

**UNIVERSITY OF RHODE ISLAND  
FOUNDATION**

**Financial Statements**

**Year Ended June 30, 2017**

**(With Independent Auditors' Report Thereon)**

**UNIVERSITY OF RHODE ISLAND FOUNDATION**

**FINANCIAL STATEMENTS**

**Year Ended June 30, 2017**

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## **INDEPENDENT AUDITORS' REPORT**

To the Board of Directors of  
University of Rhode Island Foundation:

### **Report on the Financial Statements**

We have audited the accompanying financial statements of University of Rhode Island Foundation (a non-profit organization) (the Foundation), which comprise the statement of financial position as of June 30, 2017, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements.

#### ***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 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 Foundation'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 Foundation's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the University of Rhode Island Foundation as of June 30, 2017, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

***Report on Summarized Comparative Information***

We have previously audited the Foundation's June 30, 2016 financial statements, and we expressed an unmodified opinion on those audited financial statements in our report dated September 13, 2016. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2016, is consistent, in all material respects, with the audited financial statements and related notes to the financial statements from which it has been derived.

***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated September 15, 2017 on our consideration of the Foundation'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. The report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Foundation's internal control over financial reporting and compliance.

*Kahn, Litwin, Kenya & Co., Ltd.*

September 15, 2017

**UNIVERSITY OF RHODE ISLAND FOUNDATION**  
**STATEMENT OF FINANCIAL POSITION**  
**June 30, 2017**  
**(With Comparative Totals at June 30, 2016)**



	<b>2017</b>	<b>2016</b>
<b>Assets</b>		
Cash and cash equivalents	\$ 14,489,190	\$ 11,330,317
Accounts receivable	272,589	189,214
Prepaid expenses	110,821	111,647
Pledges receivable, net	17,198,232	19,955,614
Note receivable	34,651	40,963
Investments, at fair value	144,676,606	131,585,355
Building, equipment, furniture and fixtures, net	1,914,169	1,859,121
Charitable remainder unitrusts	344,874	369,753
	<b>\$ 179,041,132</b>	<b>\$ 165,441,984</b>
<b>Total Assets</b>		
<b>Liabilities and Net Assets</b>		
<b>Liabilities:</b>		
Accounts payable and accrued expenses	\$ 839,462	\$ 807,084
Other liability	597,139	1,491,315
Gift annuity payable	709,012	669,803
Due to URI Research Foundation	1,596,770	-
<b>Total liabilities</b>	<b>3,742,383</b>	<b>2,968,202</b>
<b>Net Assets:</b>		
<b>Unrestricted:</b>		
Available for operations	3,680,539	5,117,215
Board designated for endowments	2,504,675	2,425,973
Depreciation on board designated endowments	(107,757)	(251,226)
<b>Total unrestricted</b>	<b>6,077,457</b>	<b>7,291,962</b>
<b>Temporarily restricted:</b>		
Available for University support	26,054,972	32,727,193
Funds acting as endowments	27,844,796	24,618,902
Appreciation on endowments	19,928,288	10,572,184
<b>Total temporarily restricted</b>	<b>73,828,056</b>	<b>67,918,279</b>
Permanently restricted	95,393,236	87,263,541
<b>Total net assets</b>	<b>175,298,749</b>	<b>162,473,782</b>
<b>Total Liabilities and Net Assets</b>	<b>\$ 179,041,132</b>	<b>\$ 165,441,984</b>

UNIVERSITY OF RHODE ISLAND FOUNDATION  
STATEMENT OF ACTIVITIES  
Year Ended June 30, 2017  
(With Comparative Totals for the Year Ended June 30, 2016)



