

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

FINANCIAL STATEMENTS

JUNE 30, 2015

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

Financial Statements

June 30, 2015

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INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of Rhode Island College (a component unit of the State of Rhode Island and Providence Plantations) (the "College") which comprise the statement of net position as of June 30, 2015, and the related statements of revenues and expenses, changes in net position and cash flows for the year then ended, and the related notes to the financial statements, which collectively comprise the College's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the financial statements of Rhode Island College Foundation (the "Foundation") as of June 30, 2015 as discussed in Note 1. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Foundation, is based solely upon the report of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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.

25 Braintree Hill Office Park • Suite 102 • Braintree, MA 02184 • P:617.471.1120 • F:617.472.7560

27 Church Street • Winchester, MA 01890 • P:781.729.4949 • F:781.729.5247

www.ocd.com

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, 2015, and the changes in net position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 2 to the financial statements, GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*, is effective for fiscal 2015 and required the College to restate beginning net position 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 3-17, the schedule of the College's proportionate share of the net pension liability on page 53, the schedule of the College's contributions on page 54 and the notes to the required supplementary information on page 55 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, 2015, on our consideration of Rhode Island College's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Rhode Island College's internal control over financial reporting and compliance.

O'Connor and Drew, P.C.
Certified Public Accountants
Braintree, Massachusetts

September 30, 2015

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

Management's Discussion and Analysis (Unaudited)

June 30, 2015

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, 2015 and the results of operations for the year then ended, with selected comparative information for the year ended June 30, 2014. 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 the information, and it 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) Council on Postsecondary Education. Its primary mission is to make its academic programs available to any qualified students who can benefit from its educational services. 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 comprehensive college. In 1960, the name of the institution was changed to Rhode Island College to reflect its expanded mission. RIC now serves approximately 8,500 students in a variety of courses and programs both on and off campus.

RHODE ISLAND COLLEGE

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Management's Discussion and Analysis (Unaudited) - Continued

June 30, 2015

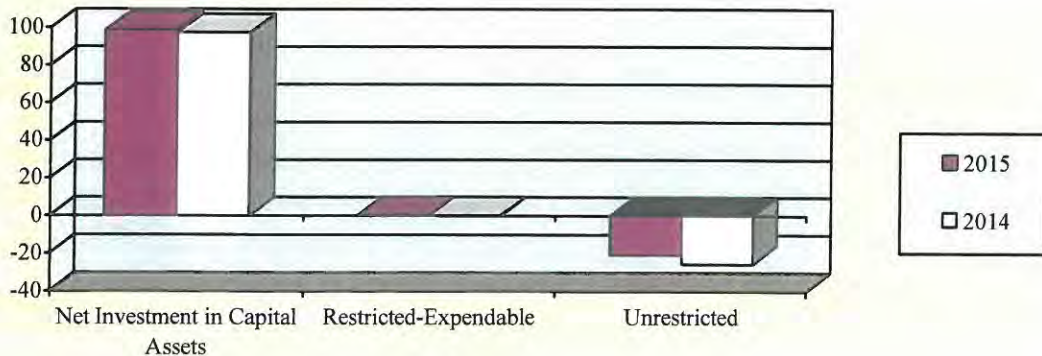
Introduction - Continued

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 articulation agreements for matriculation exist for student transfers within the system. The Rhode Island Board of Education Council on Postsecondary Education became the governing body for the college in 2013.

Financial Highlights

RIC's financial position remained strong as of June 30, 2015. At June 30, 2015, RIC's assets of \$175.9 million exceeded its liabilities of \$97.9 million by \$78.0 million, a decrease over the prior year of \$29.3 million.

The resulting net position is summarized into the following categories (in \$ millions) for the fiscal years ended June 30, 2015 and 2014:



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

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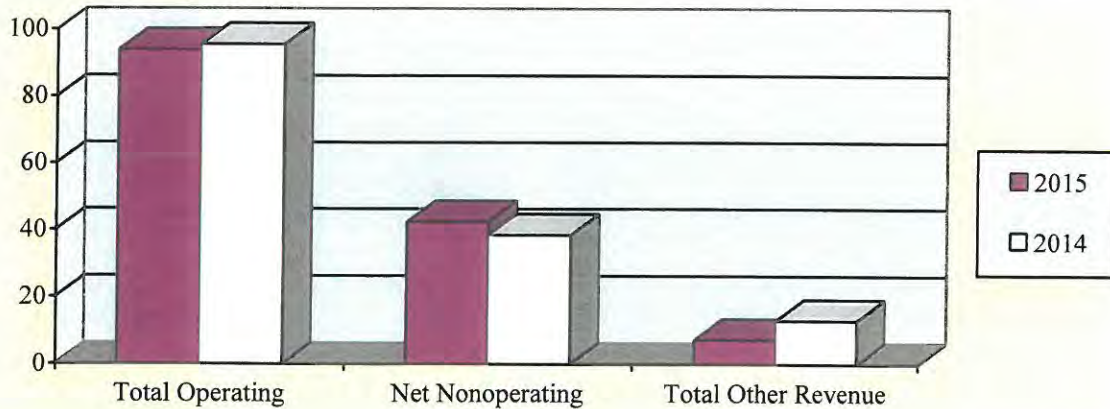
Management's Discussion and Analysis (Unaudited) - Continued

June 30, 2015

Financial Highlights - Continued

For fiscal year 2015 operating revenues decreased by 1.6%, or \$1.6 million. Operating expenses decreased by 1.2%, or \$1.7 million.

The following chart provides a graphical breakdown of total revenues (in \$ millions) by category for the fiscal years ending June 30, 2015 and 2014:



Cash flow continued to be adequate for operations with a cash balance of \$25.1 million at June 30, 2015.

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

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

Management's Discussion and Analysis (Unaudited) - Continued

June 30, 2015

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

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

June 30, 2015

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 18 to 21 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 position 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 and supplementary information can be found on pages 22 to 52 of this report.

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

June 30, 2015

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 \$78.0 million at the close of fiscal year 2015 and assets exceeded liabilities by \$71.8 million at the close of fiscal year 2014, an increase of \$6.2 million over fiscal year 2014, as shown in the chart below:

Condensed Statement of Net Position

(Dollars in millions)

	<u>2015</u>	<u>2014</u>
Assets:		
Current assets	\$ 40.5	\$ 27.1
Noncurrent assets	135.4	135.9
Total assets	<u>\$ 175.9</u>	<u>\$ 163.0</u>
Deferred outflows of resources	<u>\$ 3.1</u>	<u>\$ 3.0</u>
Liabilities:		
Current liabilities	\$ 19.0	\$ 17.1
Noncurrent liabilities	78.9	77.1
Total liabilities	<u>\$ 97.9</u>	<u>\$ 94.2</u>
Deferred inflows of resources	<u>\$ 3.1</u>	<u>\$ 0.0</u>
Net position:		
Net investment in capital assets	\$ 98.7	\$ 97.4
Restricted:		
Expendable	0.1	0.1
Unrestricted	<u>(20.8)</u>	<u>(25.7)</u>
Total net position	<u>\$ 78.0</u>	<u>\$ 71.8</u>

The largest portion of RIC's net position, \$98.7 million in fiscal year 2015 (\$97.4 million in fiscal year 2014), 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, 2015

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 56% in fiscal year 2015. Net pension liability at June 30, 2015 of \$35.6 million is RIC's largest liability.

