,045,903	—
Academic support	34,935,547	33,857,699	—
Student services	20,913,363	18,654,226	20,000
Scholarships and fellowships	9,112,691	7,713,975	—
Public service	5,847,415	6,359,552	—
Operation and maintenance of plant	26,211,711	25,744,276	117,069
Depreciation and amortization	14,598,737	12,123,084	75,602
Institutional support	28,347,636	24,959,686	3,544,774
Auxiliary operations	48,448,281	45,574,876	280,000
Total operating expenses	<u>321,284,478</u>	<u>310,554,768</u>	<u>4,037,445</u>
Operating (loss) income	<u>(89,974,956)</u>	<u>(96,167,603)</u>	<u>14,490,677</u>
Nonoperating revenues (expenses):			
State appropriation (note 13)	83,073,837	81,989,847	—
Net investment income	391,978	796,831	757,447
Private gifts	—	—	5,944,073
Gifts from components units	10,582,253	10,400,278	(14,965,582)
Additions to permanent endowments	—	—	4,936,077
Patent receipts	—	—	1,186,221
Miscellaneous receipts	—	—	1,459,062
Interest expense	(6,169,772)	(5,702,957)	—
Net nonoperating revenues	<u>87,878,296</u>	<u>87,483,999</u>	<u>(682,702)</u>
(Loss) income before other revenues, expenses, gains or losses	(2,096,660)	(8,683,604)	13,807,975
Capital appropriations (note 13)	6,678,229	22,631,057	—
Capital gifts	435,425	7,202,767	(435,425)
Increase in net assets	5,016,994	21,150,220	13,372,550
Net assets, at beginning of year (note 17)	<u>156,659,662</u>	<u>135,509,442</u>	<u>71,640,328</u>
Net assets, at end of year	<u>\$ 161,676,656</u>	<u>156,659,662</u>	<u>85,012,878</u>

See accompanying notes to financial statements.

**UNIVERSITY OF RHODE ISLAND**  
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Statements of Cash Flows

Years ended June 30, 2004 and 2003

	<b>2004</b>	<b>2003</b>
	<b>University of Rhode Island</b>	<b>University of Rhode Island</b>
Cash flows from operating activities:		
Tuition and fees	\$ 129,072,518	111,325,897
Grants and contracts	62,330,927	65,433,960
Payments to suppliers	(82,055,947)	(81,903,774)
Payments to employees	(211,633,690)	(208,938,528)
Payments for scholarships, fellowships, and sponsored programs	(13,006,488)	(10,393,676)
Auxiliary enterprises	19,510,757	18,700,309
Other receipts	13,595,025	12,901,816
Net cash used by operating activities	<u>(82,186,898)</u>	<u>(92,873,996)</u>
Cash flows from noncapital financing activities:		
State appropriations	83,073,837	81,989,847
Cash overdraft implicitly financed	100,492	—
Gifts from component units	10,582,253	10,400,278
Funds held for others	630,045	(466,539)
Net cash provided by noncapital financing activities	<u>94,386,627</u>	<u>91,923,586</u>
Cash flows from capital and related financing activities:		
Proceeds from capital debt	20,805,364	11,075,000
Capital appropriations	6,678,229	22,631,057
Capital gifts	435,425	7,202,767
Net loss on disposal of capital assets	126,629	944,768
Purchase of capital assets	(15,988,765)	(34,816,187)
Principal paid on capital debt and leases	(21,408,427)	(2,448,970)
Interest paid on capital debt and leases	(6,169,772)	(5,702,957)
Deposit with trustee	6,691,556	(5,178,686)
Net cash used by capital and related financing activities	<u>(8,829,761)</u>	<u>(6,293,208)</u>
Cash flows from investing activities:		
Interest on investments	391,978	796,831
Net cash provided by investing activities	<u>391,978</u>	<u>796,831</u>
Net increase (decrease) in cash	3,761,946	(6,446,787)
Cash – beginning of year	<u>27,310,004</u>	<u>33,756,791</u>
Cash – end of year	<u>\$ 31,071,950</u>	<u>27,310,004</u>
Reconciliation of net operating revenues (expenses) to net cash used by operating activities:		
Operating loss	\$ (89,974,956)	(96,167,603)
Adjustments to reconcile net loss to net cash used by operating activities:		
Depreciation and amortization	14,598,737	12,123,084
Changes in assets and liabilities:		
Accounts receivable	(8,899,031)	(5,976,749)
Inventory and other current assets	1,469,300	(985,976)
Loans receivable	635,686	170,234
Accounts payable and accrued liabilities	(1,093,279)	(2,874,178)
Deferred revenues	1,144,169	(460,090)
Compensated absences	(259,373)	962,290
Refundable grant	191,849	334,992
Net cash used by operating activities	<u>\$ (82,186,898)</u>	<u>(92,873,996)</u>
Supplemental disclosure of cash flows information:		
New capital leases	\$ 1,187,844	1,089,989

See accompanying notes to financial statements.

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Notes to Financial Statements

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**(1) Summary of Significant Accounting Policies**

**(a) Organization**

The University is a State Land-Sea-and-Urban-Grant University. Chartered in 1951, the University offers undergraduate and graduate degree programs of study and also confers doctoral degrees. The University has three campuses throughout Rhode Island in addition to the main campus located in Kingston, Rhode Island. The University is accredited by the New England Association of Schools and Colleges. In addition, certain courses and programs of study have been approved by national accrediting agencies.

The University is governed by the Rhode Island Board of Governors for Higher Education (the Board), a body politic and corporate established under Chapter 59 of Title 16 of the General Laws of Rhode Island. The Board consists of public members appointed by the Governor, as well as the Chair of the Board of Regents for Elementary and Secondary Education, and the Chairs or designees of the Finance Committees of the House and Senate of the Rhode Island General Assembly.

**(b) 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 accounting principles generally accepted in the United States of America, 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 University has determined that it functions as a Business Type Activity, as defined by GASB. The effect of interfund activity has been eliminated from these financial statements.

The University's policies for defining operating activities in the statement of revenues, expenses, and changes in net assets 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 University's operating and capital appropriations from the State of Rhode Island, net investment income, gifts, and interest expense.

The University has elected not to adopt the pronouncements issued by the Financial Accounting Standards Board (FASB) after November 30, 1989.

In May 2002, GASB issued Statement No. 39 of the Governmental Accounting Standards Board (GASB), *Determining Whether Certain Organizations are Component Units (an amendment of GASB Statement 14)*. GASB 39 establishes new criteria for evaluating the need to include component units of the College. The University adopted GASB 39 as of July 1, 2003.