	2017			2016	
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Total
Support and Revenue:					
Support:					
Gifts	\$ 991,338	\$ 9,597,189	\$ 8,095,635	\$ 18,684,162	\$ 13,767,592
Miscellaneous receipts	6,065	495,856	34,060	535,981	791,959
URI development reimbursements	3,614,217	-	-	3,614,217	3,410,924
Net assets released from restrictions	18,842,254	(18,842,254)	-	-	-
<b>Total support</b>	<b>23,453,874</b>	<b>(8,749,209)</b>	<b>8,129,695</b>	<b>22,834,360</b>	<b>17,970,475</b>
Revenue:					
Net gain (loss) on non-endowed investments	(24,526)	-	-	(24,526)	217,157
Net gain (loss) on endowment investments	-	14,824,821	-	14,824,821	(5,830,538)
Net loss on annuity investments	-	(140,956)	-	(140,956)	(135,600)
Loss on charitable remainder unitrusts	-	(24,879)	-	(24,879)	(32,489)
<b>Total revenue</b>	<b>(24,526)</b>	<b>14,658,986</b>	<b>-</b>	<b>14,634,460</b>	<b>(5,781,470)</b>
<b>Total support and revenue</b>	<b>23,429,348</b>	<b>5,909,777</b>	<b>8,129,695</b>	<b>37,468,820</b>	<b>12,189,005</b>
Expenditures:					
Program expenditures:					
Contributions to University of Rhode Island	15,609,238	-	-	15,609,238	13,658,719
Contributions to Alumni Association	561,575	-	-	561,575	545,218
<b>Total program expenditures</b>	<b>16,170,813</b>	<b>-</b>	<b>-</b>	<b>16,170,813</b>	<b>14,203,937</b>
Other expenditures:					
Foundation management expenses	1,170,037	-	-	1,170,037	1,372,704
Development expenses	5,613,935	-	-	5,613,935	4,680,504
Depreciation expense	92,298	-	-	92,298	88,014
Transfer to URI Research Foundation	1,596,770	-	-	1,596,770	-
<b>Total other expenditures</b>	<b>8,473,040</b>	<b>-</b>	<b>-</b>	<b>8,473,040</b>	<b>6,141,222</b>
<b>Total expenditures</b>	<b>24,643,853</b>	<b>-</b>	<b>-</b>	<b>24,643,853</b>	<b>20,345,159</b>
<b>Change in total net assets</b>	<b>(1,214,505)</b>	<b>5,909,777</b>	<b>8,129,695</b>	<b>12,824,967</b>	<b>(8,156,154)</b>
<b>Net assets, beginning of year</b>	<b>7,291,962</b>	<b>67,918,279</b>	<b>87,263,541</b>	<b>162,473,782</b>	<b>170,629,936</b>
<b>Net assets, end of year</b>	<b>\$ 6,077,457</b>	<b>\$ 73,828,056</b>	<b>\$ 95,393,236</b>	<b>\$ 175,298,749</b>	<b>\$ 162,473,782</b>

**UNIVERSITY OF RHODE ISLAND FOUNDATION**  
**STATEMENT OF CASH FLOWS**  
**Year Ended June 30, 2017**  
**(With Comparative Totals for the Year Ended June 30, 2016)**



	<u>2017</u>	<u>2016</u>
Cash Flows from Operating Activities:		
Change in total net assets	\$ 12,824,967	\$ (8,156,154)
Adjustments to reconcile change in total net assets to net cash provided (used) by operating activities:		
Depreciation expense	92,298	88,014
Net realized and unrealized loss (gain) on investments	(13,845,552)	6,587,599
Net realized and unrealized loss on charitable remainder unitrusts	24,879	32,489
Contributions restricted for investment in permanently restricted net assets	(8,129,695)	(3,012,578)
Changes in operating assets and liabilities:		
Accounts receivable	(83,375)	(162,550)
Prepaid expenses	826	(70,505)
Temporarily restricted pledges receivable	6,804,040	1,924,576
Unrestricted pledges receivable	21,252	(18,435)
Other assets	-	1,765,375
Accounts payable and accrued expenses	32,378	398,353
Other liability	(894,176)	1,491,315
Gift annuity payable	39,209	(3,890)
Due to URI Research Foundation	1,596,770	-
<b>Net cash provided (used) by operating activities</b>	<b><u>(1,516,179)</u></b>	<b><u>863,609</u></b>
Cash Flows from Investing Activities:		
Note receivable	6,312	(40,963)
Purchases of equipment, furniture and fixtures	(147,346)	(12,176)
Proceeds from investments sold	65,116,421	29,055,105
Purchases of investments	(64,362,120)	(32,960,557)
<b>Net cash provided (used) by investing activities</b>	<b><u>613,267</u></b>	<b><u>(3,958,591)</u></b>
Cash Flows from Financing Activities:		
Contributions restricted for investment in permanently restricted net assets	8,129,695	3,012,578
Decrease (increase) in permanently restricted pledges	(4,067,910)	85,214
<b>Net cash provided by financing activities</b>	<b><u>4,061,785</u></b>	<b><u>3,097,792</u></b>
<b>Net Increase in Cash and Cash Equivalents</b>	<b>3,158,873</b>	<b>2,810</b>
<b>Cash and Cash Equivalents, beginning of year</b>	<b><u>11,330,317</u></b>	<b><u>11,327,507</u></b>
<b>Cash and Cash Equivalents, end of year</b>	<b><u>\$ 14,489,190</u></b>	<b><u>\$ 11,330,317</u></b>