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

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

June 30, 2015

Financial Analysis - Continued

Condensed Statement of Revenues and Expenses

Years Ended June 30, 2015, 2014

(Dollars in millions)

	2015	2014
Operating revenues:		
Tuition and fees	\$ 66.1	\$ 66.1
Auxiliary enterprises	21.2	21.5
Less: scholarship allowances	(21.9)	(20.6)
Grants, contracts, and other	28.6	28.6
Total operating revenues	94.0	95.6
Operating expenses:		
Salaries and benefits	96.6	98.2
Scholarships, grants, and contracts	6.6	7.6
Other expenses	25.7	25.7
Depreciation and amortization	8.6	7.7
Total operating expenses	137.5	139.2
Net operating loss	(43.5)	(43.6)
Nonoperating revenues (expenses):		
State appropriations	42.6	38.9
Other nonoperating revenues, net	(0.2)	(0.4)
Net nonoperating revenues	42.4	38.5
Increase (decrease) in net position before other revenues, expenses, gains, or losses	(1.1)	(5.1)
Capital appropriations	7.2	12.4
Capital gifts and grants	0.1	0.6
Total other revenues	7.3	13.0
Increase in net position	\$ 6.2	\$ 7.9

RHODE ISLAND COLLEGE

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Management's Discussion and Analysis (Unaudited) - Continued

June 30, 2015

Operating Revenues

Total operating revenues for fiscal year 2015 were \$94.0 million, a decrease of \$1.6 million from the prior year. 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 Council on Postsecondary Education for one fee increase for fiscal year 2015. The tuition and fee increases for fiscal year 2015 were 9.0% for both in-state and out-of-state students, 0.0% for in-state and out-of-state graduate students.
- Auxiliary revenues decreased by \$0.3 million in fiscal year 2015 over 2014.

The following summary shows major grant and contract expenses, including indirect cost charges, for the fiscal years ending June 30, 2015, and 2014 (\$ in thousands):

<u>Agency</u>	<u>Grant/Contract/Program</u>	<u>2015</u>	<u>2014</u>
R.I. Department of Education	Vision Services	\$ 920	\$ 1,124
R.I. Department of Children, Youth and Families	R.I. Child Welfare Institute	854	760
R.I. Department of Education	R.I. Technical Assistance Project	692	693
R.I. Department of Education	R.I. State Personnel Development	661	596
U.S. Department of Education	Upward Bound	613	584
R.I. Department of Human Services	Early Intervention	553	489
R.I. Department of Education	Surrogate Parents	511	540
U.S. Department of Health and Human Services	University Center on Developmental Disabilities	489	520
University of Rhode Island	INBRE	320	640
R.I. Office of Higher Education	Learning for Life	311	448
R.I. Department of Education	Institute for Early Childhood Development at Rhode Island College	286	7
University of Rhode Island	EPSCoR	215	182
R.I. Department of Children, Youth and Families	Medicaid Implementation Grant	132	120
R.I. Office of Higher Education	No Child Left Behind Partnership	132	7
U.S. Department of Health and Human Services	R15 - Neonatal Brain Injury: Mediating Factors for Improved	102	101
University of Rhode Island	Project RJTES	83	305
R.I. Department of Human Services	Job Placement Recertification	41	108
R.I. Department of Children, Youth and Families	R.I. Child Welfare / Early Care Partnership	27	121
Rhode Island Hospital	Professional Development Specialist - Nurse Faculty	-	112

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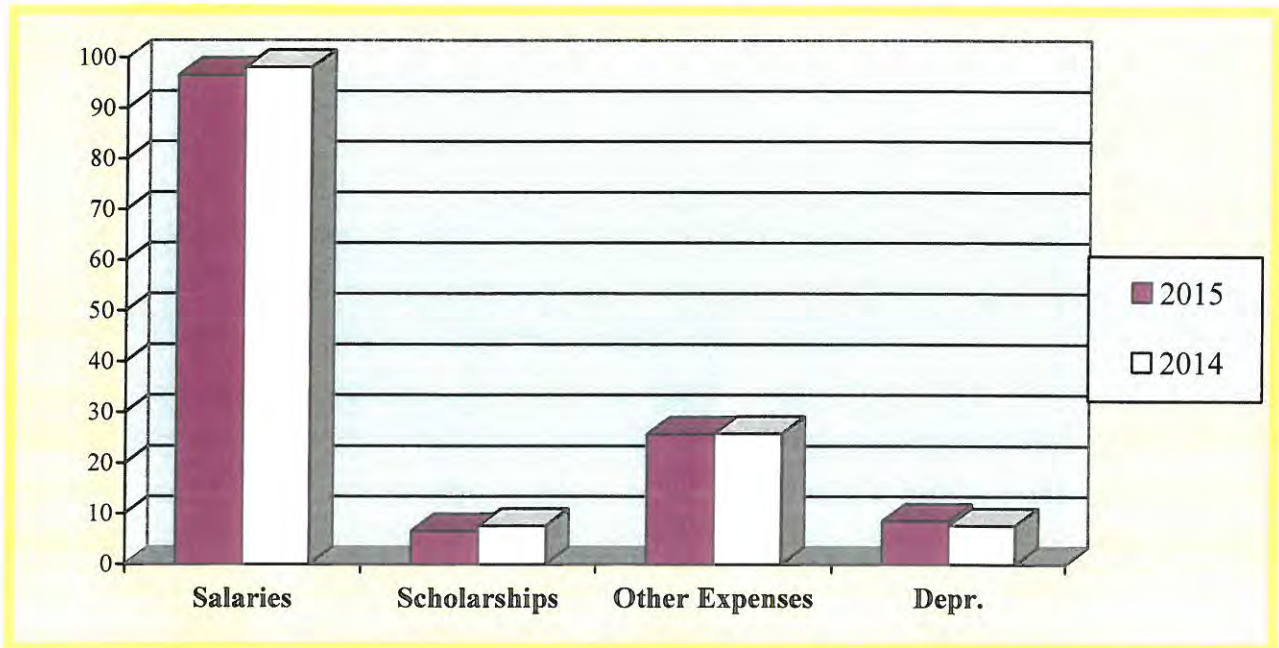
Management's Discussion and Analysis (Unaudited) - Continued

June 30, 2015

Operating Expenses

Fiscal year 2015 operating expenses totaled \$137.5 million, a decrease of \$1.7 million from the prior year. Fiscal year 2014 operating expenses totaled \$139.2 million. Of this total, \$70.6 million or 51.3% (\$72.2 million or 51.9% in 2014) was used for instruction, academic support, student support and scholarships. Depreciation and amortization expense totaled \$8.6 million in fiscal year 2015 and \$7.7 million in fiscal year 2014.