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University of Rhode Island Foundation (the Foundation) and University of Rhode Island Alumni Association (the Alumni Association) are legally separate tax-exempt component units of the University of Rhode Island. The Foundation and Alumni Association act primarily as fund-raising organizations to supplement the resources that are available to the University in support of its programs. The Boards of the Foundation and Alumni Association are self-perpetuating and primarily consist of graduates and friends of the University. Although the University does not control the timing or the amount of receipts from the Foundation and Alumni Association, the majority of resources received or held by the Foundation and Alumni Association are restricted to the activities of the University by the donors. Because these resources held by the Foundation and Alumni Association can only be used by or are for the benefit of the University, the Foundation and Alumni Association are considered component units of the University and are discretely presented in the University's financial statements.

During the year ended June 30, 2004, the Foundation distributed \$10,582,253, to the University for both restricted and unrestricted purposes. The Foundation's year-end was March 30, 2004. Per the Foundation's financial statements, the Foundation distributed \$13,120,731 to the University. The variance of \$2,538,478 represents timing differences in reimbursement and funding of various expenses in auxiliary operations, academic support and operations and maintenance of plant.

During the year ended June 30, 2004, the Alumni Association distributed \$2,280,276 to the University for scholarships. These funds are recorded as agency transactions in the University's financial statements.

The Foundation and Alumni Association are private nonprofit organizations that report under FASB standards, including FASB Statement No. 116, *Accounting for Contributions Received and Contributions Made*, and FASB Statement No. 117, *Financial Reporting for Not-for-Profit Organizations*. As such, certain revenue recognition criteria and presentation features are different from GASB revenue recognition criteria and presentation features. No modifications have been made to the Foundation and Alumni Association's financial information in the University's financial reporting entity for these differences.

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The condensed statement of net assets of the Foundation and Alumni Association is as follows:

	<u>Foundation</u>	<u>Alumni Association</u>	<u>Total</u>
Current assets	\$ 10,658,789	652,497	11,311,286
Noncurrent assets	74,457,381	2,575,199	77,032,580
Total assets	<u>\$ 85,116,170</u>	<u>3,227,696</u>	<u>88,343,866</u>
Current liabilities	2,143,046	262,573	2,405,619
Noncurrent liabilities	685,369	240,000	925,369
Total liabilities	<u>\$ 2,828,415</u>	<u>502,573</u>	<u>3,330,988</u>
Net assets:			
Invested in capital assets, net of related debt	2,334,694	—	2,334,694
Restricted:			—
Expendable	22,415,913	1,076,638	23,492,551
Nonexpendable	54,166,361	—	54,166,361
Unrestricted	<u>3,370,787</u>	<u>1,648,485</u>	<u>5,019,272</u>
Total net assets	<u>\$ 82,287,755</u>	<u>2,725,123</u>	<u>85,012,878</u>

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The condensed statement of revenues, expenses and changes in net assets of the Foundation and Alumni Association is as follows:

	<u>Foundation</u>	<u>Alumni Association</u>	<u>Total</u>
Endowment income	\$ 15,692,637	—	15,692,637
Other sources	—	2,835,485	2,835,485
Total operating revenue	<u>15,692,637</u>	<u>2,835,485</u>	<u>18,528,122</u>
Student services	—	20,000	20,000
Operation and maintenance in plant	—	117,069	117,069
Depreciation and amortization	75,602	—	75,602
Institutional support	2,253,947	1,290,827	3,544,774
Auxiliary operations	—	280,000	280,000
Total operating expenses	<u>2,329,549</u>	<u>1,707,896</u>	<u>4,037,445</u>
Operating income	<u>13,363,088</u>	<u>1,127,589</u>	<u>14,490,677</u>
Nonoperating revenues (expenses):			
Net investment income	757,447	—	757,447
Private gifts	4,669,179	1,274,894	5,944,073
Gifts to University	(13,120,731)	(1,844,851)	(14,965,582)
Additions to permanent endowments	4,936,077	—	4,936,077
Patent receipts	1,186,221	—	1,186,221
Miscellaneous receipts	1,459,062	—	1,459,062
Net operating expenses	<u>(112,745)</u>	<u>(569,957)</u>	<u>(682,702)</u>
Income before other revenues, expenses, gains or losses	13,250,343	557,632	13,807,975
Capital gifts to University	—	(435,425)	(435,425)
Increase in net assets	13,250,343	122,207	13,372,550
Net assets, beginning of year	<u>69,037,412</u>	<u>2,602,916</u>	<u>71,640,328</u>
Net assets, end of year	<u>\$ 82,287,755</u>	<u>2,725,123</u>	<u>85,012,878</u>

Complete financial statements for the Foundation can be obtained from: 79 Upper College Road, Kingston, RI 02281.

Complete financial statements for the Alumni Association can be obtained from: 12 Davis Hall, 10 Lippett Road, Kingston, RI 02881.

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(c) ***Net Assets***

GASB Statement No. 34 requires that, for accounting purposes, resources be classified for accounting purposes into the following three net asset categories:

**Invested in capital assets, net of related debt:** Capital assets, net of accumulated depreciation and of outstanding principal balances of debt attributable to the acquisition, construction, repair, or improvement of those assets.

**Restricted – expendable:** Net assets whose use is subject to externally imposed conditions that can be fulfilled by the actions of the University or by the passage of time.

**Unrestricted:** All other categories of net assets. Unrestricted net assets may be designated by the University.

The University has adopted a policy of using restricted expendable funds, when available, prior to unrestricted funds.

(d) ***Cash Equivalents***

Cash equivalents consist entirely of highly liquid financial instruments with an original maturity date of three months or less.

(e) ***Inventories***

Inventories are stated at the lower of cost (first-in, first-out, and retail inventory method) or market, and consist primarily of bookstore, dining, health, and residential life services items.

(f) ***Capital Assets***

Real estate assets, including improvements, are generally stated at cost. Furnishings and equipment are stated at cost at date of acquisition or, in the case of gifts, at fair value at date of donation. In accordance with the Rhode Island Board of Governors for Higher Education's capitalization policy, all land is capitalized, regardless of value. Vehicles, equipment, computer software for internal use, and works of art and historical treasures with a unit cost of \$5,000 or more are capitalized. Land, building, leasehold, and infrastructure improvements with a unit cost of \$50,000 or more are capitalized. Interest costs on debt related to capital assets is capitalized during the construction period and then depreciated over the life of the project. University capital assets, with the exception of land and construction in progress are depreciated on a straight-line basis over their estimated useful lives, which range from 5 to 50 years.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

(g) ***Compensated Absences and Salary Reduction Plan***

University employees are granted vacation and sick leave in varying amounts. The University is committed to one separate union contract which contains different policies for the employees covered under the specific contract. In the event of termination, an employee is paid for those

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accumulated vacation and sick days allowable under the union contract or in the case of nonunion personnel, according to State or University policy.

