

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

FINANCIAL STATEMENTS

JUNE 30, 2014

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

Financial Statements

June 30, 2014 and 2013

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INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of Rhode Island College (a component unit of the State of Rhode Island and Providence Plantations) (the "College") which comprise the statements of net position as of and for the years ended June 30, 2014 and 2013, and the related statements of revenues, expenses and changes in net position and cash flows for the years then ended, and the related notes to the financial statements, which collectively comprise the College's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We did not audit the financial statements of Rhode Island College Foundation (the "Foundation") as of June 30, 2014 and 2013 as discussed in Note 1. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Foundation, is based solely upon the report of the other auditors. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of Rhode Island College as of June 30, 2014 and 2013, and the changes in net position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1 to the financial statements, GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, is effective for fiscal 2015 and will require the College to restate beginning net position at July 1, 2014 to recognize its proportionate share of the net pension obligation determined for the State Employee's Retirement Plan. Our opinion is not modified with respect to that matter.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that management's discussion and analysis on pages 3-20 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 30, 2014, on our consideration of Rhode Island College's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Rhode Island College's internal control over financial reporting and compliance.

O'Connor and Drew, PC

Certified Public Accountants

Braintree, Massachusetts

September 30, 2014

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

Management's Discussion and Analysis (Unaudited)

June 30, 2014 and 2013

Introduction

The following management discussion and analysis (MD&A) provides management's view of the financial position of Rhode Island College (RIC) as of June 30, 2014 and the results of operations for the year then ended, with selected comparative information for the years ended June 30, 2014 and 2013. The purpose of the MD&A is to assist readers in understanding the accompanying financial statements by providing an objective and understandable analysis of RIC'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 this information (which consists of highly summarized information and should be read in conjunction with RIC's financial statements and notes thereto that follow this section).

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

RIC was established in 1854 as the Rhode Island Normal School, focusing on teacher education. Due to diminished state support, RIC was closed for a period between 1865 and 1869, when it reopened as the Rhode Island State Normal School. In 1920, the Normal School became the Rhode Island College of Education, offering a four-year program leading to the degree of Bachelor of Education. The graduate program originated in the early 1920s. During the 1958-59 academic year, RIC was relocated from the downtown location to its current 180-acre campus on the border of Providence and North Providence. In 1959, the mission of RIC was expanded to that of a general, comprehensive college. In 1960, the name of the institution was changed to Rhode Island College to reflect its expanded mission. RIC now serves approximately 9,000 students in a variety of courses and programs both on and off campus.

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Management's Discussion and Analysis (Unaudited) - Continued

June 30, 2014 and 2013

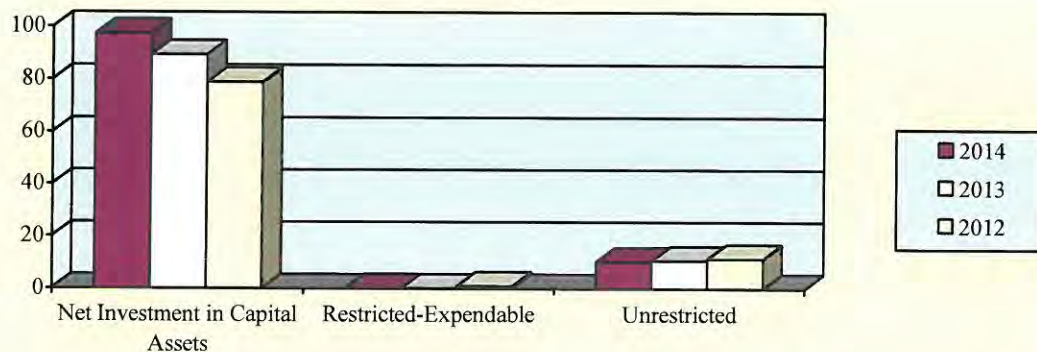
Introduction - Continued

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

Financial Highlights

RIC's financial position remained strong as of June 30, 2014. At June 30, 2014, RIC's assets of \$163.0 million exceeded its liabilities of \$55.0 million by \$108.0 million, an increase over the prior year of \$8.0 million. At June 30, 2013, RIC's assets of \$157.0 million exceeded its liabilities of \$57.0 million by \$100.0 million, an increase over the prior year of \$8.6 million.

The resulting net assets are summarized into the following categories (in \$ millions) for the fiscal years ended June 30, 2014, 2013 and 2012:



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

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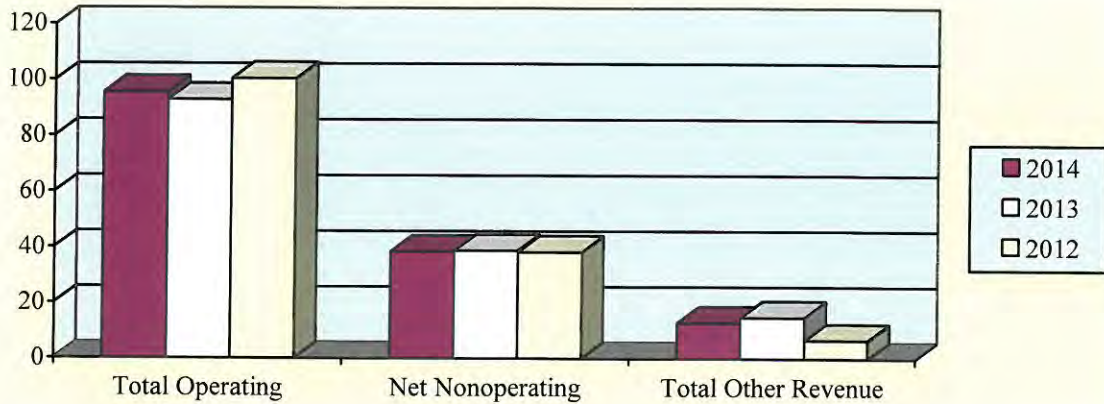
Management’s Discussion and Analysis (Unaudited) - Continued

June 30, 2014 and 2013

Financial Highlights - Continued

For fiscal year 2014 operating revenues increased by 2.9%, or \$2.7 million. Operating expenses increased by 1.0%, or \$1.3 million. For fiscal year 2013 operating revenues decreased by 7.6%, or \$7.6 million. Expenses increased by 2.2%, or \$3.0 million.

The following chart provides a graphical breakdown of total revenues (in \$ millions) by category for the fiscal years ending June 30, 2014, 2013 and 2012:



Cash flow continued to be adequate for operations with a cash balance of \$20.3 million at June 30, 2014 and \$20.6 million at June 30, 2013, a decrease of \$.3 million from the previous year.

Overview of the Financial Statements

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

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

June 30, 2014 and 2013

Overview of the Financial Statements - Continued

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

Management's Discussion and Analysis is required to focus on RIC, not its component unit.

The Financial Statements

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

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

The *Statements of Revenues and Expenses and Changes in Net Position* shows how RIC's net position changed during the most recent fiscal year. This statement reports total operating revenues and expenses, nonoperating revenues and expenses, and capital additions and deletions. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will result in cash flows only in future fiscal periods (e.g. the payment for accrued compensated absences, or the receipt of amounts due from students and others for services rendered).

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

June 30, 2014 and 2013

The Financial Statements - Continued

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 21 to 24 of this report.

RIC reports its operations as a business-type activity using the economic measurement focus and full accrual basis of accounting. RIC is a component unit of the State of Rhode Island and Providence Plantations. Therefore, the results of RIC's operations, its net assets and its cash flows are also summarized in the State's Comprehensive Annual Financial Report in 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 RIC 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 25 to 52 of this report.

RHODE ISLAND COLLEGE

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Management's Discussion and Analysis (Unaudited) - Continued

June 30, 2014 and 2013

Financial Analysis

As noted earlier, difference between total assets and total liabilities may serve over time as a useful indicator of RIC's financial position. In the case of RIC, assets exceeded liabilities by \$107.9 million at the close of fiscal year 2014 and assets exceeded liabilities by \$100.0 million at the close of fiscal year 2013, an increase of \$7.9 million over fiscal year 2013, as shown in the chart below:

Condensed Statement of Net Assets

(Dollars in millions)

	2014	2013	2012
Assets:			
Current assets	\$ 27.1	\$ 27.6	\$ 29.7
Noncurrent assets	135.9	129.4	122.3
Total assets	\$ 163.0	\$ 157.0	\$ 152.0
Liabilities:			
Current liabilities	\$ 17.1	\$ 17.2	\$ 19.1
Noncurrent liabilities	38.0	39.8	41.5
Total liabilities	\$ 55.1	\$ 57.0	\$ 60.6
Net position:			
Net investment in capital assets	\$ 97.4	\$ 89.2	\$ 78.9
Restricted:			
Expendable	0.1	0.1	1.0
Unrestricted	10.4	10.7	11.5
Total net position	\$ 107.9	\$ 100.0	\$ 91.4

The largest portion of RIC's net position, \$97.4 million in fiscal year 2014 (\$89.2 million in fiscal year 2013), reflects its investment in capital assets (such as land, buildings, machinery, and equipment), less any related outstanding debt, including capital leases used to acquire those assets. RIC uses these capital assets to provide services to students, faculty, and administration; consequently, these assets are not available for future spending.