The following chart provides a graphical breakdown of significant operating categories of expenses (in \$ millions) for fiscal years ending June 30, 2015 and 2014:



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

June 30, 2015

Non-operating Revenues and Expenses

Net non-operating revenues for fiscal years 2015 and 2014 are \$42.4 million and \$38.5 million, respectively, consisting of the state appropriations, gifts, and net investment earnings. These figures represent an increase of \$3.9 million over the prior year.

Other

Capital appropriations of \$7.2 million and \$12.4 million in fiscal years 2015 and 2014, respectively, represent funds to renovate the Academic Buildings 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 non-operating revenue, are the primary resource for offsetting the loss from operations.

Capital Asset and Debt Administration

Capital Plan

The Rhode Island Board of Education submits a running five-year capital improvement plan to the General Assembly and State Executive each year. The plan includes proposed capital asset protection projects for RIC. The fiscal year 2016-2020 plan enacted by the RI General Assembly for RIC totals \$92 million. During fiscal year 2015, RIC expended \$4.9 million on Infrastructure and Asset Protection related projects. RIC generally has funded its capital plans through a combination of funds received from college operations, State of Rhode Island Capital Fund appropriations, State of Rhode Island general obligation bonds and Rhode Island Health and Educational Building Corporation (RIHEBC) bonds. The execution of 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 was completed for the fall 2014 semester.

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

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

June 30, 2015

Capital Asset and Debt Administration - Continued

Capital Assets

At June 30, 2015, RIC had \$131.3 million invested in capital assets, net of accumulated depreciation. At June 30, 2014, RIC had \$131.7 million invested in capital assets, net of accumulated depreciation. Included in RIC's capital assets is \$6.6 million in construction in progress. Depreciation charges totaled \$8.6 million for the current fiscal year, an increase of \$0.9 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)

	2015	2014
Land and improvements	\$ 12.3	\$ 11.1
Construction in progress	6.6	10.7
Buildings and improvements	109.1	105.0
Furniture, fixtures, and equipment	3.3	4.9
Total	\$ 131.3	\$ 131.7

Major capital additions this year included in millions:

Electrical Upgrades	\$2.1
Acad. Bldgs Craig-Lee / Gaige	\$2.1
Sewer Upgrades	\$1.8

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

June 30, 2015

Debt

At June 30, 2015 and 2014, RIC had \$18.9 million and \$19.7 million in debt outstanding, a net change of \$0.8 million. The table below summarizes the types of debt instruments:

	June 30	
	(Dollars in millions)	
	2015	2014
General Obligation (Note Payable)	\$ 1.2	\$ 1.3
Premium on Bond Payable	0.6	0.6
Revenue Bonds	17.1	17.8
Total	\$ 18.9	\$ 19.7

Debt repayments made during the year were \$0.8 million.

In addition at June 30, 2015, RIC had a \$21.1 million obligation to repay the State. This obligation includes funds advanced to construct the new residence hall (Penfield Hall) and additional debt issued of \$7.5 million for an energy investment project. These amounts will be repaid at with varying interest rates ranging from 2% to 5%.

RIC has no independent bonding authority. All bonds must be approved by and arranged through the Rhode Island Board of Education Office of the Postsecondary Council. 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.

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Management's Discussion and Analysis (Unaudited) - Continued

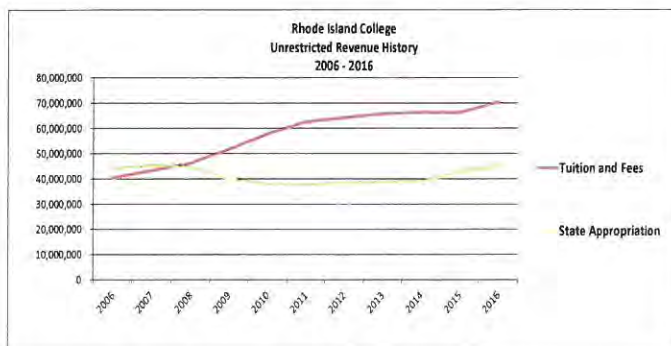
June 30, 2015

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 5.9% in June of 2015 and 7.6% in June of 2014, according to the RI Department of Labor and Training. This change compares to 5.1% and 6.1%, respectively, on a national level.

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

RIC submitted a balanced budget to the Council on Postsecondary Education for fiscal year 2016. The 2016 budget includes a State general revenue appropriation of \$45.0 million (non-inclusive of the general obligation debt service appropriation of \$5.2 million), which represents a \$2.3 million increase over FY 2015.



RHODE ISLAND COLLEGE

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Management's Discussion and Analysis (Unaudited) - Continued

June 30, 2015

Economic Factors that will Affect the Future - Continued

To support its strategic priorities in this financially challenging environment, RIC and the Board of Education held tuition constant for 2015 over 2014. For FY16, RIC tuition and mandatory fees will be increased by 7.8% for in-state students.

In large part due to an increase 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 2015-2016 school year.

Institution Name	Total Tuition & Fees
University of Southern Maine	\$7,234
Framingham State University	\$8,112
Rhode Island College	\$8,197
Bridgewater State University	\$8,223
Frosburg State University	\$8,488
Westfield State University	\$8,815
Worcester State University	\$8,857
Salem State University	\$9,246
Central Connecticut State University	\$9,300
Western Connecticut State University	\$9,516
Southern Connecticut State University	\$9,600
Fitchburg State University	\$9,935
Eastern Connecticut State University	\$10,016
U. Massachusetts - Dartmouth	\$11,681
Plymouth State University	\$12,838
Keene State College	\$13,228

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)

Statement of Net Position

June 30, 2015

	College	Foundation
Assets and Deferred Outflows of Resources		
Current Assets:		
Cash and equivalents (Note 3)	\$ 24,629,885	\$ 864,024
Accounts receivable, net (Note 4)	7,206,630	7,146
Due from primary government	8,300,254	-
Inventories	497,186	52,440
Current portion of pledges receivable	-	570,705
Total Current Assets	40,633,955	1,494,315
Noncurrent Assets:		
Restricted cash and equivalents (Note 3)	482,949	-
Pledges receivable	-	554,971
Deposits	-	6,300
Investments (Note 3)	-	27,096,857
Loans receivable, net (Note 5)	3,613,050	-
Restricted assets	-	1,156,206
Capital assets, net of accumulated depreciation (Note 6)	131,335,390	9,833
Total Noncurrent Assets	135,431,389	28,824,167
Total Assets	176,065,344	30,318,482
Deferred Outflow of Resources:		
Contributions made after the measurement date	3,122,348	-
Liabilities, Deferred Inflows of Resources and Net Position		
Current Liabilities:		
Accounts payable and accrued liabilities	9,056,783	422,058
Compensated absences (Note 7)	3,871,772	-
Student deposits and unearned revenues	3,256,881	-
Funds held for others	1,149,692	470,323
Current portion of bonds and note payable (Note 7)	865,513	2,809
Current portion of due to State of Rhode Island (Note 7)	986,316	-
Current portion of annuities payable	-	6,532
Total Current Liabilities	19,186,957	901,722
Noncurrent Liabilities:		
Compensated absences (Note 7)	1,469,415	-
Note and bonds payable (Note 7)	17,999,660	6,087
Due to State of Rhode Island (Note 7)	20,174,824	-
Annuities payable	-	37,442
Grant refundable (Note 5)	3,601,723	-
Net pension liability (Note 8)	35,620,863	-
Total Noncurrent Liabilities	78,866,485	43,529
Total Liabilities	98,053,442	945,251
Deferred Inflows of Resources:		
Differences between projected and actual earnings on plan investments	2,732,408	-
Change in plan actuarial assumptions	386,885	-
Total Deferred Inflows of Resources	3,119,293	-
Net Position:		
Net investment in capital assets	98,774,077	937
Restricted:		
Expendable (Note 10)	89,723	6,829,573
Nonexpendable	-	16,428,803
Unrestricted	(20,848,843)	6,113,918
Total Net Position	\$ 78,014,957	\$ 29,373,231

See accompanying notes to the financial statements.