Amounts of vested and accumulated vacation and sick leave are reported as accrued compensation and benefits. Amounts are determined based upon the personal service rates in effect as of the balance sheet date. No liability is recorded for nonvesting accumulating rights to receive vacation and sick pay benefits.

Also reported as noncurrent liabilities are the remaining balances of employee salaries deferred under a Comprehensive Salary Reduction Plan adopted by the Board during fiscal years 1991 and 1992. Minor amounts attributable to a voluntary salary reduction program for fiscal 1993, approved by the Board, are also included. These expenditures can be in the form of paid leave on a day-to-day basis, payment at the time of employee termination or retirement, or payment to an employee's estate in the event of death.

**(h) Health**

The State of Rhode Island offers one state paid health plan to each of its participating agencies, including the University. The premiums for these plans are divided among the sixteen participants based upon their number of lives (eligible employees). Thus, the University pays 100% for their health care costs and is required to budget for these costs based on the estimated number of lives. The costs are automatically deducted through the payroll system on a biweekly basis. Amounts paid by the University to the State for the 2004 and 2003 health premiums were \$24,667,151 and \$19,245,471, respectively.

**(i) 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 against the biweekly payrolls of all State agencies, including the University. The fringe benefit assessment rate for fiscal 2004 and 2003 was 3.8%. The assessed fringe benefit cost for the University was \$4,671,936 for fiscal year 2004 and \$4,577,302 for fiscal year 2003.

**(j) Students' Deposits and Unearned Revenues**

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 deferred revenues.

**(k) Student Fees**

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

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**(l) Tax Status**

The University is a component unit of the State of Rhode Island and Providence Plantations and is therefore generally exempt from income taxes under Section 115 of the Internal Revenue Code.

**(m) Use of Estimates**

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

**(n) Reclassifications**

Certain amounts as of June 30, 2003 have been reclassified to conform to the presentation as of June 30, 2004.

**(o) Risk Management**

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

The University is insured for general liability with policy limits of \$1 million per claim and \$3 million in the aggregate with a \$25,000 deductible. 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 contract. Such claims are insured under a separate policy for wrongful acts with limits of \$2 million per claim and \$2 million for the annual aggregate with a \$100,000 deductible. Crime coverage for University employees is carried with a limit of \$1 million and a deductible of \$100,000. The University also maintains an excess liability insurance policy with a limit of \$25 million.

Buildings and contents are insured against fire, theft, and natural disaster to the extent that losses exceed \$100,000 per incident and do not exceed \$500 million. A separate inland marine policy insures specifically listed high value property items covering but not limited to computer equipment, valuable papers, fine arts, contractors equipment and miscellaneous property at various limits of insurance and deductibles. The University also maintains separate property policies on both small and large boats. Both policies have a \$300,000 policy limit with a \$250 deductible.

All vehicles are owned by the State which insures them for liability through an outside carrier. The policy is a loss retrospective program where premiums can be adjusted for claims incurred. Worker's compensation, unemployment, and employee health and life insurance claims are self-insured and managed by the State.

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**(2) Cash, Cash Equivalents, and Investments**

*Cash and Cash Equivalents*

The following summary presents the amount of University deposits representing cash and cash equivalents that are fully insured or collateralized with securities held by the University or its agent in the University's name (Category 1), those deposits that are collateralized with securities held by the pledging financial institution's trust department or agent in the University's name (Category 2) and those deposits that are not collateralized (Category 3) at June 30:

2004					
	Category			Total bank balance	Carrying amount
	1	2	3		
\$	34,036,837	—	1,052,408	35,089,245	31,071,950
2003					
	Category			Total bank balance	Carrying amount
	1	2	3		
\$	31,658,428	—	430,403	32,088,831	27,310,004

In accordance with RI General Laws, Chapter 35-10.1, depository institutions holding deposits of the State, its agencies or governmental subdivisions of the State, shall at a minimum, insure or pledge eligible collateral equal to 100% of time deposits with maturities greater than sixty days. Any of these institutions which do not meet minimum capital standards prescribed by federal regulators will insure or pledge eligible collateral equal to 100% of deposits, regardless of maturities.

*Investments*

Foundation investments at March 31, 2004 and the Alumni Association investments at June 30, 2004 are reported at fair market value and are comprised of the following:

	Foundation	Alumni Association	Total
Government securities	\$ 14,820,249	—	14,820,249
Corporate bonds	4,227,849	953,207	5,181,056
Common stock	50,604,964	1,621,992	52,226,956
	\$ 69,653,062	2,575,199	72,228,261

**(3) Cash Held by State Treasurer**

Cash held by State Treasurer of \$1,671,767 and \$1,325,053 at June 30, 2004 and 2003, respectively, was subsequently used to pay accounts payable and accrued salaries.

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**(4) Accounts Receivable**

Accounts receivable include the following at June 30:

	<b>2004</b>	<b>2003</b>
Student accounts receivable	\$ 8,087,194	3,452,288
Grants receivable	5,540,097	3,054,909
Unbilled grants receivables	12,183,102	10,026,122
Other receivables	9,164,454	8,915,716
	34,974,847	25,449,035
Less allowance for doubtful accounts	(3,220,350)	(2,472,160)
	\$ 31,754,497	22,976,875

The University anticipates that all of its accounts receivable will be collected within a one-year time frame.

The Foundation's present value of pledges receivable as of March 31, 2004 has been calculated using an interest rate of 2% which approximates the federal reserve three-year treasury bill. The promised contributions are due as follows:

Within one year	\$ 4,660,284
One to five years	1,600,757
Five to ten years	100,000
	6,361,041
Less present value component	60,867
	\$ 6,300,174

The Foundation uses the allowance method to determine uncollectible, unconditional pledges receivable. The allowance is based upon prior years' experience and management's analysis of specific promises made. As of March 31, 2004, the Foundation had no allowance for uncollectible pledges receivable.

The Alumni Association pledge receivables, net of allowance of \$88,044, at June 30, 2004 were \$48,665.