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

June 30, 2014 and 2013

Financial Analysis - Continued

Although RIC's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. Also, in addition to the debt noted above, which is reflected in RIC's financial statements, the State of Rhode Island regularly provides financing for certain capital projects through the issuance of general obligation bonds and appropriations from the Rhode Island Capital Fund.

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

The liabilities-to-assets ratio was 34% in fiscal year 2014 and 36% in fiscal year 2013. Bonds and notes payable at June 30, 2014 of \$19.7 million (\$20.5 million at June 30, 2013) were RIC's largest liabilities.

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Management's Discussion and Analysis (Unaudited) - Continued

June 30, 2014 and 2013

Financial Analysis - Continued

Condensed Statement of Revenues and Expenses

Years Ended June 30, 2014, 2013 and 2012

(Dollars in millions)

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Operating revenues:			
Tuition and fees	\$ 66.1	\$ 65.6	\$ 64.1
Auxiliary enterprises	21.5	18.1	19.3
Less: scholarship allowances	(20.6)	(19.5)	(19.5)
Grants, contracts, and other	28.6	28.7	36.6
Total operating revenues	<u>95.6</u>	<u>92.9</u>	<u>100.5</u>
Operating expenses:			
Salaries and benefits	98.2	98.2	95.1
Scholarships, grants, and contracts	7.6	6.4	6.9
Other expenses	25.7	25.8	26.0
Depreciation and amortization	7.7	7.5	6.9
Total operating expenses	<u>139.2</u>	<u>137.9</u>	<u>134.9</u>
Net operating loss	<u>(43.6)</u>	<u>(45.0)</u>	<u>(34.4)</u>
Nonoperating revenues (expenses):			
State appropriations	38.9	38.5	38.2
Other nonoperating revenues, net	(0.4)	0.3	0.1
Net nonoperating revenues	<u>38.5</u>	<u>38.8</u>	<u>38.3</u>
Increase (decrease) in net position before other revenues, expenses, gains, or losses	<u>(5.1)</u>	<u>(6.2)</u>	<u>3.9</u>
Capital appropriations	12.4	14.5	6.3
Capital gifts and grants	0.6	0.4	0.4
Total other revenues	<u>13.0</u>	<u>14.9</u>	<u>6.7</u>
Increase in net position	<u>\$ 7.9</u>	<u>\$ 8.7</u>	<u>\$ 10.6</u>

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

June 30, 2014 and 2013

Operating Revenues

Total operating revenues for fiscal year 2014 were \$95.6 million, an increase of \$2.7 million from the prior year. Total operating revenues for fiscal year 2013 were \$92.9 million. The most significant sources of operating revenue for RIC are tuition and fees, grants and contracts, and auxiliary services. Significant changes in operating revenue resulted from:

- RIC submitted a request to the Board of Education for one fee increase for fiscal year 2014. The tuition and fee increases for fiscal year 2014 is less than 1.0% for both in-state and out-of-state students, 0.0% for in-state and out-of-state graduate students.
- Auxiliary revenues increased by \$3.4 million in fiscal year 2014 over 2013.
- Grant, contracts and other revenues decreased by \$7.9 million in fiscal year 2013 over 2012 mainly due to decreased grant activity resulting from the expiration of stimulus funding.

RHODE ISLAND COLLEGE

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Management's Discussion and Analysis (Unaudited) - Continued

June 30, 2014 and 2013

Operating Revenues - Continued

The following summary shows major grant and contract expenses, including indirect cost charges, for the fiscal years ending June 30, 2014, 2013 and 2012 (\$ in thousands):

<u>Agency</u>	<u>Grant/Contract/Program</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>
R.I. Department of Education	Vision Services	\$ 1,124	\$ 1,404	\$ 1,255
R.I. Department of Children, Youth and Families	R.I. Child Welfare Institute	760	681	679
R.I. Department of Education	R.I. Technical Assistance Project	693	759	721
University of Rhode Island	INBRE	640	573	792
R.I. Department of Education	R.I. State Personnel Development (new program beginning 12/1/12)	596	339	-
U.S. Department of Education	Upward Bound	584	603	616
R.I. Department of Education	Surrogate Parents	540	583	543
U.S. Department of Health and Human Services	University Center on Developmental Disabilities	520	592	562
R.I. Department of Human Services	Early Intervention	489	497	523
R.I. Board of Education	Learning for Life	448	427	22
University of Rhode Island	Project RITES	305	449	487
University of Rhode Island	EPSCoR	182	93	67
R.I. Department of Children, Youth and Families	R.I. Child Welfare / Early Care Partnership	121	60	-
R.I. Department of Children, Youth and Families	Medicaid Implementation Grant	120	110	-

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Management's Discussion and Analysis (Unaudited) - Continued

June 30, 2014 and 2013

Operating Revenues - Continued

<u>Agency</u>	<u>Grant/Contract/Program</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>
Rhode Island Hospital R.I. Department of Human Services	Professional Development Specialist - Nurse Faculty	\$ 112	\$ 21	\$ -
R.I. Department of Children, Youth and Families	Job Placement Recertification System of Care / FCCP Training	108	63	59
		79	93	52
National Science Foundation	S-STEM Quahog Cohorts No Child Left Behind	76	167	124
R.I. Board of Education	Partnership	7	164	58
United Way	United Collaboration of Training Resources	1	89	109
R.I. Board of Education	Key Issues Addressing Student Access and Completion	-	112	-
University of Illinois at Urbana-Champaign	Establishing the Efficacy of the Special Friends Project	-	55	207
R.I. Department of Education	Upward Mobility through Training, Employment and Careers	-	11	113
R.I. Department of Education	R.I. State Personnel Development (former program ending 6/30/12)	-	5	541
R.I. Board of Education / R.I. Dept. of Ed.	State Fiscal Stabilization Fund	-	-	7,051

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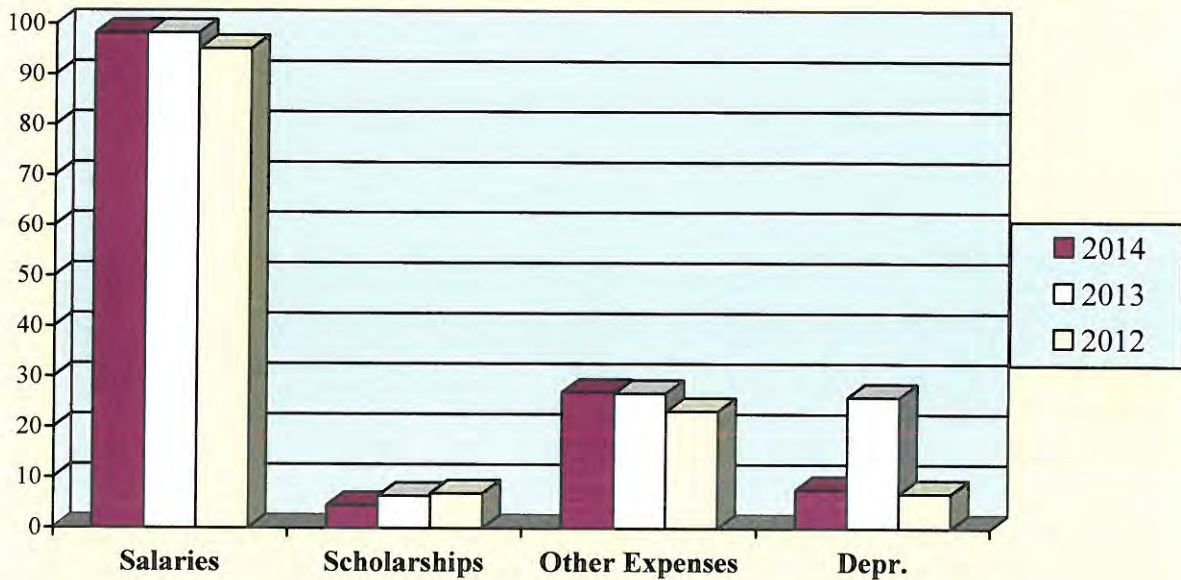
Management's Discussion and Analysis (Unaudited) - Continued

June 30, 2014 and 2013

Operating Expenses

Fiscal year 2014 operating expenses totaled \$139.2 million, an increase of \$1.3 million from the prior year. Fiscal year 2013 operating expenses totaled \$137.9 million, an increase of \$3.0 million from the prior year. Of this total, \$72.2 million or 51.9% (\$74.0 million or 53.7% in 2013) was used for instruction, academic support, student support and scholarships. Depreciation and amortization expense totaled \$7.7 million in fiscal year 2014 and \$7.5 million in fiscal year 2013.

The following chart provides a graphical breakdown of significant operating categories of expenses (in \$ millions) for fiscal years ending June 30, 2014, 2013 and 2012:



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Management's Discussion and Analysis (Unaudited) - Continued

June 30, 2014 and 2013

Nonoperating Revenues and Expenses

Net nonoperating revenues for fiscal years 2014 and 2013 are \$38.5 million and \$38.8 million, respectively, consisting of the state appropriations, gifts, and net investment earnings. These figures represent a decrease of \$.3 million and an increase of \$.5 million over the prior years, respectively.

Other

Capital appropriations of \$12.4 million and \$14.5 million in fiscal years 2014 and 2013, respectively, represent funds to renovate the Art Center as well as Rhode Island Capital Plan Funds utilized by RIC to construct or acquire capital assets.