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

Statement of Revenues and Expenses

For the Year ended June 30, 2015

	<u>College</u>	<u>Foundation</u>
Operating Revenues:		
Tuition and fees	\$ 66,087,375	\$ -
Less: scholarship allowances	<u>(21,950,110)</u>	<u>-</u>
Net Student Fees	44,137,265	-
Auxiliary enterprises	21,262,687	-
Federal, state, local, and private grants and contracts	25,558,100	-
Sales and services of educational departments	<u>3,067,370</u>	<u>-</u>
Total Operating Revenues	<u>94,025,422</u>	<u>-</u>
Operating Expenses (Note 12):		
Instruction	44,773,882	-
Research	10,501,686	-
Academic support	10,569,923	-
Student services	8,692,488	-
Scholarships and fellowships	6,602,156	522,100
Public service	1,312,058	-
Operation and maintenance of plant	14,399,213	-
Institutional support	15,317,797	880,831
Depreciation and amortization	8,596,019	4,722
Auxiliary enterprises	<u>16,790,757</u>	<u>-</u>
Total Operating Expenses	<u>137,555,979</u>	<u>1,407,653</u>
Net Operating Loss	<u>(43,530,557)</u>	<u>(1,407,653)</u>
Nonoperating Revenues (Expenses):		
State appropriations (Note 13)	42,651,604	-
Gifts	-	3,231,861
Payments between the College and Foundation	629,536	(629,536)
Net investment income	62,304	572,976
Interest expense	(1,451,397)	-
Other	<u>554,415</u>	<u>(235)</u>
Net Nonoperating Revenues	<u>42,446,462</u>	<u>3,175,066</u>
Increase (Decrease) in Net Position Before Capital Contributions	(1,084,095)	1,767,413
Capital Contributions:		
Capital appropriations (Note 13)	7,184,211	-
Capital gifts from Foundation	<u>97,555</u>	<u>(97,555)</u>
Increase in Net Position	<u>\$ 6,197,671</u>	<u>\$ 1,669,858</u>

See accompanying notes to the financial statements.

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

Statement of Changes in Net Position

For the Year Ended June 30, 2015

	<u>College</u>			
	<u>Net investment in capital assets</u>	<u>Restricted</u>	<u>Unrestricted Net Position</u>	<u>Total</u>
Balance at June 30, 2014, as previously reported	\$ 97,400,663	\$ 86,887	\$ 10,440,179	107,927,729
Prior period adjustment - implementation of newly effective accounting standard (Note 2)	-	-	(36,110,443)	(36,110,443)
Balance at June 30, 2014, as restated	97,400,663	86,887	(25,670,264)	71,817,286
Changes in net position	1,373,414	2,836	4,821,421	6,197,671
Balance at June 30, 2015	<u>\$ 98,774,077</u>	<u>\$ 89,723</u>	<u>\$ (20,848,843)</u>	<u>\$ 78,014,957</u>

	<u>Component Unit</u>				
	<u>Net investment in capital assets</u>	<u>Restricted Expendable</u>	<u>Restricted Nonexpendable</u>	<u>Unrestricted Net Position</u>	<u>Total</u>
Balance at June 30, 2014	\$ 2,849	\$ 6,401,430	\$ 16,102,118	\$ 5,196,976	27,703,373
Changes in net position	(1,912)	428,143	326,685	916,942	1,669,858
Balance at June 30, 2015	<u>\$ 937</u>	<u>\$ 6,829,573</u>	<u>\$ 16,428,803</u>	<u>\$ 6,113,918</u>	<u>\$ 29,373,231</u>

See accompanying notes to the financial statements.

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

Statement of Cash Flows

For the Year Ended June 30, 2015

	<u>College</u>
Cash Flows from Operating Activities:	
Tuition, residence, dining and other student fees	\$ 43,891,281
Grants and contracts	25,243,166
Payments to suppliers	(23,991,089)
Payments to employees	(97,242,336)
Payments for scholarships, fellowships and sponsored programs	(6,602,156)
Loans to students	(507,409)
Collection of loans from students	752,401
Other auxiliary enterprise receipts and other sources	<u>24,237,811</u>
Net Cash Used by Operating Activities	<u>(34,218,331)</u>
Cash Flows from Noncapital and Related Financing Activities:	
State appropriations	42,651,604
Funds held for others	(187,356)
Payments from Foundation	<u>629,536</u>
Net Cash Provided by Noncapital and Related Financing Activities	<u>43,093,784</u>
Cash Flows from Capital and Related Financing Activities:	
Capital appropriations	7,184,211
Capital gifts and grants from Foundation	97,555
Purchases of capital assets	(8,199,925)
Principal paid to State of Rhode Island and on note and bonds payable	(1,706,894)
Interest paid to State of Rhode Island and on note and bonds payable	<u>(1,451,397)</u>
Net Cash Used by Capital and Related Financing Activities	<u>(4,076,450)</u>
Cash Flows from Investing Activity:	
Interest income	<u>62,304</u>
Net Increase in Cash and Equivalents	<u>4,861,307</u>
Cash and Equivalents, Beginning of Year	<u>20,251,527</u>
Cash and Equivalents, End of Year	<u>\$ 25,112,834</u>
Reconciliation of Net Operating Loss to Net Cash Used by Operating Activities:	
Net operating loss	\$ (43,530,557)
Adjustments to reconcile net operating loss to net cash used by operating activities:	
Recovery of bad debts	(280,044)
Depreciation	8,596,019
Amortization of bond premium	62,614
Changes in assets and liabilities:	
Accounts receivable	(564,176)
Due from primary government	226,194
Inventories	3,111
Loans receivable	244,992
Deferred outflow of resources	(106,142)
Accounts payable and accrued liabilities	1,214,359
Compensated absences	(463,679)
Student deposits and unearned revenues	764,609
Grant refundable	862
Net pension liability	(3,505,786)
Deferred inflows of resources	<u>3,119,293</u>
Net Cash Used by Operating Activities	<u>\$ (34,218,331)</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, 2015

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

Organization

Rhode Island College (the “College”), founded in 1854, is a comprehensive public institution of higher education in the State of Rhode Island (the “State”) that offers undergraduate and graduate programs in the liberal arts and sciences and in a variety of professional fields. The College is supported by the State of Rhode Island as its only comprehensive college and is part of the system of public higher education. The College, a component unit of the State of Rhode Island and Providence Plantations, is governed by the Rhode Island Board of Education (the “BOE”), a body politic and corporate established under Chapter 97 of Title 16 of the General Laws of Rhode Island. The BOE consists of public members appointed by the Governor.