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**(5) Loans Receivable**

Loans receivable include the following at June 30:

	<b>2004</b>	<b>2003</b>
Perkins loans receivable	\$ 8,250,664	8,876,236
Nursing loans receivable	1,013,706	978,652
Health profession loans receivable	1,321,218	1,428,462
Other	509,343	492,270
	11,094,931	11,775,620
Less allowance for doubtful accounts	(425,515)	(470,518)
	\$ 10,669,416	11,305,102

**(6) Capital Assets**

Capital assets consist of the following at June 30:

	<b>2004</b>					
	<b>Estimated lives (in years)</b>	<b>Beginning balance</b>	<b>Additions</b>	<b>Reductions</b>	<b>Reclassifi- cations</b>	<b>Ending balance</b>
Capital assets not being depreciated:						
Land	—	\$ 888,172	—	—	—	888,172
Construction in progress	—	11,492,329	5,393,663	—	(10,309,585)	6,576,407
Total not being depreciated		12,380,501	5,393,663	—	(10,309,585)	7,464,579
Capital assets being depreciated:						
Land improvements	15-25	31,216,410	1,448,008	—	—	32,664,418
Buildings, including improvements	10-50	291,778,036	6,073,292	—	10,309,585	308,160,913
Furnishings and equipment (including cost of capital leases)	5-15	54,820,502	4,261,646	(3,321,051)	—	55,761,097
Total being depreciated		377,814,948	11,782,946	(3,321,051)	10,309,585	396,586,428
Less accumulated depreciation:						
Land improvements		4,403,587	1,364,272	—	—	5,767,859
Building, including improvements		102,528,688	8,729,141	—	—	111,257,829
Furnishings and equipment		33,106,438	4,505,324	(3,194,422)	—	34,417,340
Total accumulated depreciation		140,038,713	14,598,737	(3,194,422)	—	151,443,028
Capital assets, net		\$ 250,156,736	2,577,872	(126,629)	—	252,607,979

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<b>2003</b>						
	<b>Estimated lives (in years)</b>	<b>Beginning balance</b>	<b>Additions</b>	<b>Reductions</b>	<b>Reclassifi- cations</b>	<b>Ending balance</b>
Capital assets not being depreciated:						
Land	—	\$ 888,172	—	—	—	888,172
Construction in progress	—	73,732,581	10,366,145	—	(72,606,397)	11,492,329
Total not being depreciated		<u>74,620,753</u>	<u>10,366,145</u>	<u>—</u>	<u>(72,606,397)</u>	<u>12,380,501</u>
Capital assets being depreciated:						
Land improvements	15-25	24,482,956	6,733,454	—	—	31,216,410
Buildings, including improvements	10-50	207,484,813	11,686,826	—	72,606,397	291,778,036
Furnishings and equipment (including cost of capital leases)	5-15	49,744,663	7,119,751	(2,043,912)	—	54,820,502
Total being depreciated		<u>281,712,432</u>	<u>25,540,031</u>	<u>(2,043,912)</u>	<u>72,606,397</u>	<u>377,814,948</u>
Less accumulated depreciation:						
Land improvements		3,204,300	1,199,287	—	—	4,403,587
Building, including improvements		95,302,923	7,225,765	—	—	102,528,688
Furnishings and equipment		30,507,550	3,698,033	(1,099,145)	—	33,106,438
Total accumulated depreciation		<u>129,014,773</u>	<u>12,123,085</u>	<u>(1,099,145)</u>	<u>—</u>	<u>140,038,713</u>
Capital assets, net		<u>\$ 227,318,412</u>	<u>23,783,091</u>	<u>(944,767)</u>	<u>—</u>	<u>250,156,736</u>

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**(7) Long-Term Liabilities**

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

	<b>2004</b>				
	<u>Beginning balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending balance</u>	<u>Current portion</u>
Leases and bonds payable:					
Lease obligations	\$ 16,247,167	1,187,844	1,272,972	16,162,039	1,150,355
Revenue bonds payable	96,348,233	20,605,364	20,001,442	96,952,155	1,185,107
Loans payable	251,341	200,000	134,013	317,328	73,844
Total leases and bonds payable	112,846,741	21,993,208	21,408,427	113,431,522	2,409,306
Other long-term liabilities:					
Compensated absences	16,637,865	741,095	1,000,468	16,378,492	734,217
Total long-term liabilities	<u>\$ 129,484,606</u>	<u>22,734,303</u>	<u>22,408,895</u>	<u>129,810,014</u>	<u>3,143,523</u>
	<b>2003</b>				
	<u>Beginning balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending balance</u>	<u>Current portion</u>
Leases and bonds payable:					
Lease obligations	\$ 16,012,898	1,089,989	855,720	16,247,167	1,081,903
Revenue bonds payable	86,321,880	11,075,000	1,048,647	96,348,233	1,093,907
Loans payable	795,944	—	544,603	251,341	50,268
Total leases and bonds payable	103,130,722	12,164,989	2,448,970	112,846,741	2,226,078
Other long-term liabilities:					
Compensated absences	15,675,575	1,798,563	836,273	16,637,865	700,457
Total long-term liabilities	<u>\$ 118,806,297</u>	<u>13,963,552</u>	<u>3,285,243</u>	<u>129,484,606</u>	<u>2,926,535</u>

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***Bonds Payable***

The revenue bonds payable totaling \$96,952,155 and \$96,348,233 as of June 30, 2004 and 2003, respectively, consist of the following:

	<b>2004</b>	<b>2003</b>
Revenue Bonds payable to U.S. Government:		
1972 Graduate Housing Revenue Bonds, 5.75%, due semiannually through 2007	\$ 485,000	590,000
Rhode Island Health and Education Building Corporation:		
1993 Series A Facility Revenue and Refunding Bonds - Auxiliary Enterprise Revenue, 4.375% to 5.560%, due semiannually through 2023. The bonds were paid off in fiscal 2004 from the proceeds of the Series 2003 B issue.	—	12,220,050
1993 Series B Facility Revenue and Refunding Bonds - Various Purpose Educational Facilities, 4.60% to 5.50%, due semiannually through 2008	556,791	7,733,183
1997 Series Higher Education Revenue Bonds - University of Rhode Island Issue, 4% to 5.31%, due semiannually through 2015	1,835,000	1,890,000
Series 1999 A University of Rhode Island Auxiliary Enterprise Revenue Issue, 4.75% to 5.50%, due semiannually through 2030	18,745,000	19,085,000
Series 1999 B University of Rhode Island Educational and General Issue, 4.75% to 5.625%, due semiannually through 2030	3,565,000	3,630,000
Series 2000 B University of Rhode Island Educational and General Issue, 4.50% to 5.70%, due semiannually through 2031	40,085,000	40,125,000
Series 2002 University of Rhode Island Educational and General Revenue Issue, 3% to 4.40%, due semiannually through 2016	7,975,000	7,975,000
Series 2003 A University of Rhode Island Educational and General Revenue Issue, 2% to 3.125%, due semiannually through 2014	3,100,000	3,100,000
Series 2003 B Facility Revenue Refunding Bonds, Auxiliary Enterprise Revenue Issue, 2% to 5%, due semiannually through 2023	13,013,108	—
Series 2003 C Facility Revenue Refunding Bonds, Educational and General Revenue Issue, 2% to 5%, due semiannually through 2023	7,592,256	—
	\$ 96,952,155	96,348,233

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The 1972 Graduate Housing Revenue Bond was issued under trust indentures and is collateralized by a pledge of revenues from the facilities financed. The facilities include University housing, dining and student union operations. Under the terms of the trust indentures, certain net revenues from the pledged facilities must be transferred to the trustees for payment of interest, retirement of bonds and maintenance of facilities.