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

Capital Asset and Debt Administration

Capital Plan

The Rhode Island Board of Education submits a running five-year capital improvement plan to the General Assembly and State Executive each year. The plan includes proposed capital asset protection projects for RIC. The fiscal year 2016-2020 plan for RIC totals \$200 million and includes all projects underway and planned, whether funded or not. This plan forms the basis for discussions on funding the various projects from all available funding sources. During fiscal year 2014, RIC expended \$14.1 million on plant-related projects. RIC generally has funded its capital plans through a combination of funds received from College operations, State of Rhode Island Capital appropriation, and general obligation bonds. The execution of RIC's capital improvement plan is contingent upon approval and sufficient funding from the State.

In November 2010, the Rhode Island voters approved the issuance of \$78 million General Obligation Bonds to fund improvements the construction of a new chemistry building at the University of Rhode Island, and 17 million for the renovation and construction of an addition to the Art Center at Rhode Island College. Construction began in April 2012 and will be completed for the fall 2014 semester.

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Management's Discussion and Analysis (Unaudited) - Continued

June 30, 2014 and 2013

Capital Asset and Debt Administration - Continued

Capital Plan - Continued

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

Capital Assets

At June 30, 2014, RIC had \$131.7 million invested in capital assets, net of accumulated depreciation. At June 30, 2013, RIC had \$125.3 million invested in capital assets, net of accumulated depreciation. Included in RIC's capital assets is \$10.7 million in construction in progress. Depreciation charges totaled \$7.7 million for the current fiscal year, an increase of \$.2 million over the prior year. Legal title to all land and real estate assets is vested in the Rhode Island Board of Education or the State of Rhode Island. A summary of the capital asset balances is displayed below:

Summary of Schedule of Net Capital Assets

(Dollars in millions)

	2014	2013	2012
Land and improvements	\$ 11.1	\$ 9.3	\$ 9.4
Construction in progress	10.7	13.2	3.6
Buildings and improvements	105.0	97.3	97.4
Furniture, fixtures, and equipment	4.9	5.5	6.0
Total	\$ 131.7	\$ 125.3	\$ 116.4

Major capital additions this year included:

Art Center	\$ 7,922,458
Infrastructure Projects	\$ 1,741,497
Steam System Renovations	\$ 1,356,034
Academic Classrooms	\$ 850,022

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Management's Discussion and Analysis (Unaudited) - Continued

June 30, 2014 and 2013

Debt

At June 30, 2014 and 2013, RIC had \$19.7 million and \$20.6 million in debt outstanding, a decrease of \$.9 million. The table below summarizes the types of debt instruments:

	June 30		
	(Dollars in millions)		
	2014	2013	2012
General Obligation (Note Payable)	\$ 1.3	\$ 1.4	\$ 1.5
Premium on Bond Payable	0.6	0.7	-
Revenue Bonds	17.8	18.5	19.6
Total	\$ 19.7	\$ 20.6	\$ 21.1

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

In addition at June 30, 2014, RIC had a \$14.6 million obligation to repay the State for funds advanced to construct the new residence hall. This amount will be repaid over a twelve-year period with interest.

RIC has no independent bonding authority. All bonds must be approved by and arranged through the Rhode Island Board of Education. All general obligation and revenue bond related indebtedness is reflected on the financial accounts of the entity issuing the bonds. The Board's revenue bonds and Rhode Island general obligation bonds are rated by Moody's and by Standard and Poor. More detailed information about RIC's long-term liabilities is presented in Note 7 of the financial statements.

Economic Factors that will Affect the Future

The seasonally adjusted unemployment rate for the State of Rhode Island, from which RIC primarily draws students, was 7.9% in June of 2014 and 8.9% in June of 2013 which was a decrease compared to a 10.9% in June of 2012, according to the U.S. Bureau of Labor Statistics. This change compares to 6.1% and 7.6%, respectively, on a national level.

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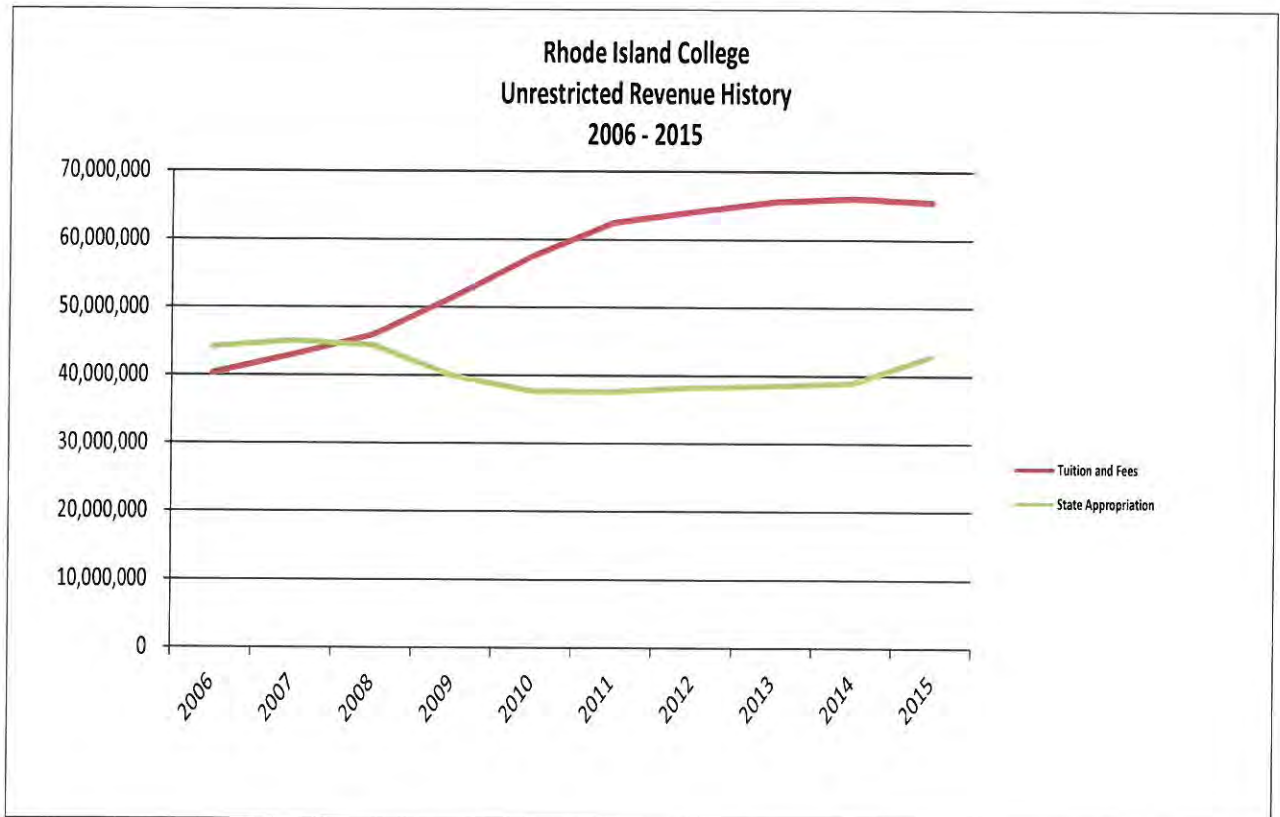
Management's Discussion and Analysis (Unaudited) - Continued

June 30, 2014 and 2013

Economic Factors that will Affect the Future - Continued

Historically, in times of economic slowdowns, public colleges/universities have experienced increases in their enrollments as unemployed and underemployed workers seek to update and upgrade their skills. RIC cannot predict the extent to which enrollment may vary in the current environment.

RIC submitted a balanced budget for fiscal year 2015. The State projects a potential budget shortfall in fiscal year 2015. The 2015 appropriation of \$42,911,103 represents a \$3,951,331 increase over 2014 and provides 38% of RIC's unrestricted funding.



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

June 30, 2014 and 2013

Economic Factors that will Affect the Future - Continued

To support its strategic priorities in this financially challenging environment, RIC and the Board of Education have held tuition constant for 2015 over 2014.

- For FY15, RIC tuition and fees will be level with FY14.

Despite the reductions in state funding, RIC's current financial and capital plans indicate that the infusion of additional financial resources from the foregoing BOE and management actions will enable it to maintain its present level of services. RIC has also attempted to maintain affordability by limiting the size of tuition and fee increases. RIC continues to rank well below other New England Comprehensive Public Institutions for tuition and fees for the 2014-2015 school year.