The Rhode Island Office of the Postsecondary Commissioner, which operates under the direction of the Commissioner of Postsecondary Education, is the administrative and research arm of the BOE. The BOE is not a department of state government but an independent public corporation vested with the responsibility of providing oversight for the system of public education in Rhode Island. The public higher education system consists of three entities: the University of Rhode Island, Rhode Island College, and the Community College of Rhode Island. Articulation agreements exist between the schools for student 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 (the “Councils”). 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, 2015

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.

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, 2015

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

Basis of Presentation - Continued

The College's policies for defining operating activities in the statement of revenues and expenses are those that generally result from exchange transactions such as the payment received for services and payment made for the purchase of goods and services. Certain other transactions are reported as nonoperating activities in accordance with GASB Statement No. 35. These nonoperating activities include the College's operating and capital appropriations from the State of Rhode Island, net investment income, gifts, and interest expense.

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

Rhode Island College Foundation

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

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

Notes to the Financial Statements - Continued

June 30, 2015

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

Rhode Island College Foundation - Continued

During the year ended June 30, 2015, the Foundation distributed \$97,555 to the College for capital purposes. The Foundation is a private nonprofit organization that reports in accordance with standards of the Financial Accounting Standards Board ("FASB"), including ASC 958-205, *Presentation of Financial Statements for Not-for-Profit Entities*, and ASC 958-605, *Revenue Recognition for Not-for-Profit Entities*. Accordingly, certain revenue recognition criteria and presentation features are different from GASB revenue recognition criteria and presentation features. No modifications have been made to the Foundation's financial information in the College's financial reporting entity for these differences.

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

Net Position

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

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

Restricted – expendable: Net position whose use is subject to externally imposed conditions that can be fulfilled by the 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.

The College has adopted a policy of generally utilizing restricted-expendable funds, when available, prior to unrestricted funds.

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

Notes to the Financial Statements - Continued

June 30, 2015

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

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 primarily of dining center and bookstore items.

Capital Assets

Real estate assets, including improvements, are generally stated at cost. Furnishings and equipment are stated at cost as of date of acquisition or, in the case of gifts, at fair value as of date of donation. In accordance with the BOE's capitalization policy, all land is capitalized, regardless of value. Vehicles, equipment, computer software for internal use, and works of art and historical treasures with a unit cost of at least \$5,000 are capitalized. Building, leasehold and infrastructure improvements with a unit cost of \$50,000 or more are capitalized. Interest costs on debt related to capital assets are capitalized during the construction period and then depreciated over the life of the asset. The College did not capitalize any interest costs during the year ended June 30, 2015. 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.

Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Employees' Retirement System plan ("ERS") and the additions to/deductions from ERS' fiduciary net position have been determined on the same basis as they are reported by ERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

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

Notes to the Financial Statements - Continued

June 30, 2015

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.

Post Employment Benefits

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

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

Notes to the Financial Statements - Continued

June 30, 2015

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 10% to 15% of healthcare premiums for non-classified staff, and from 15% to 25% for classified employees. The employee contributions are automatically deducted through the payroll system on a bi-weekly basis. Amounts paid by the College for the 2015 health premiums amounted to approximately \$10,831,000. Employee contributions for 2015 were approximately \$1,651,000.

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 temporarily increased in April 2015 from 4.25% to 5.5% for non-faculty and from 3.77% to 4.48% for faculty. The assessed fringe benefit cost for the College for fiscal year 2015 was approximately \$2,229,000.

Student Deposits and Unearned Revenue

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

Student Fees

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

Funds Held for Others

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

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

Notes to the Financial Statements - Continued

June 30, 2015

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

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

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

The College is insured for general liability with limits of \$1 million per occurrence and \$3 million in the aggregate with a \$25,000 deductible, as well as 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. In fiscal year 2015, 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, 2015

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.

New Governmental Accounting Pronouncements

Fair Value Measurement and Application-GASB Statement 72, is effective for periods beginning after June 15, 2015. This Statement requires a government to use valuation techniques that are appropriate under the circumstances and for which sufficient data are available to measure fair value. The valuation techniques should be consistent with one or more of the following approaches: the market approach, the cost approach or the income approach. Valuation methodologies should maximize the use of relevant observable inputs and minimize the use of unobservable inputs. GASB 72 establishes a hierarchy of inputs to valuation techniques used to measure fair value which are as follows: Level 1 inputs are unadjusted quoted prices in active markets for identical assets or liabilities. Level 2 inputs are inputs, other than quoted prices, included within Level 1 that are observable, directly or indirectly. Level 3 inputs are unobservable inputs such as management's assumptions about certain factors affecting the value of the asset or liability. Management is in the process of evaluating the implementation of this Statement, but does not expect any material effect to its financial position.

Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68 - GASB Statement 73. The provisions of this Statement applicable to the College are effective for periods beginning after June 15, 2015. The purpose of these provisions is to clarify and enhance certain reporting requirements of GASB Statements 67 and 68. GASB Statement 68 is effective for the fiscal year ended June 30, 2015. Management has not yet evaluated the effects of the implementation of GASB Statement 73.

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

Notes to the Financial Statements - Continued

June 30, 2015

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

New Governmental Accounting Pronouncements - Continued

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

The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments – GASB Statement 76, supersedes similarly named Statement 55 and is effective for reporting periods beginning after June 15, 2015. The objective of this Statement is to identify, in the context of the current governmental financial reporting environment, the hierarchy of generally accepted accounting principles (“GAAP”). The hierarchy consists of the sources of accounting principles used to prepare financial statements of state and local governmental entities in conformity with GAAP and the framework for selecting those principles. GASB 76 reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and non-authoritative literature in the event that the accounting treatment of a transaction or other event is not specified within a source of authoritative GAAP. Management is currently reviewing this pronouncement, implementation of which must be applied retroactively.

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

Notes to the Financial Statements - Continued

June 30, 2015

Note 2 - **Implementation of Newly Effective Accounting Standard**

As a result of implementing GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*, the College has restated net position in the statement of net position by \$36,110,443 as of June 30, 2014. The prior period restatement of net position reflects the recognition of a net pension liability as of June 30, 2015, as required by the application of GASB 68.

	<u>As Previously Reported</u>	<u>Restated</u>
As of June 30, 2014:		
Deferred outflow	\$ -	\$ 3,016,206
Net pension liability	\$ -	\$ 39,126,649
Unrestricted net position	\$ 10,440,179	\$ (25,670,264)

Note 3 - **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, 2015.