In July 1993, Rhode Island Health and Education Building Corporation (the Corporation) issued the Facility Revenue and Refunding Bonds comprised of the \$21,410,000 Auxiliary Enterprise Revenue Issue – Series 1993 A and the \$14,281,069 Various Purpose Educational Facilities Issue – Series 1993 B. The proceeds from both issues were used to defease outstanding obligations of the University, Rhode Island College (RIC) and the Community College of Rhode Island (CCRI) relative to previous Series A and B issues of 1990 and 1992, respectively.

Certain of the proceeds were deposited with an Escrow Trustee pursuant to two separate escrow agreements with the Corporation and the Board of Governors for Higher Education (the Board) solely for the payment of prior bonds. As such, neither the assets on deposit with the Escrow Trustee nor the bonds defeased are included in the accompanying statement of net assets. During fiscal 2003, the funds on deposit with the Escrow Trustee were used to liquidate in full the unpaid balance of prior bonds. The 1993 proceeds were also used to fund the acquisition of library capital, to fund various capital renovations to existing buildings at the three institutions, to fund the cost of a surety bond, to fund a debt service reserve fund, and to pay certain expenses incurred in connection with the issuance of the bonds.

On August 14, 1997, the Corporation authorized the \$2,125,000 University of Rhode Island Issue, Series 1997 (the Series 1997 Bonds). The proceeds of the Series 1997 Bonds, including accrued interest to the date of delivery, were used to fund: 1) the construction of an addition to the University's Social Science Center and the completion of renovations to the University's Multicultural Center; 2) the cost of a surety bond and the debt service reserve fund for the Series 1997 Bonds; and 3) to pay certain expenses incurred in connection with the issuance of the bonds.

The Series 1997 Bonds are payable from and secured by a lien on: 1) loan payments paid to the trustee for the account of the Corporation by the Board in accordance with the provisions of the Series 1997 Agreement; 2) all legally available revenues of the Board of Governors derived from the University, and State appropriations for the University except auxiliary enterprise revenues; and 3) moneys in the debt service reserve fund for the Series 1997 Bonds.

In October 1999, the Corporation issued two series of bonds to finance projects at the University of Rhode Island only.

The Series 1999 A Bonds (\$20,000,000) were authorized by the Loan and Trust Agreement dated as of September 15, 1999 between the Corporations, the Board, acting on behalf of the University, and State Street Bank and Trust Company, as trustee (the Trustee). The Series 1999 A Bonds are payable solely from: 1) the loans payments paid to the Trustee for the account of the Corporation in the amounts equal to the principal and interest on the Series 1999 A Bonds; 2) all auxiliary enterprise revenues derived from the University; and 3) moneys in the debt service reserve fund for the Series 1999 A Bonds.

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The Series 1999 A Bonds were issued as alternate parity debt, secured on a parity with a portion of the revenues, securing the Corporation's \$21,410,000 Higher Education Facility Revenue and Refunding Bonds, Board of Governors for Higher Education – Auxiliary Enterprise Revenue Issue – 1993 Series A as authorized by the Loan and Trust Agreement dated as of July 1, 1993 between the Corporation and the Board acting on behalf of the State Colleges.

The Series 1999 B Bonds (\$3,800,000) were authorized pursuant to the First Amendment to the Loan and Trust Agreement dated as of September 15, 1999 amending and supplementing the Loan and Trust Agreement dated as of September 1, 1997 between the Corporation, the Board of Governors, acting on behalf of the University, and the Trustee. The Series 1999 B Bonds are payable solely from: 1) the loan payments paid to the Trustee for the account of the Corporation in amounts equal to the principal of and interest on the Series 1999 B Bonds; 2) all legally available revenues of the Board of Governors derived from the University and appropriations of the State of Rhode Island for the University, except auxiliary enterprise revenues; and 3) money in the debt service reserve fund for the Series 1999 B Bonds.

The Series 1999 B Bonds were issued as Additional Bonds as permitted by the 1997 Agreement and are secured on a parity with the Corporation's \$2,125,000 Higher Education Facility Revenue Bonds University of Rhode Island Issue – Series 1997 issued under the 1997 Agreement.

The proceeds of the Series 1999 A Bonds were used to: 1) fund renovations and improvements to the University's residence halls and surrounding landscaping on the Kingston Campus; 2) purchase a debt service reserve fund surety bond for the Series 1999 A Bonds; and 3) to pay certain expenses incurred in connection with issuance of the Series 1999 A Bonds. The proceeds of the Series 1999 B Bonds were used to: 1) purchase buildings on the University's Kingston Campus for general administrative use, and the reconstruction of paved surfaces on the Kingston Campus including roads, walkways, and parking lots; 2) purchase a debt service reserve fund surety bond for the Series 1999 B Bonds; and 3) pay certain expenses incurred in connection with issuance of the Series 1999 B Bonds.

The 1999 Bonds and any additional bonds issued under the 1999 Agreement are special limited obligations of the Board acting on behalf of the University.

In November 2000, the Board completed a second amendment to the Loan and Trust Agreement dated as of September 1, 1997 authorizing the issuance of the Series 2000 A and Series 2000 B Bonds. The Series 2000A bonds were issued for the benefit of RIC and, therefore, are not included in the accompanying statement of net assets. The proceeds of Series 2000 B Bonds (\$40,160,000) were utilized to finance certain capital improvements at the University consisting of: (1) the design, construction, furnishings and equipping of (a) an Athletic Complex Convocation Center, (b) an Athletic Complex Ice Rink Facility and (c) a modular building and (2) to pay certain expenses incurred in connection with the issuance of the bonds.

In November 2002, the Corporation issued the Series 2002 Bonds. The proceeds of these bonds are being used to finance: 1) the construction and equipping of: A) 1,000 parking spaces; and B) a controlled parking lot system providing additional transit shelters; 2) parking meters and improved shuttle service; and 3) to pay certain costs of issuance of the bonds. Also, certain of the proceeds were deposited in a capitalized interest fund to finance the interest due until 2005.

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Both the Series 2000 B Bonds and the Series 2002 Bonds are special limited obligations of the Corporation, and they are secured by the pledge of revenues of the Board derived from the University, and State appropriation for the University, except auxiliary enterprise revenues.

On May 1, 2003, the Corporation issued the Series 2003 A Bonds as additional bonds as permitted by the 1997 Agreement. These bonds are also secured on parity with the Corporation's Series 1997, Series 1999 B, Series 2000 B, and Series 2002 Bonds. The proceeds of the Series 2003 A Bonds are being used to finance the construction, equipping and furnishing of the Alumni Center and to pay certain costs of issuance of the bonds. The Alumni Center will provide meeting and reception space as well as office suites for staff members serving the University of Rhode Island Alumni Association and the Division of University Advancement.