	Total Tuition & Fees
Rhode Island College	\$7,602
Bridgewater State University	\$8,053
Worcester State University	\$8,157
Central Connecticut State University	\$8,321
Framingham State University	\$8,480
Salem State University	\$8,530
Westfield State University	\$8,694
Western Connecticut State University	\$8,893
University of Southern Maine	\$8,920
Southern Connecticut State University	\$8,982
Fitchburg State University	\$9,003
Eastern Connecticut State University	\$9,376
Lyndon State College	\$10,285
Castleton State College	\$10,286
Johnson State College	\$10,286
Plymouth State University	\$12,610
Keene State College	\$12,776

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

Management's Discussion and Analysis (Unaudited) - Continued

June 30, 2014 and 2013

Request for Information

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

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

Statements of Net Position

June 30, 2014 and 2013

	<u>Primary Government</u>		<u>Component Unit</u>	
	2014 College	2013 College	2014 Foundation	2013 Foundation
Assets				
Current Assets:				
Cash and equivalents (Note 2)	\$ 19,876,033	\$ 20,403,874	\$ 399,553	\$ 112,207
Cash held by State Treasurer (Note 3)	60,746	110,819	-	-
Accounts receivable, net (Note 4)	6,362,410	4,552,068	6,591	5,605
Due from primary government	269,010	2,068,919	-	-
Inventory and other current assets	500,297	504,954	8,203	3,293
Current portion of pledges receivable	-	-	182,834	219,181
Total Current Assets	27,068,496	27,640,634	597,181	340,286
Noncurrent Assets:				
Restricted cash and equivalents (Note 2)	314,748	91,656	-	-
Pledges receivable	-	-	702,034	809,147
Deposits	-	-	3,450	1,400
Investments (Note 2)	-	-	26,090,495	22,831,968
Loans receivable, net (Note 5)	3,858,042	3,976,129	-	-
Restricted assets	-	-	1,126,567	992,856
Capital assets, net of accumulated depreciation (Note 6)	131,731,484	125,301,439	14,555	7,843
Total Noncurrent Assets	135,904,274	129,369,224	27,937,101	24,643,214
Total Assets	\$ 162,972,770	\$ 157,009,858	\$ 28,534,282	\$ 24,983,500
Liabilities and Net Position				
Current Liabilities:				
Accounts payable and accrued liabilities	\$ 7,842,424	\$ 8,534,981	\$ 82,326	\$ 31,158
Compensated absences (Note 7)	4,018,781	3,988,968	-	-
Student deposits and unearned revenues	2,492,272	2,024,965	-	-
Funds held for others	972,073	837,239	514,000	446,607
Current portion of bonds and note payable (Note 7)	833,191	869,221	2,809	-
Current portion of due to State of Rhode Island (Note 7)	936,316	889,649	-	-
Current portion of annuities payable	-	-	55,016	57,449
Total Current Liabilities	17,095,057	17,145,023	654,151	535,214
Noncurrent Liabilities:				
Compensated absences (Note 7)	1,786,085	1,915,226	-	-
Note and bonds payable (Note 7)	18,865,174	19,698,365	8,897	-
Due to State of Rhode Island (Note 7)	13,696,140	14,632,456	-	-
Annuities payable	-	-	167,861	188,761
Grant refundable (Note 8)	3,602,585	3,564,655	-	-
Total Noncurrent Liabilities	37,949,984	39,810,702	176,758	188,761
Total Liabilities	55,045,041	56,955,725	830,909	723,975
Net Position:				
Net investment in capital assets	97,400,663	89,211,748	2,849	7,843
Restricted:				
Expendable (Note 9)	86,887	57,059	6,401,430	3,946,107
Nonexpendable	-	-	16,102,118	16,078,194
Unrestricted	10,440,179	10,785,326	5,196,976	4,227,381
Total Net Position	\$ 107,927,729	\$ 100,054,133	\$ 27,703,373	\$ 24,259,525

See accompanying notes to the financial statements.

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

Statements of Revenues, Expenses and Changes in Net Position

For the Years ended June 30, 2014 and 2013

	<u>Primary Government</u>		<u>Component Unit</u>	
	<u>2014 College</u>	<u>2013 College</u>	<u>2014 Foundation</u>	<u>2013 Foundation</u>
Operating Revenues:				
Tuition and fees	\$ 66,058,085	\$ 65,553,238	\$ -	\$ -
Less: scholarship allowances	<u>(20,596,471)</u>	<u>(19,454,138)</u>	-	-
Net Student Fees	45,461,614	46,099,100	-	-
Auxiliary enterprises	21,495,921	18,106,896	-	-
Federal, state, local, and private grants and contracts	25,309,283	23,055,574	-	-
Sales and services of educational departments	<u>3,295,898</u>	<u>5,641,556</u>	-	-
Total Operating Revenues	<u>95,562,716</u>	<u>92,903,126</u>	-	-
Operating Expenses (Note 11):				
Instruction	44,756,997	45,063,842	-	-
Research	11,381,185	11,477,815	-	-
Academic support	10,871,418	13,855,569	-	-
Student services	8,978,017	8,678,249	-	-
Scholarships and fellowships	7,640,628	6,423,977	499,576	417,278
Public service	1,210,776	1,244,480	-	-
Operation and maintenance of plant	13,757,497	14,349,926	-	-
Institutional support	15,854,767	15,821,649	736,608	807,509
Depreciation and amortization	7,670,601	7,538,337	7,335	8,517
Auxiliary enterprises	<u>17,108,114</u>	<u>13,433,258</u>	-	-
Total Operating Expenses	<u>139,230,000</u>	<u>137,887,102</u>	<u>1,243,519</u>	<u>1,233,304</u>
Net Operating Loss	<u>(43,667,284)</u>	<u>(44,983,976)</u>	<u>(1,243,519)</u>	<u>(1,233,304)</u>
Nonoperating Revenues (Expenses):				
State appropriations (Note 12)	38,889,909	38,482,426	-	-
Gifts	137,141	89,591	1,681,626	1,873,025
Payments between the College and Foundation	142,138	290,906	(142,138)	(290,906)
Net investment income	106,509	126,968	3,758,736	1,964,964
Interest expense	(1,508,315)	(1,777,750)	-	-
Other	<u>780,858</u>	<u>1,580,877</u>	<u>(10,758)</u>	<u>4,071</u>
Net Nonoperating Revenues	<u>38,548,240</u>	<u>38,793,018</u>	<u>5,287,466</u>	<u>3,551,154</u>
Increase (Decrease) in Net Assets Before Capital Contributions	<u>(5,119,044)</u>	<u>(6,190,958)</u>	<u>4,043,947</u>	<u>2,317,850</u>
Capital Contributions:				
Capital appropriations (Note 12)	12,392,541	14,524,849	-	-
Capital gifts from Foundation	<u>600,099</u>	<u>355,490</u>	<u>(600,099)</u>	<u>(355,490)</u>
Increase in Net Assets	7,873,596	8,689,381	3,443,848	1,962,360
Net Position, Beginning of Year	<u>100,054,133</u>	<u>91,364,752</u>	<u>24,259,525</u>	<u>22,297,165</u>
Net Position, End of Year	<u>\$ 107,927,729</u>	<u>\$ 100,054,133</u>	<u>\$ 27,703,373</u>	<u>\$ 24,259,525</u>

See accompanying notes to the financial statements.

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

Statements of Cash Flows

For the Years Ended June 30, 2014 and 2013

	<u>2014</u> <u>College</u>	<u>2013</u> <u>College</u>
Cash Flows from Operating Activities:		
Tuition, residence, dining and other student fees	\$ 65,580,193	\$ 64,778,223
Grants and contracts	26,028,272	22,120,192
Payments to suppliers	(26,779,361)	(25,702,006)
Payments to employees	(97,926,636)	(99,446,185)
Payments for scholarships, fellowships and sponsored programs	(7,640,628)	(6,423,977)
Loans to students	(473,873)	(383,698)
Collection of loans to students	591,960	488,598
Other receipts	<u>4,545,957</u>	<u>4,687,591</u>
Net Cash Used by Operating Activities	<u>(36,074,116)</u>	<u>(39,881,262)</u>
Cash Flows from Noncapital and Related Financing Activities:		
State appropriations	38,889,909	38,482,426
Other	955,929	1,616,024
Payments from Foundation	<u>142,138</u>	<u>290,906</u>
Net Cash Provided by Noncapital and Related Financing Activities	<u>39,987,976</u>	<u>40,389,356</u>
Cash Flows from Capital and Related Financing Activities:		
Capital appropriations	12,392,541	14,524,849
Proceeds from refinancing	-	6,205,283
Funds on deposit with bond trustee	-	1,415,452
Capital gifts and grants from Foundation	600,099	355,490
Purchases of capital assets	(14,100,646)	(16,442,085)
Principal paid to State of Rhode Island and on note and bonds payable	(1,696,256)	(7,623,662)
Interest paid to State of Rhode Island and on note and bonds payable	<u>(1,570,929)</u>	<u>(1,777,750)</u>
Net Cash Used by Capital and Related Financing Activities	<u>(4,375,191)</u>	<u>(3,342,423)</u>

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

Statements of Cash Flows - Continued

For the Years Ended June 30, 2014 and 2013

	<u>2014</u> <u>College</u>	<u>2013</u> <u>College</u>
Cash Flows from Investing Activity:		
Interest income	<u>\$ 106,509</u>	<u>\$ 126,968</u>
Net Cash Provided by Investing Activities	<u>106,509</u>	<u>126,968</u>
Net Decrease in Cash and Equivalents	(354,822)	(2,707,361)
Cash and Equivalents, Beginning of Year	<u>20,606,349</u>	<u>23,313,710</u>
Cash and Equivalents, End of Year	<u>\$ 20,251,527</u>	<u>\$ 20,606,349</u>
Reconciliation of Net Operating Loss to Net Cash Used by Operating Activities:		
Net operating loss	\$ (43,667,284)	\$ (44,983,976)
Adjustments to reconcile net operating loss to net cash used by operating activities:		
Bad debts	866,517	1,272,682
Depreciation	7,670,601	7,538,337
Changes in assets and liabilities:		
Accounts receivable	(2,676,859)	(894,117)
Inventory and other current assets	4,657	64,383
Loans receivable	118,087	104,900
Accounts payable and accrued liabilities	(692,557)	(1,197,201)
Compensated absences	(99,328)	(90,584)
Funds held for others	134,834	(20,526)
Student deposits and unearned revenues	467,307	(850,630)
Due from primary government	<u>1,799,909</u>	<u>(824,530)</u>
Net Cash Used by Operating Activities	<u>\$ (36,074,116)</u>	<u>\$ (39,881,262)</u>

See accompanying notes to the financial statements.