**UNIVERSITY OF RHODE ISLAND FOUNDATION**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**Year Ended June 30, 2017**

**1. Nature of Operations**

University of Rhode Island Foundation (the Foundation) is organized as an independent charitable corporation for the purpose of encouraging and providing support from private sources through development activities for the University of Rhode Island (the University) and is responsible for managing and administering assets donated to the Foundation for the use and benefit of the University.

**2. Summary of Significant Accounting Policies**

This summary of significant accounting policies of the Foundation is presented to assist in understanding the Foundation's financial statements. The financial statements and notes are representations of the Foundation's management, who is responsible for their integrity and objectivity. These accounting policies conform to accounting principles generally accepted in the United States of America and have been consistently applied in the preparation of the financial statements.

***Financial Statement Presentation***

The Foundation prepares its financial statements on the accrual basis of accounting and, in accordance with authoritative guidance, reports information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets and permanently restricted net assets.

***Cash and Cash Equivalents***

The Foundation considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents.

***Accounts and Pledges Receivable***

The Foundation carries its receivables at net realizable value. Unconditional promises to give that are expected to be collected within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of the estimated future cash flows of the promises to give. On a periodic basis, the Foundation evaluates its receivables and establishes an allowance for doubtful accounts, based on a history of past bad debt expense and collections and current credit conditions.

The Foundation does not accrue interest on receivables. A receivable is considered past due if payment has not been received within stated terms. The Foundation will then exhaust all methods in-house to collect the receivable. Once all practical resources to collect the receivable have been utilized without success, the receivable is deemed uncollectible and charged against the reserve for doubtful accounts.



**UNIVERSITY OF RHODE ISLAND FOUNDATION**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**Year Ended June 30, 2017**

***Investments***

Investments in marketable securities with readily determinable fair values and all investments in debt securities are reported at their fair values in the statement of financial position.

Purchases and sales of investments are recorded on a trade-date basis. Interest income is recorded on the accrual basis. Dividends are recorded on the ex-dividend date. Interest and dividends, net of investment consulting and management fees, are also reported as part of investment income.

***Building, Equipment, Furniture and Fixtures***

Building, equipment, furniture and fixtures are recorded at cost except donated property and equipment, which is capitalized at its fair market value at the date of donation. Renewals and betterments in excess of \$2,000 that materially extend the life of the assets are capitalized. Depreciation is calculated using the straight-line method over the estimated useful lives of assets as follows:

Building and building improvements	39 years
Furniture and fixtures	7-10 years
Equipment	7 years

***Revenue Recognition***

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and/or nature of any donor restrictions. Contributions may include actual gifts or promises to give. Such contributions are considered to be available for unrestricted use unless specifically restricted by the donor or grantor. Contributions of assets other than cash are recorded at their fair value on the date of the gift. Contributions of equity securities are converted to cash on the date of the gift.

***Concentrations of Credit Risk***

Financial instruments which potentially subject the Foundation to concentrations of credit and market risk are cash and cash equivalents, receivables and investments. The Foundation's cash balance in its checking account exceeds the amount covered by insurance through the Federal Deposit Insurance Corporation (FDIC). Management is aware of this potential loss exposure and continually evaluates and monitors the financial institutions overseeing its cash.

**UNIVERSITY OF RHODE ISLAND FOUNDATION**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**Year Ended June 30, 2017**

Concentration of credit risk with respect to pledges receivable is generally limited due to the large number of donors comprising the Foundation's donor base and their dispersion across different geographic areas. However, as of June 30, 2017, approximately 65% of the Foundation's pledges receivable were from two individuals. These individuals have historically made all pledge payments according to terms and, therefore, management does not believe an allowance is considered necessary due to this concentration. Management of the Foundation continually evaluates the receivables and records a provision for potentially uncollectable amounts based on collections to date, past history and general economic conditions. The Foundation's management has determined that a reserve of approximately \$922,000 for uncollectible amounts is considered necessary at June 30, 2017.