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

Notes to the Financial Statements - Continued

June 30, 2015

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

Cash and Equivalents - Continued

Bank balances covered by the Federal Depository Insurance Corporation (“FDIC”) at June 30, 2015 approximated \$2,297,000. In addition, approximately \$23,734,000 was collateralized with securities held by the pledging financial institution in the College’s name. These balances reflect FDIC insurance and guarantee programs in effect at their respective periods.

Restricted Cash and Equivalents

At June 30, 2015, the College had restricted cash and equivalents of approximately \$483,000 that represents amounts required to be set aside in accordance with the terms of certain loan funds.

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 statement of net position. The Foundation records purchased securities at quoted market value on the date of receipt. Other contributed assets are recorded at appraised value at the time of donation. Unrealized gains and losses are reflected in the statement of revenues and expenses.

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

The June 30, 2015 investment portfolio concentration is as follows:

	<u>Foundation</u>	
	<u>Amount</u>	<u>Percentage</u>
Common Stocks	\$ 19,809,180	73%
Bonds	5,885,103	22%
Cash and equivalents	<u>1,402,574</u>	<u>5%</u>
	<u>\$ 27,096,857</u>	<u>100%</u>

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

Notes to the Financial Statements - Continued

June 30, 2015

Note 4 - **Accounts Receivable**

Accounts receivable, all of which are anticipated to be collected within one year, include the following at June 30, 2015:

Student accounts receivable	\$	4,874,878
Grant receivable		3,628,606
Other receivable		<u>573,632</u>
		9,077,116
Less: allowance for doubtful accounts		<u>(1,870,486)</u>
Total accounts receivable, net	\$	<u><u>7,206,630</u></u>

Note 5 - **Loans Receivable and 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. The grant refundable is \$3,601,723 at June 30, 2015.

Loans receivable include the following at June 30, 2015:

Perkins loans receivable	\$	4,903,573
Nursing loans receivable		<u>34,433</u>
		4,938,006
Less: allowance for doubtful accounts		<u>(1,324,956)</u>
Total accounts receivable, net	\$	<u><u>3,613,050</u></u>

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

Notes to the Financial Statements - Continued

June 30, 2015

Note 6 - Capital Assets

Capital assets of the College consist of the following at June 30, 2015:

	Estimated lives (in years)	Beginning balance	Additions	Retirements	Reclassifications	Ending balance
Capital assets not depreciated:						
Construction in progress	-	\$ 10,728,117	\$ 905,633	\$ -	\$ (5,016,980)	\$ 6,616,770
Land	-	2,230,968	250,000	-	-	2,480,968
Total not depreciated		12,959,085	1,155,633	-	(5,016,980)	9,097,738
Capital assets depreciated:						
Land improvements	15 – 25	15,686,136	1,780,399	-	-	17,466,535
Buildings, including improvements	10 – 30	189,324,871	4,963,987	-	5,016,980	199,305,838
Furnishings and equipment	5 – 15	26,696,484	299,906	-	-	26,996,390
Total depreciated		231,707,491	7,044,292	-	5,016,980	243,768,763
Total capital assets		244,666,576	8,199,925	-	-	252,866,501
Less: accumulated depreciation:						
Land improvements	-	6,855,652	775,270	-	-	7,630,922
Buildings and improvements	-	84,304,211	6,424,647	-	-	90,728,858
Furnishings and equipment	-	21,775,229	1,396,102	-	-	23,171,331
Total accumulated depreciation		112,935,092	8,596,019	-	-	121,531,111
Capital assets, net		\$ 131,731,484	\$ (396,094)	\$ -	\$ -	\$ 131,335,390

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

Notes to the Financial Statements - Continued

June 30, 2015

Note 7 - Long-Term Liabilities

Long-term liabilities consist of the following at June 30, 2015:

	(Restated) Beginning balance	Additions	Reductions	Ending balance	Current portion
Note and bonds payable:					
Note payable	\$ 1,334,478	\$ -	\$ 103,280	\$ 1,231,198	\$ 109,038
Premium on bond payable	626,140	-	62,614	563,526	62,614
Revenue bonds payable	<u>17,737,747</u>	<u>-</u>	<u>667,298</u>	<u>17,070,449</u>	<u>693,861</u>
Total note and bonds payable	19,698,365	-	833,192	18,865,173	865,513
Other long-term liabilities:					
Due to State of Rhode Island	14,632,456	7,465,000	936,316	21,161,140	986,316
Compensated absences	5,804,866	-	463,679	5,341,187	3,871,772
Grant refundable	3,602,585	-	862	3,601,723	-
Net pension liability	<u>39,126,649</u>	<u>-</u>	<u>3,505,786</u>	<u>35,620,863</u>	<u>-</u>
Total long-term liabilities	<u>\$ 82,864,921</u>	<u>\$ 7,465,000</u>	<u>\$ 5,739,835</u>	<u>\$ 84,590,086</u>	<u>\$ 5,723,601</u>

Bonds and Notes Payable

The following is a summary of the College's long-term debt at June 30, 2015:

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.

\$ 9,735,000

Rhode Island Health and Educational Building

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

3,798,824

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

Notes to the Financial Statements - Continued

June 30, 2015

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

Bonds and Notes Payable - Continued

Rhode Island Health and Educational Building Corporation Higher Education Facility Revenue Bonds, Series 2005 E. The bonds original amount issued was \$3,530,000, carry interest rates ranging from 3.50%-4.50%. The bonds are due in varying annual installments from \$25,000- \$230,000, plus interest, through September 15, 2030.	2,690,000
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.	846,625
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.	<u>1,231,198</u>
	<u>\$ 18,301,647</u>

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

RHODE ISLAND COLLEGE
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Notes to the Financial Statements - Continued

June 30, 2015

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:

Years ending	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
<u>June 30:</u>			
2016	\$ 802,899	\$ 834,872	\$ 1,637,771
2017	839,015	799,472	1,638,487
2018	876,806	762,150	1,638,956
2019	914,955	724,821	1,639,776
2020	949,742	685,197	1,634,939
2021-2025	4,763,230	2,728,026	7,491,256
2026-2030	2,855,000	1,906,672	4,761,672
2031-2035	2,585,000	1,239,413	3,824,413
2036-2040	3,015,000	566,625	3,581,625
2041-2045	700,000	17,500	717,500
	<u>\$ 18,301,647</u>	<u>\$ 10,264,748</u>	<u>\$ 28,566,395</u>

Interest expense related to bonds and notes payable for the year ended June 30, 2015 was \$865,829.

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.

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

Notes to the Financial Statements - Continued

June 30, 2015

Note 7 - Long-Term Liabilities - Continued

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

The Certificate of Participation (“COPS”) agreement between the College and the State of Rhode Island relates to an energy investment project. The College was allocated \$7,465,000 of a COPS issuance by the State. Fiscal years ending June 30, 2016 and 2017 require interest only payments, with principal and interest payments beginning during fiscal year 2018. The obligation bears interest at rates ranging from 2% to 5% through the fiscal year ended June 30, 2030.