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

Notes to the Financial Statements

June 30, 2014 and 2013

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

Organization

Rhode Island College (the "College"), founded in 1854, is a comprehensive public institution of higher education in the State of Rhode Island (the "State") that offers undergraduate and graduate programs in the liberal arts and sciences and in a variety of professional fields. The College is supported by the State of Rhode Island as its only comprehensive college and is part of the system of public higher education that includes the Community College of Rhode Island (CCRI) and the University of Rhode Island (URI), with which matriculation agreements exist for student transfer within the system.

The College, a component unit of the State of Rhode Island and Providence Plantations, is governed by the Rhode Island Board of Education (the "BOE") (successor of the Board of Higher Education effective January 1, 2013), a body politic and corporate established under Chapter 97 of Title 16 of the General Laws of Rhode Island. The BOE consists of public members appointed by the Governor.

The Rhode Island Office of Higher Education (OHE), which operates under the direction of the Commissioner of Higher Education, is the administrative and research arm of the BOE. The BOE is not a department of state government but an independent public corporation vested with the responsibility of providing oversight for the system of public education in Rhode Island. The public higher education system consists of three entities: the University of Rhode Island, Rhode Island College, and the Community College of Rhode Island. Articulation agreements exist between the schools for student transfer within the system.

The Rhode Island General Assembly established the BOE effective January 1, 2013, to oversee the elementary, secondary and postsecondary education for the state. In June 2014, the Rhode Island General Assembly approved the reorganization of the entire Rhode Island system of public education.

The legislation enlarged the BOE to seventeen (17) members in order for the BOE to populate two Councils: Council for Elementary and Secondary Education and the Council for Post-Secondary Education. Each of the two Councils will be responsible for the significant portion of the governance and regulation per RIGL 16-60-1 and 16-60-4 for Elementary/Secondary and per RIGL 16-59-1 and 16-59-4 for Post-Secondary.

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

Notes to the Financial Statements - Continued

June 30, 2014 and 2013

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

Organization - Continued

The mission of the BOE is to provide long-range planning and coordination and evaluation of policies and programs for the public education systems of the state and specifically:

- To develop and adopt educational, financial and operational goals for the education systems of the state that represent achievable benchmarks for a 10-year and 20-year time to be implemented by the two Councils and the commissioners.
- To ensure that the education systems of the state are aligned with the projected opportunities in workforce development and economic development and that the education systems are preparing students to participate in the future workforce of Rhode Island.
- To coordinate programs and courses of study and promote collaboration between and among pre-kindergarten through higher education institutions and agencies.
- To present strategic budget and finance recommendations to the Council on Elementary and Secondary Education and Council on Postsecondary education that are aligned with the long-range goals adopted by the board.

As of June 2014, Article 20 of the Budget Act was signed. Subsequently and within the same week, the Governor had appointed and the Senate had given its advice and consent to the full seventeen (17) member board.

Basis of Presentation

The accompanying financial statements have been prepared using the economic resources measurement focus and the accrual basis of accounting in accordance with U.S. generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board (GASB). Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements have been met. The College has determined that it functions as a Business Type Activity, as defined by GASB. The effect of interfund activity has been eliminated from these financial statements.

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

Notes to the Financial Statements - Continued

June 30, 2014 and 2013

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

Basis of Presentation - Continued

The College's policies for defining operating activities in the statements 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 College's operating and capital appropriations from the State of Rhode Island, net investment income, gifts, and interest expense.

The accompanying statements of revenues, expenses and statements of changes in net assets demonstrate the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable within a specific function. Program revenues primarily include charges to students or others who enroll or directly benefit from services that are provided by a particular function. Items not meeting the definition of program revenues are instead reported as general revenue.

Rhode Island College Foundation

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

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

Notes to the Financial Statements - Continued

June 30, 2014 and 2013

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

Rhode Island College Foundation - Continued

During the years ended June 30, 2014 and 2013, the Foundation distributed approximately \$742,000 and \$646,000, respectively, to the College for both restricted and unrestricted purposes. The Foundation is a private nonprofit organization that reports in accordance with standards of the Financial Accounting Standards Board (FASB), including ASC 958-205, *Presentation of Financial Statements for Not-for-Profit Entities*, and ASC 958-605, *Revenue Recognition for Not-for-Profit Entities*. Accordingly, certain revenue recognition criteria and presentation features are different from GASB revenue recognition criteria and presentation features. No modifications have been made to the Foundation's financial information in the College's financial reporting entity for these differences.

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

Net Position

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

Net investment in capital assets: Capital assets, net of accumulated depreciation and outstanding principal balances of debt and other obligations attributable to the acquisition, construction, repair or improvement of those assets.

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

Restricted – nonexpendable: Net position subject to externally imposed conditions requiring the College to maintain them in perpetuity.

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

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

Notes to the Financial Statements - Continued

June 30, 2014 and 2013

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

Net Position - Continued

The College has adopted a policy of generally utilizing restricted-expendable funds, when available, prior to unrestricted funds. The College's unrestricted net position at June 30, 2014 and 2013 represent goods and services that have not yet been received and normal working capital balances maintained for auxiliary enterprise and departmental activities.

Cash and Equivalents

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

Inventories

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

Capital Assets

Real estate assets, including improvements, are generally stated at cost. Furnishings and equipment are stated at cost as of date of acquisition or, in the case of gifts, at fair value as of date of donation. In accordance with the Board's capitalization policy, all land is capitalized, regardless of value. Vehicles, equipment, computer software for internal use, and works of art and historical treasures with a unit cost of at least \$5,000 are capitalized. Building, leasehold and infrastructure improvements with a unit cost of \$50,000 or more are capitalized. Interest costs on debt related to capital assets are capitalized during the construction period and then depreciated over the life of the project. The College did not capitalize any interest costs during the years ended June 30, 2014 and 2013. College capital assets, with the exception of land and construction in progress, are depreciated on a straight-line basis over their estimated useful lives, which range from 5 to 30 years. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

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

Notes to the Financial Statements - Continued

June 30, 2014 and 2013

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

Compensated Absences and Salary Reduction Plan

Certain College employees are granted vacation and sick leave in varying amounts. In the event of termination, an employee is paid for accumulated vacation and sick days allowable in accordance with the applicable union contract or in the case of non-union personnel, according to State or College policy.

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

Amounts related to Salary Reduction Plans adopted during fiscal years 1991, 1992 and 1993 can be distributed in the form of paid leave, payment at the time of separation from the College or to an employee's estate. Amounts related to a fiscal year 2009 plan not used or elected for payment before June 15, 2012 was cancelled.

Post Employment Benefits

GASB 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions*, requires governments to account for other postemployment benefits (OPEB) on the accrual basis, rather than pay-as-you go (cash basis). Furthermore, the determination of the OPEB liability is dependent upon the type of plan in which the employer participates. Effective July 1, 2011, the State of Rhode Island established an independent corporation titled the OPEB Board, to manage OPEB benefits for all state government employers including the College. A separate legal OPEB entity classified as a cost sharing multiple employer, as established by the State, assesses annually a contractual obligation based on the plan's parameters to each participating employer. To the extent the employer does not pay contractual obligation, they will have an OPEB related liability. However, in the case of a cost-sharing plan, the ultimate responsibility for OPEB liabilities remains with the OPEB entity.

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

Notes to the Financial Statements - Continued

June 30, 2014 and 2013

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

Health Insurance

The State offers one state paid health plan to each of its participating agencies. The premiums for these plans are divided among the agencies based upon their number of eligible employees. All employees share in healthcare costs. Employee co-pays range from 13% to 15% of healthcare premiums for non-classified staff, and from 15% to 35% for classified employees. The employee contributions are automatically deducted through the payroll system on a bi-weekly basis. Amounts paid by the College for the 2014 and 2013 health premiums amounted to approximately \$11,131,000 and \$10,551,000, respectively. Employee contributions for 2014 and 2013 were approximately \$1,710,000 and \$1,685,000, respectively.

Assessed Fringe Benefit Administrative Fund

In July 2000, the State established the Assessed Fringe Benefit Administrative Fund. This fund is used to make all payments relating to workers' compensation charges, unemployment payments and payments to employees for unused vacation and sick leave at the time of retirement or termination from State service. The State funds this account by assessing a charge based on bi-weekly payrolls of all State agencies. The fringe benefit assessment rate for fiscal year 2014 was 4.25% for non-faculty and 3.77% for faculty, and for 2013 was 3.75% for non-faculty and 3.30% for faculty. The assessed fringe benefit cost for the College for fiscal years 2014 and 2013 was approximately \$2,129,000 and \$1,890,000, respectively.

Student Deposits and Unearned Revenue

Deposits and advance payments received for tuition and fees related to certain summer programs and tuition received for the following academic year are deferred and recorded as revenues when earned.