On July 17, 2003, the Rhode Island Higher Education Building Corporation issued Auxiliary Enterprise Revenue Issue, Series 2003 B Bonds, par amount \$20,785,000 and Educational and General Revenue Issue, Series 2003 C Bonds, par amount \$13,165,000. The proceeds of these bonds were used to defease the outstanding obligations of the University, RIC and CCRI relative to the previous Series A and Series B issues of 1993 and to finance the cost of debt issuance. The bonds are collateralized by the revenues of the auxiliaries operated under the authority of the Board of Governors.

The aforementioned bond agreements provide various restrictive covenants. The University was in compliance with such covenants at June 30, 2004 and 2003.

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

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Year ending June 30:			
2005	\$ 1,185,107	4,883,088	6,068,195
2006	2,675,988	4,827,020	7,503,008
2007	2,758,860	4,743,049	7,501,909
2008	2,847,247	4,656,155	7,503,402
2009	2,968,572	4,404,967	7,373,539
2010-2014	16,782,334	20,074,101	36,856,435
2015-2019	18,773,299	15,994,811	34,768,110
2020-2024	23,633,511	10,451,549	34,085,060
2025-2029	17,950,000	4,729,574	22,679,574
2030-2033	7,377,237	524,971	7,902,208
	<u>\$ 96,952,155</u>	<u>75,289,285</u>	<u>172,241,440</u>

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***Loans Payable***

On May 26, 2001, the University obtained a loan from the Rhode Island State Energy Office (RISEO) Revolving Loan Fund for \$251,341 to finance the installation of energy conservation measurers in various buildings operated by the University. The loan is payable in five equal installments of \$50,268 commencing August 15, 2003 through August 15, 2007. The University also agrees to pay RISEO the sum of \$25,134, a one-time administrative fee, in five equal payments of \$5,026, also commencing August 15, 2003 through August 15, 2007.

All loan and administrative fee payments due from the University to RISEO are contingent upon the appropriation of funds by the State of Rhode Island General Assembly.

The University also obtained a \$200,000 loan from the University of Rhode Island Foundation to finance certain renovations to conference and camping facilities located at the W. Alton Jones Campus. The loan bears 6.5% interest, and the principal and interest payable semiannually through fiscal 2010 amount to \$34,400.

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

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Year ending June 30:			
2005	\$ 73,844	10,824	84,668
2006	75,377	9,291	84,668
2007	77,009	7,659	84,668
2008	28,479	5,921	34,400
2009	30,330	4,070	34,400
2010	32,289	2,111	34,400
	<u>\$ 317,328</u>	<u>39,876</u>	<u>357,204</u>

***Lease Obligations***

On April 15, 1988, the University entered into a lease-purchase agreement with a related party, the University of Rhode Island Foundation (the Foundation). Under the terms of the agreement, the Foundation provided funding for the construction of a building to house the fisheries program on the University's East Farm site, which, upon completion, would be leased by the University over a period of 180 months. The agreement also provides the University with an option to purchase the building at the end of the lease term for \$1. The building was completed in December 1989, at which time the 180 month lease term began. The University accounted for this lease as a capital lease and recorded the building at \$478,344, the present value of minimum lease payments.

Additionally, on May 9, 2000, the Foundation and the Board, acting on behalf of the University, entered into a lease/purchase agreement for the lease to the Board of the property and structure referred to as "the premises" located at 177 Plains Road, South Kingstown, Rhode Island.

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The Foundation provided the funding for the acquisition of the premises. Under the terms of the agreement, the Board shall pay all the costs associated with the renovation of the premises beyond the acquisition cost. The monthly lease payment of \$4,504 shall be payable on the first day of each month commencing on July 1, 2000. Such lease payments shall be that amount which would be necessary to amortize the aggregate amounts therefore paid by the Foundation for the acquisition of the premises over a term of 60 (sixty) months with interest at a rate of 10% per annum. As provided in the purchase option of the agreement, the Board has the right to purchase said property for the sum of one dollar (\$1) following the date of full payment of the aggregate lease payments.

The University accounted for the above lease as a capital lease and recorded the property and structure at \$212,000, the present value of the minimum lease payments.

On May 21, 1998, the Board and the University (individually and collectively called University) entered into a Development and a Steam Service Agreement with ERI Services, Inc., the Seller, a Delaware corporation. Under this agreement, the Seller is required to deliver and the University is required to purchase certain quantities of acceptable steam required by the University in connection with its operation. The Seller's commitment for steam service to the University is for a duration of twenty years from the initial delivery date, which corresponds to the completion of the construction of the new steam plant.

The Seller assumed the construction costs of this facility, which is located on the University's property. In addition, the Seller is responsible for the costs of operating this facility and for making such additional repairs to the steam/condensate distribution system as directed by the University at a cost of up to \$1.5 million.

The Seller is required to supply the University with 320,000,000 pounds of steam annually until 2019. If the Seller is unable to supply this requirement, the University may purchase steam in excess of that produced by the Seller from any other source. Additionally, the Seller cannot sell steam produced at the facility to any party other than the University without prior consent from the University. Each year, the actual consumption of steam is recorded and a year-end adjustment is effectuated to assure that all operation and maintenance costs are addressed.

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

On May 15, 1999, the Rhode Island Economic Development Corporation (EDC) issued the \$16,395,000 Rhode Island Economic Development Corporation Revenue Bonds (University of Rhode Island Steam Facility Project) Series 1999 and made the proceeds available to ERI to fund the construction of the steam plant. On June 3, 1999, the University, ERI, EDC, and the Chase Manhattan Bank, as Trustee, entered into a Consent, Amendment, and Assignment Agreement to ensure the continued payment of the capacity charge. The agreement requires the University to include in each annual budget a specific line item request for the capacity charge. This includes a specific reference to the capacity charge as the source of payment of the debt service on the Rhode Island Economic Development Corporation Revenue Bonds (University

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Notes to Financial Statements

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of Rhode Island Steam Facility Project) Series 1999. Also during the term of the Indenture Agreement covering this bond issue, the University is obligated to make payments of the capacity charge directly to the Trustee.

The construction of the facility was completed in November 1999, and the University owns the facility throughout the term of the Steam Agreement and thereafter.

The University accounted for the amounts due under the above steam agreement as a capital lease and recorded the steam plant at \$16,395,000, the present value of the minimum lease payments.