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

Years ending	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
<u>June 30:</u>			
2016	\$ 986,316	\$ 914,418	\$ 1,900,734
2017	1,032,982	864,752	1,897,734
2018	1,422,982	810,867	2,233,849
2019	1,506,316	750,567	2,256,883
2020	1,594,649	682,747	2,277,396
2021-2025	9,368,246	2,295,386	11,663,632
2026-2030	<u>5,249,649</u>	<u>401,517</u>	<u>5,651,166</u>
	<u>\$ 21,161,140</u>	<u>\$ 6,720,254</u>	<u>\$ 27,881,394</u>

Interest expense related to bonds due to State of Rhode Island for the years ended June 30, 2015 was \$585,568.

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

Notes to the Financial Statements - Continued

June 30, 2015

Note 8 - **Pensions**

State of Rhode Island Employees' Retirement System

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

Defined Benefit Plan Description

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

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

Benefit Provisions

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

The plan provides for survivor's benefits for service connected death and certain lump sum death benefits. Joint and survivor benefit provision options are available to members.

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

Notes to the Financial Statements - Continued

June 30, 2015

Note 8 - **Pensions - Continued**

State of Rhode Island Employees' Retirement System – Continued

Benefit Provisions – Continued

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

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

Contributions

The funding policy, as set forth in the General Laws, Section 36-10-2, provides for actuarially determined periodic contributions to the plan. For fiscal 2015, Rhode Island College employees were required to contribute 3.75% of their annual covered salary. The College is required to contribute at an actuarially determined rate; the rate was 23.33% of annual covered payroll for the fiscal year ended June 30, 2015. The College contributed \$3,122,348, \$3,016,206 and \$2,928,000 for the fiscal years ended June 30, 2015, 2014 and 2013, respectively, equal to 100% of the required contributions for each year.

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

At June 30, 2015, the College reported a liability of \$35,620,863 for its proportionate share of the net pension liability related to its participation in ERS. The net pension liability was measured as of June 30, 2014, the measurement date, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2013 rolled forward to June 30, 2014. The College's proportion of the net pension liability was based on its share of contributions to the ERS for fiscal year 2014 relative to the total contributions of all participating employers for that fiscal year. At June 30, 2014, the College proportion was 2.00%.

Subsequent to June 30, 2014 (the measurement date), litigation challenging various pension reform measures enacted in previous years by the General Assembly (2009, 2010, and 2011) was settled. The final settlement approved by the Court on July 8, 2015 also included enactment of the pension settlement provisions by the General Assembly.

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

Notes to the Financial Statements - Continued

June 30, 2015

Note 8 - **Pensions - Continued**

State of Rhode Island Employees' Retirement System – Continued

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

The amended benefit provisions in the newly enacted legislation and settlement agreement have not been reflected in the determination of the net pension liability at June 30, 2014 (the measurement date). These amended benefit provisions are summarized below:

- Employees with more than 20 years of service at July 1, 2012 will increase their employee contribution rate from 3.75% to 11% and participate solely in the defined benefit plan going forward – service credit accruals will increase from 1% to 2% per year.
- Employees with more than 10 but less than 20 years of service at July 1, 2012 will receive an increased employer contribution to the defined contribution plan.
- Retirees as of June 30, 2015 will receive two \$500 stipends; the interim cost of living increases will occur at 4 year rather 5 year intervals.
- Minor adjustments were made to the actuarial reduction for employees choosing to retire early.

These amendments are not considered to have a material effect on the net pension liability had they been retroactively applied to the calculation of the total pension liability at June 30, 2013 rolled forward to June 30, 2014. An actuarial analysis of the pension settlement provisions enacted by the General Assembly and approved by the Court indicated that the funded ratio at June 30, 2014 for state employees (determined on a funding basis) decreased from 57.4% to 56.1%.

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

Notes to the Financial Statements - Continued

June 30, 2015

Note 8 - **Pensions - Continued**

State of Rhode Island Employees' Retirement System – Continued

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

For the year ended June 30, 2015, the College recognized pension expense of \$2,629,713. At June 30, 2015, the College reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

<u>Deferred Outflows of Resources</u>	
Contributions subsequent to the measurement date	<u>\$ 3,122,348</u>
<u>Deferred Inflows of Resources</u>	
Change of assumptions	\$ 386,885
Net difference between projected and actual earnings on pension plan investments	<u>2,732,408</u>
Total	<u>\$ 3,119,293</u>

Contributions of \$3,122,348 are reported as deferred outflows of resources related to pensions resulting from the College contributions in fiscal year 2015 subsequent to the measurement date will be recognized as a reduction of the net pension liability for the year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Years ending	
<u>June 30,</u>	
2016	\$ 771,223
2017	771,223
2018	771,223
2019	771,223
2020	<u>34,401</u>
	<u>\$ 3,119,293</u>

RHODE ISLAND COLLEGE
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Notes to the Financial Statements - Continued

June 30, 2015

Note 8 - **Pensions - Continued**

State of Rhode Island Employees' Retirement System – Continued

Actuarial Assumptions

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

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

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

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

The long-term expected rate of return best-estimate on pension plan investments was determined by the actuary using a building-block method. The actuary started by calculating best-estimate future expected real rates of return (expected returns net of pension plan investment expense and inflation) for each major asset class, based on forward-looking medium-term (10 year) capital market return assumptions developed by eight investment consulting firms.

RHODE ISLAND COLLEGE
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Notes to the Financial Statements - Continued

June 30, 2015

Note 8 - **Pensions - Continued**

State of Rhode Island Employees' Retirement System – Continued

Actuarial Assumptions - Continued

The June 30, 2014 expected arithmetic returns over the medium term by asset class as developed by the State Investment Commission's investment consultant, which are generally consistent with the averages utilized by the actuary, are summarized in the following table:

Asset Class	Target Allocation	Medium-term expected real rate of return
Global Equity	38%	6.05%
Private Equity	7%	9.05%
Equity Hedge Funds	8%	4.75%
Absolute Return Hedge	7%	2.95%
Real Return	14%	3.85%
Real Estate	8%	4.45%
Core Fixed	15%	0.25%
Cash	<u>3%</u>	-0.50%
	<u>100%</u>	

These return assumptions are then weighted by the target asset allocation percentage, factoring in correlation effects, to develop the overall medium-term expected rate of return best-estimate on an arithmetic basis. To arrive at the long-term expected return estimate, the actuary adjusts the medium-term number to reflect the longer 30-year time frame required for actuarial calculations. This process produces the actuarial expected return, which is based on a 30-year horizon, and can differ from the medium-term, 10-year-horizon return expectations.

RHODE ISLAND COLLEGE
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Notes to the Financial Statements - Continued

June 30, 2015

Note 8 - **Pensions - Continued**

State of Rhode Island Employees' Retirement System – Continued

Discount Rate

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

Sensitivity of the Net Pension Liability to changes in the Discount Rate

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

1.00% Decrease (6.50%)	Current Discount Rate (7.50%)	1.00% Increase (8.50%)
\$ 43,994,933	\$ 35,620,863	\$ 27,075,099

RHODE ISLAND COLLEGE
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Notes to the Financial Statements - Continued

June 30, 2015

Note 9 - **Other Retirement Plans**

State of Rhode Island Employees' Retirement System

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.