Student Fees

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

Funds Held for Others

The College holds funds for students and other organizations affiliated with the College.

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

Notes to the Financial Statements - Continued

June 30, 2014 and 2013

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

Tax Status

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

Use of Estimates

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

Risk Management

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

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

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

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

Notes to the Financial Statements - Continued

June 30, 2014 and 2013

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

Risk Management - Continued

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

Reclassifications

Certain reclassifications have been made to the 2013 financial statements of the College and the Foundation to conform to the 2014 presentation.

New Governmental Accounting Pronouncements

GASB 68, *Accounting and Financial Reporting for Pensions - an amendment of GASB Statement No. 27*, is required for periods beginning after June 15, 2014. The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. As discussed in Note 13, management is anticipating a restatement of balances during the upcoming fiscal year to include the effect of this statement.

GASB 69, *Government Combinations and Disposals of Government Operations* is required for periods ending after December 15, 2013. This Statement establishes accounting and financial reporting standards related to government combinations and disposals of government operations. As used in this Statement, the term government combinations includes a variety of transactions referred to as mergers, acquisitions, and transfers of operations. Management is in the process of reviewing this Statement and its potential effect upon their financial reporting. It does not expect any material impact.

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

Notes to the Financial Statements - Continued

June 30, 2014 and 2013

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

New Governmental Accounting Pronouncements - Continued

GASB 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date - an amendment of GASB 68*, is required for periods beginning after June 15, 2014. The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for pensions with regard to providing decision-useful information, supporting assessments of accountability and inter-period equity, and creating additional transparency. Management is in the process of reviewing this Statement and its potential effect upon their financial reporting.

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

Cash and Equivalents

The College's policy is in accordance with Chapter 35-10.1 of the R.I. General Laws regarding depository institutions holding deposits of the State, its agencies or governmental subdivisions of the State, which indicates that the College shall at a minimum, insure or pledge eligible collateral equal to one hundred percent of time deposits with maturities greater than 60 days. Any of these institutions which do not meet minimum capital standards prescribed by federal regulations shall insure or pledge eligible collateral equal to one hundred percent of deposits, regardless of maturity. None of the cash deposits of the College were required to be collateralized at June 30, 2014 and 2013.

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

Deposits are exposed to custodial credit risk if they are not covered by depository insurance and the deposits are:

- a) Uncollateralized,
- b) Collateralized with securities held by pledging financial institution, or
- c) Collateralized with securities held by the pledging financial institution's trust department or agent but not in the depositor government's name.

RHODE ISLAND COLLEGE
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Notes to the Financial Statements - Continued

June 30, 2014 and 2013

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

Cash and Equivalents - Continued

Bank balances covered by the Federal Depository Insurance Corporation (FDIC) at June 30, 2014 and 2013 approximated \$2,513,000 and \$422,000, respectively. In addition, approximately \$18,303,000 and \$20,978,000, respectively, was collateralized with securities held by the pledging financial institution in the College's name. These balances reflect FDIC insurance and guarantee programs in effect at their respective periods.

Deposit with Bond Trustees - Restricted

The deposit with bond trustees is invested in money market funds with First American Government Obligations Fund. These funds were uninsured, but invested exclusively in short-term U.S. Treasury obligations, including repurchase agreements secured by U.S. Treasury obligations. As of June 30, 2014, the First American Government Obligations Fund had a rating of AAAM by Standard & Poor's and Aaa-mf by Moody's.

Investments

The Rhode Island Board of Education has a policy stressing preservation of principal and limiting deposits to federally insured and other financially secured accounts. The College predominantly invests in short to medium term cash and similar vehicles.

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

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

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Notes to the Financial Statements - Continued

June 30, 2014 and 2013

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

Investments - Continued

The June 30, 2014 and 2013 investment portfolio concentrations are as follows:

	Foundation 2014	
	Amount	Percentage
Common stocks	\$ 19,512,925	75%
Bonds	5,611,410	21%
Cash and equivalents	966,160	4%
	\$ 26,090,495	100%

	Foundation 2013	
	Amount	Percentage
Common stocks	\$ 15,920,021	70%
Bonds	6,001,111	26%
Cash and equivalents	910,836	4%
	\$ 22,831,968	100%

Restricted Cash

At June 30, 2014 and 2013, the College had restricted cash and equivalents of approximately \$315,000 and \$92,000, respectively, that represent amounts required to be set aside in accordance with the terms of certain bonds.

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

Cash held by State Treasurer represents accrued expenses to be funded from state appropriated funds at June 30, 2014. The College has recorded a comparable dollar amount of cash held by the State Treasurer for the benefit of the College.

RHODE ISLAND COLLEGE
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Notes to the Financial Statements - Continued

June 30, 2014 and 2013

Note 4 - **Accounts Receivable**

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

	<u>2014</u>	<u>2013</u>
Student accounts receivable	\$ 4,325,861	\$ 2,595,564
Grants receivable	3,132,140	3,952,646
Other receivable	1,054,939	140,540
	<u>8,512,940</u>	<u>6,688,750</u>
Less: allowance for doubtful accounts	<u>(2,150,530)</u>	<u>(2,136,682)</u>
Total accounts receivable, net	<u>\$ 6,362,410</u>	<u>\$ 4,552,068</u>

Note 5 - **Loans Receivable**

Loans receivable include the following at June 30:

	<u>2014</u>	<u>2013</u>
Perkins loans receivable	\$ 5,211,432	\$ 5,284,518
Nursing loans receivable	34,433	34,434
	<u>5,245,865</u>	<u>5,318,952</u>
Less: allowance for doubtful accounts	<u>(1,387,823)</u>	<u>(1,342,823)</u>
	<u>\$ 3,858,042</u>	<u>\$ 3,976,129</u>

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Notes to the Financial Statements - Continued

June 30, 2014 and 2013

Note 6 - **Capital Assets**

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

	Estimated lives (in years)	2014				Ending balance
		Beginning balance	Additions	Retirements	Reclassifications	
Capital assets not depreciated:						
Construction in progress	—	\$ 13,175,161	\$ 10,728,117	\$ -	\$ (13,175,161)	\$ 10,728,117
Land	—	2,230,968	-	-	-	2,230,968
Total not depreciated		<u>15,406,129</u>	<u>10,728,117</u>	<u>-</u>	<u>(13,175,161)</u>	<u>12,959,085</u>
Capital assets depreciated:						
Land improvements	15 – 25	13,171,420	2,514,716	-	-	15,686,136
Buildings, including improvements	10 – 30	175,591,803	557,907	-	13,175,161	189,324,871
Furnishings and equipment	5 – 15	26,396,578	299,906	-	-	26,696,484
Total depreciated		<u>215,159,801</u>	<u>3,372,529</u>	<u>-</u>	<u>13,175,161</u>	<u>231,707,491</u>
Total capital assets		<u>230,565,930</u>	<u>14,100,646</u>	<u>-</u>	<u>-</u>	<u>244,666,576</u>
Less: accumulated depreciation:						
Land improvements	—	6,108,501	747,151	-	-	6,855,652
Buildings and improvements	—	78,414,984	5,889,227	-	-	84,304,211
Furnishings and equipment	—	20,741,006	1,034,223	-	-	21,775,229
Total accumulated depreciation		<u>105,264,491</u>	<u>7,670,601</u>	<u>-</u>	<u>-</u>	<u>112,935,092</u>
Capital assets, net		<u>\$ 125,301,439</u>	<u>\$ 6,430,045</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 131,731,484</u>

RHODE ISLAND COLLEGE
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Notes to the Financial Statements - Continued

June 30, 2014 and 2013

Note 6 - Capital Assets - Continued

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

	2013					
	Estimated lives (in years)	Beginning balance	Additions	Retirements	Reclassifications	Ending balance
Capital assets not depreciated:						
Construction in progress	—	\$ 3,591,808	\$ 10,836,677	\$ -	\$ (1,253,324)	\$ 13,175,161
Land	—	2,230,968	-	-	-	2,230,968
Total not depreciated		5,822,776	10,836,677	-	(1,253,324)	15,406,129
Capital assets depreciated:						
Land improvements	15 – 25	12,660,991	510,429	-	-	13,171,420
Buildings, including improvements	10 – 30	170,264,388	4,074,091	-	1,253,324	175,591,803
Furnishings and equipment	5 – 15	25,375,690	1,020,888	-	-	26,396,578
Total depreciated		208,301,069	5,605,408	-	1,253,324	215,159,801
Total capital assets		214,123,845	16,442,085	-	-	230,565,930
Less: accumulated depreciation:						
Land improvements	—	5,429,722	678,779	-	-	6,108,501
Buildings and improvements	—	72,898,086	5,516,898	-	-	78,414,984
Furnishings and equipment	—	19,398,346	1,342,660	-	-	20,741,006
Total accumulated depreciation		97,726,154	7,538,337	-	-	105,264,491
Capital assets, net		\$ 116,397,691	\$ 8,903,748	\$ -	\$ -	\$ 125,301,439

RHODE ISLAND COLLEGE
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Notes to the Financial Statements - Continued