Investment securities are exposed to various risks, such as interest rate, market and credit risks. Due to the level of risk associated with certain investment securities, it is possible that changes in values of investment securities could occur in the near term and that such change could materially affect investment balances and activity included in the financial statements. At year end, management does not believe that significant concentrations of market risk exist inasmuch as the Foundation's investment portfolios are diversified among issuers (Note 5).

***Income Tax Status***

The Foundation is exempt from income taxes as a public charity under Section 501(c)(3) of the Internal Revenue Code. Management believes that the Foundation operates in a manner consistent with their tax-exempt status at both the state and federal level.

The Foundation annually files IRS Form 990 – (*Return of Organization Exempt From Income Tax*) reporting various information that the IRS uses to monitor the activities of tax-exempt entities. The Foundation also annually files IRS Form 990-T – *Exempt Organization's Business Income Tax Return* for all of its foreign investment disclosure requirements. The Foundation currently has no tax examinations in progress.

***Expense Allocation***

The costs of providing various programs and activities have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated in a systematic and rational manner among the programs and supporting services benefited based on management's estimates.

***Estimates and Assumptions***

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

**UNIVERSITY OF RHODE ISLAND FOUNDATION**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**Year Ended June 30, 2017**

***Summarized Financial Information***

The accompanying financial statements include certain prior-year summarized comparative information in total but not by net asset classification and without accompanying note disclosures. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America due to the lack of comparative note disclosures. Accordingly, such information should be read in conjunction with the Foundation's financial statements and related notes to the financial statements for the year ended June 30, 2016 from which the summarized information was derived.

***Recent Accounting Pronouncements***

The following is a summary of recent authoritative pronouncements that could impact the accounting, reporting, and/or disclosure of financial information by the Foundation.

In February 2016, the Financial Accounting Standards Board (FASB) issued ASU 2016-02, Leases, which is effective for annual periods beginning after December 15, 2019. The standard requires all leases with lease terms over 12 months to be capitalized as a right-of-use asset and lease liability on the statement of financial position at the date of lease commencement. Leases will be classified as either financing or operating. This distinction will be relevant for the pattern of expense recognition in the statement of activities. This standard will be effective for the Foundation's year ending June 30, 2021, with early adoption permitted. The Foundation is currently in the process of evaluating the impact of adoption on the financial statements.

In August 2016, the FASB issued ASU 2016-14, Presentation of Financial Statements of Not-for-Profit Entities. The standard is intended to simplify and improve how a not-for-profit organization classifies its net assets, as well as the information it presents in the financial statements and notes about its liquidity, financial performance, and cash flows. Upon adoption, net assets will be reduced to two classes (with and without donor restriction). The standard is effective for annual periods beginning after December 15, 2017, with early adoption permitted and will be applied retrospectively to all periods presented upon adoption. The Foundation is currently in the process of evaluating the impact of adoption on the financial statements.

***Subsequent Events***

Management has evaluated subsequent events through September 15, 2017, which is the date these financial statements were available to be issued.

**3. Pledges Receivable**

At June 30, 2017, contributors to the Foundation have promised to give \$18,399,748 over the next several years.

**UNIVERSITY OF RHODE ISLAND FOUNDATION**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**Year Ended June 30, 2017**

The present value of pledges receivable has been calculated using an interest rate of 1.14 % which approximates the Federal Reserve two-year Treasury bill.

Promised contributions are due as follows:

Within one year	\$ 8,855,715
One to five years	9,494,033
Five years and thereafter	50,000
	18,399,748
Less allowance for uncollectible pledges	922,219
Less present value component	279,297
	\$ 17,198,232

Promised contributions as of June 30, 2017 have been designated for the following purposes:

Temporarily restricted	10,996,955
Permanently restricted	6,201,277
	\$ 17,198,232

**4. Note Receivable**

During fiscal year 2016, the Foundation was assigned a promissory note due to a trust left to the Foundation. The balance on the date of assignment was approximately \$42,500. The note bears interest at 6% and requires monthly principal and interest payments of \$716 through February 2022. The outstanding balance as of June 30, 2017 was \$34,651.