As previously indicated in the disclosure of recently-enacted pension legislation, the employer contribution for certain qualifying employees will increase slightly beginning in fiscal 2016.

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

The College contributed \$134,000, \$131,000 and \$136,000 for the fiscal years ended June 30, 2015, 2014 and 2013, respectively, equal to 100% of the required contributions for each year.

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

RHODE ISLAND COLLEGE
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Notes to the Financial Statements - Continued

June 30, 2015

Note 9 - **Other Retirement Plans – Continued**

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.

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 \$ 3,341,000 during 2015. The employee contribution amounted to approximately \$1,804,000 during the fiscal year ended June 30, 2015.

Note 10 - **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, 2015, these funds are restricted primarily for capital project programs.

Note 11 - **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.

RHODE ISLAND COLLEGE
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Notes to the Financial Statements - Continued

June 30, 2015

Note 12 - **Operating Expenses**

The College's operating expenses, on a natural classification basis, are as follows for the year ended June 30, 2015:

Compensation and benefits	\$ 96,604,907
Supplies and services	25,752,897
Depreciation and amortization	8,596,019
Scholarships and fellowships	<u>6,602,156</u>
	<u>\$ 137,555,979</u>

Note 13 - **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 subsequent re-appropriations. The BOE reviews and approves the unrestricted and restricted budgets and makes recommendations to the Governor and General Assembly for revisions to the current year's budget and the ensuing year's budget for the entities it oversees. As part of the College's annual budget process for unrestricted and restricted funds, the General Assembly allocates specific amounts in the budget which are allocated for the following categories: (1) salaries and wages; (2) operating expenditures; and (3) outlays for personnel costs, utilities, repairs, capital and student aid, as well as the overall budget allocation.

State Capital Plan Funds

The Rhode Island Capital Plan Fund ("RICAP") was modeled on a financial technique originating in the State of Delaware. In fiscal year 2015, the State reserved 3% of its general revenues to fund a Budget Reserve Fund and Cash Stabilization Fund. Once the fund reaches a maximum threshold (5% of total fiscal year financial resources), the balance is transferred to the RICAP Fund. The RICAP Fund is used for capital expenditures and for debt reduction. The technique is a "pay-as-you-go" process that avoids increasing the State's debt burden. Higher education has received allocations through this program since fiscal 1995.

During fiscal year 2015, the College expended \$4,375,757 in State Capital Plan funds.

RHODE ISLAND COLLEGE
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Notes to the Financial Statements - Continued

June 30, 2015

Note 13 - **State Appropriations – Continued**

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 year 2015, the College recorded \$839,718 for this project.

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 2015, the College recorded approximately \$1,968,736 for this project.

The College's State appropriations are composed of the following at June 30, 2015:

Direct appropriations	\$ 42,651,604
State capital plan funds	4,375,757
State contributed capital	<u>2,808,454</u>
	<u>\$ 49,835,815</u>

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

RHODE ISLAND COLLEGE
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Notes to the Financial Statements - Continued

June 30, 2015

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.

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 2015 was 6.75% 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, 2015, 2014 and 2013 were approximately \$904,000, \$925,000 and \$940,000 respectively, which represents 100% of the ARC.

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

Notes to the Financial Statements - Continued

June 30, 2015

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

Rhode Island Board of Education Health Care Insurance Retirement Plan

Plan Description

The College contributes (for certain employees) to the Rhode Island Board of Education (“BOE”) health care insurance retirement program (the “Plan”), medical coverage only, for eligible employees who participate in the BOE’s Alternate Retirement Plan (“ARP”) and per union contracts. The BOE established a defined benefit healthcare plan effective July 1, 1998 for 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.

Pursuant to legislation enacted by the General Assembly, a trust was established in fiscal year 2011 to accumulate assets and pay benefits and other costs associated with the system. The OPEB system issues a stand-alone financial report. A copy can be obtained from the State Controller’s Office, 1 Capitol Hill, Providence, RI 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 2015 was 2.30% of payroll covered by the Board Plan. Active employees contribute 0.9% of payroll to the OPEB plan. Retired employees have varying co-pay percentages ranging from 0% to 50% based on age and years of service at retirement. Further information about the contributions of plan members can be found in the financial report of the OPEB System.

For fiscal years 2015, 2014 and 2013, the College’s contributions to the plan were approximately \$826,000, \$858,000 and \$974,000, respectively, and active employees contributed 0.9% of covered payroll, approximately \$322,000, \$331,000 and \$326,000, respectively.

**REQUIRED SUPPLEMENTARY
INFORMATION**

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

Schedule of the College's Proportionate Share of the Net Pension Liability

Employees' Retirement System

Valuation was performed as of June 30, 2013 and adjusted through June 30, 2014 (measurement date)

College's proportion of the net pension liability	2.00%
College's proportionate share of the net pension liability	\$ 35,620,863
College's covered-employee payroll	\$ 13,383,403
College's proportionate share of the net pension liability as a percentage of its covered-employee payroll	266.16%
Plan fiduciary net position as a percentage of the total pension liability	58.58%

Notes:

The Schedule is intended to show ten years. Information is only available for one year. The valuation was performed as of June 30, 2013 and adjusted through June 30, 2014.

See accompanying notes to the required supplemental information.

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

Schedule of the College's Contributions

For the Year Ended June 30, 2015

Contractually required contribution	\$ 3,122,348
Contributions in relation to the contractually required contribution	<u>(3,122,348)</u>
Contribution excess	<u>\$ -</u>
College's covered-employee payroll	\$ 13,383,403
Contribution as a percentage of covered-employee payroll	23.33%

Notes:

Employers participating in the State's Employee's Retirement System are required by RI General Laws, Section 36-10-2, to contribute an actually determined contribution rate each year

The Schedule is intended to show ten years. Information is only available for one year.

See accompanying notes to the required supplemental information.

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

Notes to the Required Supplementary Information

For the Year Ended June 30, 2015

Note 1 - **Change in Assumptions**

The change in assumptions is primarily related to reductions in wage inflation, salary increases for individual members, and the overall payroll growth assumptions which resulted from an experience study performed for the six-year period ended June 30, 2013 and is amortized over the average of the expected remaining service life of all employees, which is 5.3904 years. The amount of change in assumptions is \$23,762,000. The first year of amortization, \$4,408,000 is recognized as a component of pension expense with the remaining 4.3904 years, \$19,354,000, reported as a deferred inflow of resources. The College's proportionate share of these collective amounts is equal to the collective amount multiplied by the employer proportionate share percentage as shown in the Schedule of the College's proportionate share of the net pension liability.

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



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

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

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Rhode Island College (the "College"), which comprise the statement of net position as of June 30, 2015, and the related statements of revenues and expenses, changes in net position and cash flows for the year then ended, and the related notes to the financial statements, which collectively comprise Rhode Island College's basic financial statements and have issued our report thereon dated September 30, 2015. Our report includes a reference to other auditors who audited the financial statements of Rhode Island College Foundation, as described in our report on Rhode Island College's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

O'Connor and Drew, P.C.

**Certified Public Accountants
Braintree, Massachusetts**

September 30, 2015