June 30, 2014 and 2013

Note 7 - Long-Term Liabilities

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

	2014				
	Beginning balance	Additions	Reductions	Ending balance	Current portion
Note and bonds payable:					
Note payable	\$ 1,432,303	\$ -	\$ 97,825	\$ 1,334,478	\$ 103,279
Premium on bond payable	688,754	-	62,614	626,140	62,614
Revenue bonds payable	<u>18,446,529</u>	<u>-</u>	<u>708,782</u>	<u>17,737,747</u>	<u>667,298</u>
Total note and bonds payable	20,567,586	-	869,221	19,698,365	833,191
Other long-term liabilities:					
Due to State of Rhode Island	15,522,105	-	889,649	14,632,456	936,316
Compensated absences	<u>5,904,194</u>	<u>-</u>	<u>99,328</u>	<u>5,804,866</u>	<u>4,018,781</u>
Total long-term liabilities	<u>\$ 41,993,885</u>	<u>\$ -</u>	<u>\$ 1,858,198</u>	<u>\$ 40,135,687</u>	<u>\$ 5,788,288</u>
	2013				
	Beginning balance	Additions	Reductions	Ending balance	Current portion
Note and bonds payable:					
Note payable	\$ 1,524,962	\$ -	\$ 92,659	\$ 1,432,303	\$ 97,825
Premium on bond payable	-	688,754	-	688,754	62,614
Revenue bonds payable	<u>19,618,020</u>	<u>5,516,529</u>	<u>6,688,020</u>	<u>18,446,529</u>	<u>708,782</u>
Total note and bonds payable	21,142,982	6,205,283	6,780,679	20,567,586	869,221
Other long-term liabilities:					
Due to State of Rhode Island	16,365,088	-	842,983	15,522,105	889,649
Compensated absences	<u>5,994,778</u>	<u>-</u>	<u>90,584</u>	<u>5,904,194</u>	<u>3,988,968</u>
Total long-term liabilities	<u>\$ 43,502,848</u>	<u>\$ 6,205,283</u>	<u>\$ 7,714,246</u>	<u>\$ 41,993,885</u>	<u>\$ 5,747,838</u>

RHODE ISLAND COLLEGE
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Notes to the Financial Statements - Continued

June 30, 2014 and 2013

Note 7 - Long-Term Liabilities - Continued

Bonds and Notes Payable

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

	June 30	
	2014	2013
Rhode Island Health and Educational Building Corporation Higher Education Facility Revenue Bonds, Series 2010 A. The bonds original amount issued was \$10,280,000, carry interest rates ranging from 2.75%-5.00%. The bonds are due in varying annual installments from \$130,000-\$700,000, plus interest, through September 15, 2040.	\$ 9,875,000	\$ 10,015,000
Rhode Island Health and Educational Building Corporation Higher Education Facility Revenue Bonds, Series 2013 D. The bonds, original amount issued \$4,501,756, carry interest rates ranging from 2.0%-5.0%. The bonds are due in varying annual installments from \$330,902-\$508,504, plus interest, through September 15, 2023.	4,129,726	4,501,756
Rhode Island Health and Educational Building Corporation Higher Education Facility Revenue Bonds, Series 2005 E. The bonds original amount issued was \$3,530,000, carry interest rates ranging from 3.50%-4.50%. The bonds are due in varying annual installments from \$25,000-\$230,000, plus interest, through September 15, 2030.	2,805,000	2,915,000
Rhode Island Health and Educational Building Corporation Higher Education Facility Revenue Bonds, Series 2013 B. The bonds original amount issued - was \$1,014,773, carry interest rates ranging from 2.0%-3.0%. The bonds are due in varying annual installments from \$81,396 - \$105,494, plus interest, through September 15, 2023.	928,022	1,014,773

RHODE ISLAND COLLEGE
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Notes to the Financial Statements - Continued

June 30, 2014 and 2013

Note 7 - **Long-Term Liabilities - Continued**

Bonds and Notes Payable - Continued

	June 30	
	2014	2013
United States Department of Education Note Payable used to renovate and restore the Sylvan R. Forman Center. The note original amount issued \$2,561,000, is payable in level semi-annual installments of \$87,637, including interest at 5.5%, through February 1, 2024.	\$ 1,334,477	\$ 1,432,303
	\$ 19,072,225	\$ 19,878,832

On June 18, 2013, the Rhode Island Health and Educational Building Corporation (the "Corporation") issued the Auxiliary Enterprise Revenue Refunding Issue, Series 2013 A, B, C and D in par amounts totaling \$51,405,000. The proceeds of these bonds were used to defease the outstanding obligations of the College relative to the College's previous Series B and C issues of 2003, as well as outstanding obligations at the University of Rhode Island and the Community College of Rhode Island. The College's share of the remaining principal on the Series 2003 B issue was \$4,997,174. The College's share of the remaining principal on the Series 2003 C issue was \$1,027,089. The new amount for the 2013 D issue was \$4,501,756 and the 2013 B issue was \$1,014,773.

The Series 2005 E, 2003 B and 2013 D bonds are collateralized by the revenues of the auxiliary enterprises operated under the authority of the BOE. The Series 2010 A bonds are collateralized by fees generated by the related facilities.

RHODE ISLAND COLLEGE
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Notes to the Financial Statements - Continued

June 30, 2014 and 2013

Note 7 - **Long-Term Liabilities - Continued**

Bonds and Notes Payable - Continued

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

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Years ending June 30:			
2015	\$ 770,577	\$ 865,829	\$ 1,636,406
2016	802,898	834,872	1,637,770
2017	839,016	799,472	1,638,488
2018	876,807	762,150	1,638,957
2019	914,956	724,821	1,639,777
2020-2024	5,217,971	2,958,966	8,176,937
2025-2029	2,725,000	2,034,116	4,759,116
2030-2034	2,690,000	1,367,475	4,057,475
2035-2039	2,870,000	713,750	3,583,750
2040-2044	1,365,000	69,125	1,434,125
	<u>\$ 19,072,225</u>	<u>\$ 11,130,576</u>	<u>\$ 30,202,801</u>

Interest expense related to bonds and notes payable for the years ended June 30, 2014 and 2013 was \$807,955 and \$1,038,082, respectively.

The Series 2013 B Bonds and 2003 C Bonds were issued by RIHEBC and are secured by all educational and general revenues derived by the College, except auxiliary enterprise revenues. The proceeds of the Series 2013 B Bonds were used to refund the 2003 C Bonds. The College entered into the bond refunding with the goal to achieve cost savings primarily through the reduction of interest expense. There was an economic gain (difference between the present value of the old and new debt service payments) of approximately \$508,000.

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

Due to State of Rhode Island

As part of a \$30 million general obligation bond issuance authorized by the voters for the construction of a new residence hall, the College agreed to repay the State \$20 million. The residence hall was completed in September 2007, at which time the College commenced repayment over the remaining life of the bonds which bear interest at rates ranging from 3% to 5%. In addition, the \$10 million, for which the

RHODE ISLAND COLLEGE

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Notes to the Financial Statements - Continued

June 30, 2014 and 2013

Note 7 - **Long-Term Liabilities - Continued**

Due to State of Rhode Island - Continued

State remained as the primary obligor, was recorded as a capital appropriation by the College.

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

	Principal	Interest	Total
Years ending June 30:			
2015	\$ 936,316	\$ 705,310	\$ 1,641,626
2016	986,316	658,143	1,644,459
2017	1,032,982	608,477	1,641,459
2018	1,082,982	557,992	1,640,974
2019	1,136,316	506,642	1,642,958
2020-2024	6,511,579	1,701,263	8,212,842
2025-2029	2,945,965	241,998	3,187,963
	\$ 14,632,456	\$ 4,979,825	\$ 19,612,281

Interest expense related to bonds due to State of Rhode Island for the years ended June 30, 2014 and 2013 was \$700,360 and \$739,668, respectively.

Note 8 - **Grant Refundable**

The College participates in the Federal Perkins Loan and Nursing 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 back to the U.S. Government upon the termination of the College's participation in the program.

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Notes to the Financial Statements - Continued

June 30, 2014 and 2013

Note 9 - **Restricted Net Position**

The College is the recipient of funds that are subject to various external constraints upon their use, either as to purpose or time. At June 30, 2014 and 2013, these funds are restricted primarily for capital project programs.

Note 10 - **Contingencies**

Various lawsuits are pending or threatened against the College 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 College's financial position.

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

Note 11 - **Operating Expenses**

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

	2014	2013
Compensation and benefits	\$ 98,150,140	\$ 98,176,374
Supplies and services	25,768,631	25,748,412
Depreciation and amortization	7,670,601	7,538,337
Scholarships and fellowships	7,640,628	6,423,979
	\$ 139,230,000	\$ 137,887,102

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Notes to the Financial Statements - Continued

June 30, 2014 and 2013

Note 12 - **State Appropriations**

Direct Appropriations

Pursuant to Rhode Island General Law 16-59-9, the legislative enacted budget reflects the budget passed by the General Assembly and signed by the Governor, as well as any reappropriations made by the Governor for fiscal year 2013. The Board reviews and approves the unrestricted and restricted budgets and makes recommendations to the Governor and General Assembly for revisions to the current year's budget and the ensuing year's budget for the entities it oversees. As part of the College's annual budget process for unrestricted and restricted funds, the General Assembly allocates specific amounts in the budget which are allocated for the following categories: (1) salaries and wages; (2) operating expenditures; and (3) outlays for personnel costs, utilities, repairs, capital and student aid, as well as the overall budget allocation.