On September 6, 2001, the University, by and through the Board of Governors for Higher Education, entered into a lease-purchase agreement with Phi Sigma Kappa Alumni Housing Corporation of Rhode Island, Inc. (the Alumni Corporation) for a fraternity house. The lease covers a period of ten years commencing on April 1, 2002 and ending on March 31, 2012. Under the terms of the agreement, the University shall pay the Alumni Corporation \$150,600 in two equal installments of \$75,300 on April 1 and October 1 of each year. At any time after the expiration of one year, the University has the sole and exclusive right to acquire the title and ownership of the fraternity house from the Alumni Corporation. The University accounted for this lease as a capital lease and recorded the fraternity house at \$1,187,844, the present value of the minimum lease payments.

The University also entered into a lease-purchase agreement with Pioneer Standard Electronics (the vendor) for an IBM P690 processor. Under the terms of agreement, the vendor is authorized to assign its rights to payments, which commence on August 1, 2003 until August 1, 2007 or for five years, the estimated life of the processor. The agreement also provides the University with an option to purchase the processor at the end of the lease term for \$1. The vendor delivered the processor on December 22, 2002, and the University accounted for this lease as a capital lease and recorded the processor at \$781,246, the present value of minimum lease payments.

The following schedule summarizes future minimum payments under noncancelable leases at June 30, 2004:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Year ending June 30:			
2005	\$ 1,150,355	741,325	1,891,680
2006	1,028,648	691,425	1,720,073
2007	957,896	650,250	1,608,146
2008	987,340	609,229	1,596,569
2009	861,299	566,086	1,427,385
2010-2014	4,611,501	2,186,613	6,798,114
2015-2019	5,335,000	978,146	6,313,146
2020-2021	1,230,000	25,625	1,255,625
	<u>\$ 16,162,039</u>	<u>6,448,699</u>	<u>22,610,738</u>

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**(8) Grant Refundable**

The University participates in the Federal Perkins Loan, Nursing Loan, and Health Profession Loan Programs. These programs are funded through a combination of Federal and Institutional resources. The portion of these programs that has been funded with Federal funds is ultimately refundable to the U.S. government upon the termination of the University's participation in the programs.

**(9) Restricted Net Assets**

The University is the recipient of funds that are subject to various external constraints upon their use, either as to purpose or time. These funds are comprised of the following:

	<b>2004</b>	<b>2003</b>
Restricted – expendable:		
Loans	\$ 2,967,091	2,770,459
Capital programs	9,887,564	12,244,953
Debt service	756,942	3,257,283
Sponsored research	173,070	53,588
	\$ 13,784,667	18,326,283

**(10) Unrestricted Net Assets**

The University's unrestricted net assets at June 30 were internally designated for goods and services that have not yet been received and normal working capital balances maintained for departmental activities.

**(11) Contingencies**

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

At June 30, 2004 and 2003, the University is a guarantor of loans to fraternities and sororities in the amount of \$576,032 and \$582,282, respectively.

The University also guarantees the payments due under the Equipment Lease Agreement dated December 23, 2002, between the University of Rhode Island Foundation and the Utah State University in connection with the lease of certain high technology equipment. At June 30, 2004, the payments due under such an agreement totaled \$200,000.

The University receives significant financial assistance from federal and state agencies in the form of grants. Expenditures of funds under these programs require compliance with the grant agreements and are subject to audit. Any disallowed expenditures resulting from such audits become a liability of the University. In the opinion of management such adjustments, if any, are not expected to materially affect the financial condition of the University.

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The University, along with RIC and CCRI, is undergoing a technology modernization of core administrative systems. While the University and RIC are implementing PeopleSoft administrative systems, CCRI is implementing Banner/SCT administrative systems. The University's PeopleSoft procurement effort was effectuated systemwide through the Office of Higher Education and is being financed over a seven-year period beginning in fiscal year 2000 at a total cost of approximately \$8.5 million, of which the University's share is approximately \$3.7 million.

**(12) Operating Expenses**

The University's operating expenses, on a natural classification basis, are comprised of the following:

	<u>2004</u>	<u>2003</u>
Compensation and benefits	\$ 212,741,962	211,121,047
Supplies and services	80,937,291	76,916,961
Depreciation and amortization	14,598,737	12,123,084
Scholarships and fellowships	13,006,488	10,393,676
	<u>\$ 321,284,478</u>	<u>310,554,768</u>

**(13) State Appropriation**

*(a) Direct Appropriations*

Pursuant to the Rhode Island General Law 16-59-9, the legislature-enacted budget reflects the budget passed by the General Assembly and signed by the Governor as well as any reappropriations made by the Governor for the 2004 fiscal year. Once the State budget is established, the Board approves the allocation of the State appropriation to the University, RIC, CCRI, and the Office of Higher Education. The Board also approves the unrestricted and restricted original allocations for the fiscal year.

The original and supplemental appropriations are acted upon by a vote of the Board. As part of the University's annual budget allocation process for general funds, the Board allocates specific amounts in the budget which are internally allocated for the following categories: (1) salaries and wages; (2) operating expenditures; and (3) outlays for personnel costs, utilities, out-of-state travel, repairs, capital, and student aid, as well as the overall total budget allocation. Any increases or decreases in the specific allocations, including any transfers among those line items not specifically allocated are reported to the Board for its approval at the mid-year financial review at which time the final allocation is authorized.

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**(b) State Capital Plan Funds**

The Rhode Island Capital Plan Fund was modeled on a financial technique originating in the State of Delaware. Each year the State reserves 2% of its general revenues to fund a Budget Reserve and Cash Stabilization Fund. This process continues annually until the fund reaches 3% of total resources. Once that point is achieved, excess revenues are transferred to a Capital Plan Fund. This Capital Fund is used for capital expenditures and for debt reduction. The technique is a “pay-as-you-go” process that avoids increasing the state’s debt burden. Higher education has received off-budget allocations through this program since fiscal 1995.

During fiscal years 2004 and 2003, the State allocated \$4.57 million and \$5.36 million, respectively, to the University for asset protection. The State also allocated \$3.2 million and \$6.8 million, respectively, for the construction of the Thomas Ryan Center and Boss Athletic Complex in fiscal 2003.

**(c) State Contributed Capital**

In November 1996, the Rhode Island voters approved the issuance of \$33.8 million General Obligation Bonds for higher education facilities. The bonds provided the University with \$9.8 million for the renovations of Ballentine, Green and Ranger halls, \$9.5 million to RIC for the construction of a performing arts classroom facility, and \$14.5 million to CCRI for the construction of a five-level addition to its Knight Campus megastructure. From the proceeds of these general obligation bond issues, the University spent \$0.27 and \$3.12 on the renovations of the three buildings at its Kingston Campus during fiscal years 2004 and 2003, respectively.