Maturities of the note receivable are as follows:

<u>Year Ending</u>	
June 30, 2018	\$ 6,700
June 30, 2019	7,114
June 30, 2020	7,553
June 30, 2021	8,018
June 30, 2022	5,266
	\$ 34,651

**UNIVERSITY OF RHODE ISLAND FOUNDATION**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**Year Ended June 30, 2017**

**5. Investments**

Authoritative guidance relating to fair value establishes a framework for measuring fair value, and establishes a fair value hierarchy which prioritizes the inputs to valuation techniques. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. A fair value measurement assumes that the transaction to sell the asset or transfer the liability occurs in the principal market for the asset or liability or, in the absence of a principal market, the most advantageous market. Valuation techniques that are consistent with the market, income or cost approach, as specified by authoritative guidance, are used to measure fair value.

The fair value hierarchy prioritizes the inputs to valuation techniques used to measure fair value into three broad levels:

Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities the Foundation has the ability to access.

Level 2 inputs (other than quoted prices included within level 1) are observable for the asset or liability, either directly or indirectly.

Level 3 inputs are unobservable for the asset or liability and rely on management's own assumptions about the assumptions that market participants would use in pricing the asset or liability. The unobservable inputs are developed based on the best information available in the circumstances and may include the Foundation's own data.

The Foundation reports investments at fair value on a recurring basis. These investments are classified as levels 1, 2 and 3 within the fair value hierarchy, as follows:

Level 1 investments owned by the Foundation and listed on a National Securities Exchange, are valued at the last recorded sales price as of the financial statement reporting date, or in the absence of recorded sales, at the last quoted bid price reported as of the financial statement reporting date.

Level 2 investment values are determined by obtaining non-binding market prices from the Foundation's third-party portfolio managers as of the financial statement reporting date. These investments are less actively traded in the market, but quoted market prices exist for similar instruments that are actively traded. Certain level 2 investments are redeemable at the net asset value (NAV) reported by the portfolio managers; therefore, NAV was employed to estimate fair value.

**UNIVERSITY OF RHODE ISLAND FOUNDATION**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**Year Ended June 30, 2017**



Level 3 investment values are provided by the Foundation's fund managers who develop their valuations using assumptions that market participants would use in pricing the assets and liabilities of the fund. These valuations rely on NAV's, monthly statements and estimates obtained from the underlying fund managers, which are considered unobservable market inputs in accordance with authoritative guidance. In an attempt to mitigate some of the risk associated with this level of investment, the Foundation's management periodically tests the asset balances of the individual funds.

The following table summarizes the Foundation's investments measured at fair value on a recurring basis as of June 30, 2017, aggregated by the fair value hierarchy level within which those measurements were made.

	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments	\$144,676,606	\$ 36,346,682	\$ 37,406,223	\$ 70,923,701

A reconciliation of investments measured at fair value using significant unobservable inputs (Level 3) is as follows:

Description	Long/Short Domestic Equity Funds	Emerging Markets Fund	Multi- Strategy/ Arbitrage Funds	Long/Short Global Equity Funds	Commodities Fund	Private Equity Funds	Total
Beginning balance at							
July 1, 2016	\$ 19,028,622	\$10,651,741	\$25,363,439	\$ 8,044,677	\$ 2,790,566	\$ 841,834	\$ 66,720,879
Purchases	-	-	7,842,500	3,300,000	-	250,000	11,392,500
Withdrawals	-	-	(12,488,162)	(4,349,693)	-	-	(16,837,855)
Reinvested income, net of investment expenses	228,813	44,473	(95,236)	145,165	-	(20,391)	302,824
Realized gain (loss)	49,661	(28,858)	4,688,018	(670,710)	-	-	4,038,111
Unrealized gain (loss) relating to investments still held at the reporting date	3,335,164	2,725,955	(2,808,796)	2,174,399	(151,615)	32,135	5,307,242
Ending balance at							
June 30, 2017	\$22,642,260	\$13,393,311	\$22,501,763	\$ 8,643,838	\$ 2,638,951	\$1,103,578	\$70,923,701

**UNIVERSITY OF RHODE ISLAND FOUNDATION**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**Year Ended June 30, 2017**

The following represents the Foundation's fair value hierarchy for its investments measured at fair value on a recurring basis at June 30, 2017:

	Cost	Fair Value	Gross Unrealized Gains (Losses)
	<hr/>	<hr/>	<hr/>
<u>Level 1</u>			
Common stock:			
Consumer discretionary	\$ 714,669	\$ 1,070,142	\$ 355,473
Consumer staple	146,799	275,388	128,589
Energy	102,442	88,886	(13,556)
Financial	1,047,259	1,732,552	685,293
Health care	73,413	409,786	336,373
Information technology	439,739	1,041,060	601,321
Materials	43,493	185,850	142,357
	<hr/>	<hr/>	<hr/>
	2,567,814	4,803,664	2,235,850
Commodities	13,987	11,436	(2,551)
REITS	3,312,688	3,251,790	(60,898)
Mutual funds:			
Balanced funds	548,705	930,454	381,749
Natural resource fund	3,193,780	2,059,936	(1,133,844)
International funds	11,543,863	15,155,521	3,611,658
Emerging market funds	90,463	95,240	4,777
Value funds	331,601	358,850	27,249
Growth funds	230,462	231,056	594
Bond funds	3,707,282	3,533,197	(174,085)
Large blend	5,344,898	5,915,538	570,640
	<hr/>	<hr/>	<hr/>
	24,991,054	28,279,792	3,288,738
Total level 1	30,885,543	36,346,682	5,461,139
<u>Level 2</u>			
High yield debt fund	5,161,935	5,331,182	169,247
Government securities	9,409,052	9,386,659	(22,393)
Asset backed securities	1,499,728	1,498,686	(1,042)
Corporate bonds	4,912,428	4,902,356	(10,072)
U.S. agency bonds	5,339,312	5,340,945	1,633
U.S. government bonds	9,559,954	9,566,601	6,647
International developed bonds	1,379,598	1,379,794	196
	<hr/>	<hr/>	<hr/>
Total level 2	37,262,007	37,406,223	144,216

**UNIVERSITY OF RHODE ISLAND FOUNDATION**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**Year Ended June 30, 2017**

<u>Level 3</u>			
Long/Short Domestic Equity			
Funds	6,844,547	22,642,260	15,797,713
Emerging Markets Fund	10,794,377	13,393,311	2,598,934
Multi-Strategy/Arbitrage			
Funds	17,702,996	22,501,763	4,798,767
Long/Short Global Equity			
Funds	7,065,258	8,643,838	1,578,580
Commodities Fund	3,750,000	2,638,951	(1,111,049)
Private Equity Funds	1,000,787	1,103,578	102,791
	<u>47,157,965</u>	<u>70,923,701</u>	<u>23,765,736</u>
Total level 3			
	<u>\$ 115,305,515</u>	<u>\$ 144,676,606</u>	<u>\$ 29,371,091</u>

Total investment income for the year ended June 30, 2017 consisted of \$1,760,138 of interest and dividends, \$5,350,058 net gain on sale of investments, \$8,490,080 net unrealized gain on investments, \$(263,409) of annuity payments and \$(677,528) of investment consulting and management fees.

The Foundation held the following investments as of June 30, 2017 for which NAV was employed to estimate fair value:

<u>Asset Class</u>	<u>Investment</u>	<u>Fair Value Determined Using NAV</u>	<u>Redemption Frequency</u>	<u>Redemption Notice Period</u>
Domestic Equities	Long/Short Domestic Equity Funds	\$ 22,642,260	Bi-monthly - Annually	1-60 Days
Emerging Markets Equities	Emerging Markets Fund	13,393,311	Monthly	30-60 Days
Hedge Funds	Multi-strategy /Arbitrage Funds	22,501,763	1-3 Years	90-95 Days
	Long/Short Global Equity Funds	8,643,838	Monthly	5-30 Days
	Commodities Fund	2,638,951	Monthly	5 Days



**UNIVERSITY OF RHODE ISLAND FOUNDATION**  
**NOTES TO THE FINANCIAL STATEMENTS**  
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Illiquid/ Private Equity	Venture Capital and Growth-Related Private Equity Funds	1,103,578	None	None
Fixed Incomes	High Yield Debt Fund	<u>5,331,182</u>	Daily	1 Day
Total		<u><u>\$ 76,254,883</u></u>		

The above noted private equity fund investments have capital funding requirements that may require additional funding from the Foundation. These requirements are not significant to the aggregate net asset balance.

Descriptions follow for each of the investments set forth in the table above:

**Long/Short Domestic Equity Funds**

The Foundation's investments have an interest in three commingled funds. These funds hold both long and short positions of publicly traded common equities.