State Capital Plan Funds

The Rhode Island Capital Plan Fund (RICAP) was modeled on a financial technique originating in the State of Delaware. In fiscal year 2013, the State reserved 5% of its general revenues to fund a Budget Reserve Fund and is scheduled to reserve 5% in fiscal year 2014. Once the fund reaches a maximum threshold (3% of revenues), the balance is transferred to the RICAP Fund. The RICAP Fund is used for capital expenditures and for debt reduction. The technique is a "pay-as-you-go" process that avoids increasing the State's debt burden. Higher education has received off-budget allocations through this program since fiscal 1995.

During fiscal years 2014 and 2013, the College expended \$5,927,184 and \$4,375,315, respectively, in State Capital Plan funds.

State Contributed Capital

In November 2010, the Rhode Island voters approved the issuance of \$78 million General Obligation Bonds to fund improvements and the construction of a new chemistry building at the University of Rhode Island, and for \$17 million for the renovation and construction of an addition to the Art Center at Rhode Island College. During fiscal years 2013 and 2014, the College recorded approximately \$10,149,500 and \$5,762,032, respectively, for this project.

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Notes to the Financial Statements - Continued

June 30, 2014 and 2013

Note 12 - **State Appropriations - Continued**

State Contributed Capital

In November 2012, the Rhode Island voters approved the issuance of \$50 million General Obligation Bonds to fund the renovation of the Clarke Science and Gaige Hall, as well as an addition to Fogarty Hall at Rhode Island College. During fiscal year 2014, the College recorded approximately \$703,325 for this project.

The College's State appropriations are composed of the following at June 30:

	2014	2013
Direct appropriations	\$ 38,889,909	\$ 38,482,426
State capital plan funds	5,927,184	4,375,315
State contributed capital	6,465,357	10,149,534
	\$ 51,282,450	\$ 53,007,275

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

Note 13 - **Pension and Retirement Plans**

Rhode Island Board of Education Alternate Retirement Plan

Plan Description

Certain employees of the College (principally faculty and administrative personnel) are covered by individual annuity contracts under a defined contribution retirement plan, Alternate Retirement Plan, established by BOE, which is also responsible for amending it. Eligible employees who have reached the age of 30, and who have two (2) years of service are required to participate in either the Teachers' Insurance and Annuity Association (TIAA), the Metropolitan Life Insurance Company or the Variable Annuity Life Insurance Company retirement plan. The BOE establishes and amends contribution rates. Eligible employees must contribute at least 5% of their gross biweekly earnings. These contributions may be made on a pre-tax basis.

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Notes to the Financial Statements - Continued

June 30, 2014 and 2013

Note 13 - **Pension and Retirement Plans - Continued**

Rhode Island Board of Education Alternate Retirement Plan – continued

Funding Policy

The College contributes 9% of the employee's gross biweekly earnings. Total expenditures by the College for such 403(b) annuity contracts amounted to approximately \$ 3,492,000 and \$3,513,000 during 2014 and 2013, respectively. The employee contribution amounted to approximately \$1,882,000 and \$1,930,000 during the fiscal years ending June 30, 2014 and 2013, respectively.

State of Rhode Island Employees' Retirement System (ERS)

The State administered retirement system includes both defined benefit and defined contribution plan components.

Defined Benefit Plan Description

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

Funding Policy

The funding policy, as set forth in the General Laws, Section 36-10-2, provides for actuarially determined periodic contributions to the plan. The College employees are required to contribute 3.75% of their annual covered salary. The College is required to contribute at an actuarially determined rate; the rate was 23.05% of annual covered payroll for the fiscal year ended June 30, 2014. The College contributed \$3,016,000, \$2,928,000 and \$3,298,000 for the fiscal years ended June 30, 2014, 2013 and 2012, respectively, equal to 100% of the required contributions for each year.

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Notes to the Financial Statements - Continued

June 30, 2014 and 2013

Note 13 - **Pension and Retirement Plans - Continued**

State of Rhode Island Employees' Retirement System (ERS) - Continued

New Accounting Guidance Effective For Fiscal 2015:

As discussed in Note 1, GASB Statement No. 68, Accounting and Financial Reporting for Pensions, is effective for fiscal 2015 and is applicable for employees participating in a cost-sharing multiple employer plan such as ERS. The College will be required to restate beginning net position as of July 1, 2014 to recognize the employer's proportionate share of the plan's net pension obligation. Pension expense reported in the College's financial statements will reflect the change in the net pension liability for the fiscal year.

Defined Contribution Plan Description

Employees participating in the defined benefit plan, as described above, also participate in a defined contribution plan of the Employees' Retirement System as authorized by General Law Chapter 36-10.3. The defined contribution plan is established under IRS section 401(a) and is administered by TIAA-CREF. Employees may choose among various investment options available to plan participants. Employees contribute 5% of their annual covered salary and employers contribute 1% of annual covered salary. Employee contributions are immediately vested while employer contributions are vested after three years of contributory service. Contributions required under the plan by both the employee and employer are established by the General Laws, which are subject to amendment by the General Assembly.

Amounts in the defined contribution plan are available to participants in accordance with Internal Revenue Service guidelines for such plans.

The College contributed \$131,000 and \$136,000 for the fiscal years ended June 30, 2014 and 2013, respectively, which was the first year of the defined contribution plan, equal to 100% of the required contributions for each year.

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Notes to the Financial Statements - Continued

June 30, 2014 and 2013

Note 13 - **Pension and Retirement Plans - Continued**

State of Rhode Island Employees' Retirement System (ERS) - continued

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

Note 14 - **Other Post-Employment Benefits (OPEB)**

Rhode Island Retiree Health Care Benefit Plan (RIRHCBP)

Plan Description

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

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

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

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

Notes to the Financial Statements - Continued

June 30, 2014 and 2013

Note 14 - **Other Post-Employment Benefits (OPEB) - Continued**

Rhode Island Retiree Health Care Benefit Plan (RIRHCBP) - Continued

Funding Policy

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

All participating employers are required by law to fund the actuarially determined annual required contributions (ARC), which for fiscal 2014 was 7.07% of covered payroll. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The College contributions to the plan for the years ended June 30, 2014, 2013 and 2012 were approximately \$925,000, \$940,000 and \$950,000 respectively, which represents 100% of the ARC.

Rhode Island Board of Education Health Care Insurance Retirement Plan

Plan Description

The College contributes (for certain employees) to the Rhode Island Board of Education (BOE) health care insurance retirement program (the "Plan"), medical coverage only, for eligible employees who participate in the BOE's Alternate Retirement Plan (ARP) and per union contracts. The BOE established a defined benefit healthcare plan effective July 1, 1998 for Office of Higher Education, University of Rhode Island (URI), Rhode Island College (RIC) and Community College of Rhode Island (CCRI). The BOE's ARP is considered a cost-sharing multiple employer plan.

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

Notes to the Financial Statements - Continued

June 30, 2014 and 2013

Note 14 - **Other Post-Employment Benefits (OPEB) - Continued**

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

Plan Description - Continued

Pursuant to legislation enacted by the General Assembly, a trust was established in fiscal year 2011 to accumulate assets and pay benefits and other costs associated with the system. The OPEB System issues a stand-alone financial report. A copy will be available at the State Controller's Office, 1 Capitol Hill, Providence, Rhode Island 02903.

Funding Policy

RIGL Sections 36-12.1, 36-12-2.2, and 36-12-4 govern the provisions of the OPEB System. The contribution requirements of plan members and the College are established and may be amended by the Board. Effective in fiscal year 2011, all participating employers are required by law to fund the actuarially required contribution (ARC), which for fiscal year 2014 was 2.30% and 2013 was 2.69% of payroll covered by the Board Plan. Active employees contribute 0.9% of payroll to the OPEB plan. Retired employees have varying co-pay percentages ranging from 0% to 50% based on age and years of service at retirement. Further information about the contributions of plan members can be found in the financial report of the OPEB System.

For fiscal year 2014, The College's contribution to the plan was approximately \$858,000 and active employees contributed 0.9% of covered payroll, approximately \$331,000. The College's contribution to the plan for the year ended June 30, 2013 was approximately \$974,000 and active employees contributed 0.9% of covered payroll, \$326,000. In prior years, the College contributed to the State Employees' OPEB plan, which consistent with GASB 45 provisions, was administered as an agent multiple employer plan because no separate legal trust had been created. The transition by the State of its OPEB plan in fiscal 2011 to an OPEB Trust resulted in the State Employees' Plan being redefined as a cost sharing multiple employer plan. In accordance with the requirements of GASB 45, the component unit's net OPEB obligation recorded in previous years has been reduced to zero.

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



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

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

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Rhode Island College (the "College"), which comprise the statements of net position as of June 30, 2014 and 2013, and the related statements of revenues, expenses and changes in net position and cash flows for the years then ended, and the related notes to the financial statements, which collectively comprise Rhode Island College's basic financial statements and have issued our report thereon dated September 30, 2014. Our report includes a reference to other auditors who audited the financial statements of Rhode Island College Foundation, as described in our report on Rhode Island College's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Rhode Island College's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the College's internal control. Accordingly, we do not express an opinion on the effectiveness of the College's internal control.

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

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

Compliance and Other Matters

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

Purpose of this Report

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

O'Connor and Drew, P.C.

**Certified Public Accountants
Braintree, Massachusetts**

September 30, 2014