In November 2000, the Rhode Island voters approved the issuance of \$36.95 million General Obligation Bonds to fund improvements to the University, RIC, and CCRI. The bonds provide funding until 2008 with \$22 million to fund the major renovations and upgrades of student residence halls and surrounding landscape at the University, \$4.01 million to fund the renovations and upgrades of student residence halls and surrounding landscape at RIC, and \$10.94 million to fund the construction of a building for the Newport campus of CCRI. During fiscal years 2004 and 2003, the University spent \$1.84 million and \$9.06 million, respectively.

The expenditures funded from the proceeds of the above-mentioned general obligation bonds and capitalized during fiscal years 2004 and 2003 totaled \$3,556,877 and \$13,249,020, respectively.

The University’s State appropriation is composed of the following at June 30:

	<b>2004</b>	<b>2003</b>
Direct appropriations	\$ 83,073,837	81,989,847
State Capital Plan Funds	4,566,000	9,382,037
State contributed capital	2,112,229	13,249,020
	\$ 89,752,066	104,620,904

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**(14) Pension, Early, and Post-Retirement Plans**

Certain employees of the University, RIC, CCRI, and the Office of Higher Education (principally faculty and administrative personnel) are covered by individual annuity contracts with the Teachers' Insurance and Annuity Association (TIAA), Variable Annuity Life Insurance Company (VALIC), and Metropolitan Life Insurance Company (Metlife). Total expenditures by the University for such 403(b) annuity contracts amounted to \$7,621,124 and \$7,453,537 during 2004 and 2003, respectively. On June 21, 1999 the Board of Governors for Higher Education established a revised plan for post-retirement health care insurance coverage for such employees. The plan is identical to that available to civil service personnel. All current and future covered employees are subject to a mandatory payroll deduction of 0.25%. Under the cost sharing formula indicated below, the total contributions of the three institutions' employees, including those of the Office of Higher Education amounted to \$340,594 and \$674,044 during 2004 and 2003, respectively. This amount was credited to a University account and is shown as a deposit held in custody for others, consistent with the arrangement made with the Office of Higher Education.

<b>Pre-65 Medical coverage</b>			
<b>Years of service</b>	<b>Age at retirement</b>	<b>Employer's share</b>	<b>Employee's share</b>
10-15	60	50%	50%
16-22	60	70%	30%
23-27	60	80%	20%
28+	Any	90%	10%
28+	60	100%	0%
35+	Any	100%	0%
<b>Post-65 Medicare supplemental coverage</b>			
<b>Years of service</b>		<b>Employer's share</b>	<b>Employee's share</b>
10-15		50%	50%
16-19		70%	30%
20-27		90%	10%
28+		100%	0%

Other employees of the University (principally civil service personnel) participate in the Employees' Retirement System of the State of Rhode Island (System), a multiple-employer, cost-sharing, public employee retirement system. The plan provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. The level of benefits provided to state employees is established by Chapter 36-10 of the General Laws which is subject to amendment by the general assembly. The System 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, 40 Fountain Street, Providence, RI 02903. The payroll expense of University employees covered by the system was \$33,352,320 and \$32,457,762 for the years ended June 30, 2004 and 2003, respectively. The University's total payroll expense for the years ended June 30, 2004 and 2003 was \$160,868,787 and \$165,769,386, respectively.

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All full-time employees of the University who are not covered by 403(b) annuity contracts are eligible to participate in the System. Employees who retire at or after age 60 with 10 years of credited service, or at any age with 28 years of credited service, are entitled to a retirement benefit. Benefits are equal to various percentages of annual earnings, ranging from 1.7% to 3.0% for each of the first 35 years of service, to a maximum benefit of 80.0% of final average salary after 35 years of service. Final average salary is the three highest consecutive years of earned salary excluding overtime, bonuses, or severance pay. The System also provides certain death and disability benefits. Benefits are established by State statutes.

Employer and employee required contributions to the System are established by the State of Rhode Island and are based on percentages established by the State of Rhode Island and are based on percentages of covered employees' gross salaries, which are calculated annually by the fund's actuaries. Covered employees in the System were required to contribute 8.75% of salaries paid while the University was required to pay 9.60% and 7.68% of salaries paid for the years ending June 30, 2004 and 2003, respectively. In addition, the University is required to contribute 1.30% and 1.17% in 2004 and 2003, respectively, for post-retirement health benefits. Employees contributed \$2,918,328 and \$2,840,000, respectively, and the University's contribution to the System for the years ended June 30, 2004, 2003, and 2002 were \$3,653,403, \$2,927,000, and \$2,212,000, respectively, representing 100% of the required contribution for each of the three years.

Employees covered by the Board of Governors retiree medical plan contributed 0.25% of their gross salaries, or approximately \$341,000 and \$337,000 during fiscal years 2004 and 2003.

**(15) Joint Venture**

Municipal joint ventures pool resources to share the costs, risks, and rewards of providing services to their participants, the general public, or others. The University, in coordination with the Town of South Kingstown and the Town of Narragansett, share in the maintenance costs of the regional waste water system, which was constructed during the late 1970's. Each is responsible for its share of the net capital and administrative costs of the project. The University's fiscal 2004 and 2003 share of capital expenditures amounted to \$27,691 and \$16,292, respectively.

In addition to capital costs, the University is responsible for its proportionate share of the total operating costs of the regional waste water system. Its share of the operating costs shall be in proportion to its share of the total flow into the common facilities as determined by metering devices and a predetermined percentage of operating costs of certain other facilities. The University's share of operating costs amounted to \$286,554 and \$408,315 in 2004 and 2003, respectively. Financial information may be obtained at the Town of South Kingstown, 180 High Street, Wakefield, Rhode Island 02879.

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**(16) Pass Through Grants**

The University distributed \$43,244,428 and \$40,169,094 during fiscal 2004 and 2003, respectively, for student loans through the U.S. Department of Education federal direct lending program. These distributions and related funding sources are not included as expenses and revenues or as cash disbursements and cash receipts in the accompanying financial statements.

**(17) Subsequent Event**

In July 2004, the Rhode Island General Assembly amended Rhode Island General Law 16-59-9 – Educational Budget and Appropriations, transferring the power to allocate budgets to institutions of public higher education from the Board of Higher Education to the General Assembly.



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**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***

Board of Governors for Higher Education  
State of Rhode Island and Providence Plantations:

We have audited the financial statements of the University of Rhode Island (a component unit of the State of Rhode Island and Providence Plantations) (the University) and its discretely presented component units, where applicable, as of and for the years ended June 30, 2004 and 2003, and based on our audits and the reports of other auditors, have issued our report thereon dated September 24, 2004. Our report refers to the University's adoption, effective July 1, 2003, of Statement No. 39 of the Governmental Accounting Standards Board (GASB), *Determining Whether Certain Organizations are Component Units (an amendment of GASB Statement 14)*. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

In planning and performing our audits, we considered the University's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the University's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters, 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*.

This report is intended for the information of management, the Board of Governors for Higher Education and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

September 24, 2004