**Emerging Markets Fund**

The Foundation's investments have an interest in four commingled funds that hold small, mid and large cap stock in publicly traded emerging market equities.

**Multi-strategy/Arbitrage Funds**

The Foundation's investments have an interest in seven commingled funds. These are fund of funds hedge funds that hold both long and short positions in equities, fixed income and financial derivatives.

**Long/Short Global Equity Funds**

The Foundation's investments have an interest in two commingled funds which hold both long and short positions in publicly traded global equities.

**Commodities Fund**

The Foundation's investments have an interest in a commingled fund which holds investments in publicly traded commodities.

**Private Equity Funds**

The Foundation's investments have an interest in venture capital and growth-related private equity funds, direct investments into start-up and development stage companies, and all activity related thereto.

**UNIVERSITY OF RHODE ISLAND FOUNDATION**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**Year Ended June 30, 2017**

**High Yield Debt Fund**

The Foundation's investments have an interest in a commingled debt fund that invests assets primarily in debt and fixed-income securities of domestic and foreign issuers located in developed countries.

**6. Building, Equipment, Furniture and Fixtures**

Building, equipment, furniture and fixtures consisted of the following:

Building and building improvements	\$ 2,772,859
Equipment, furniture and fixtures	<u>207,789</u>
	2,980,648
Less accumulated depreciation	<u>1,066,479</u>
Building, equipment, furniture and fixtures, net	<u><u>\$ 1,914,169</u></u>

**7. Funds Held In Annuities and Unitrusts**

Included in temporarily restricted net assets are annuities with a fair market value of approximately \$859,900, of which the University is the beneficiary. The earnings on these annuities are distributed to the annuitants in accordance with the respective annuities' payment terms, as stated in the agreements. The gift annuity payable is approximately \$709,000 at June 30, 2017, which will be disbursed over the annuitants' and/or designated beneficiaries' lifetimes.

In addition, these financial statements include assets at net present value of approximately \$344,900, which are controlled by independent trustees in unitrusts. Such assets are included in temporarily restricted net assets and will eventually revert to the benefit of the Foundation upon satisfaction of each trusts' restrictions.

**UNIVERSITY OF RHODE ISLAND FOUNDATION**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**Year Ended June 30, 2017**

**8. Temporarily Restricted Net Assets**

Temporarily restricted net assets consist of funds for general program needs and temporarily restricted endowments which include appreciation and inflation (Note 9) held by the Foundation on behalf of the University with the following donor-imposed restrictions:

	Available for University Support	Funds Acting as Endowments	Appreciation on Endowments	Total
	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>
Academic support	\$ 12,223,282	\$ 20,349,129	\$ 3,983,758	\$ 36,556,169
Administrative and other purposes	1,149,099	-	313,654	1,462,753
Athletics	1,321,183	-	284,858	1,606,041
Annuities, net	150,885	-	-	150,885
Buildings and equipment	1,253,930	1,134,782	624,413	3,013,125
Faculty chairs	454,333	-	1,845,546	2,299,879
Charitable remainder unitrusts	344,874	-	-	344,874
Library	817,790	-	681,726	1,499,516
Outreach programs	1,873,881	-	890,790	2,764,671
Research support	3,353,530	-	331,681	3,685,211
Scholarships, fellowships and awards	2,977,589	6,360,885	10,766,504	20,104,978
Visiting lecturers	134,596	-	205,358	339,954
Total temporarily restricted	<u>\$ 26,054,972</u>	<u>\$ 27,844,796</u>	<u>\$ 19,928,288</u>	<u>\$ 73,828,056</u>

**9. Endowment**

The Foundation's endowment net assets consist of over 1,000 individual funds that were established for a variety of purposes. The endowments primarily include donor-imposed restricted endowment funds, but also include a portion of funds designated by the Foundation's Executive Board to function as an endowment.

**UNIVERSITY OF RHODE ISLAND FOUNDATION**  
**NOTES TO THE FINANCIAL STATEMENTS**  
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The Executive Board of the Foundation has interpreted Rhode Island UPMIFA as requiring prudent management of the fair value of the original gifts as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Foundation classifies as permanently restricted net assets a) the original value of gifts donated to the permanent endowments, b) the original value of subsequent gifts to the permanent endowment, and c) accumulations to the permanent endowment made in accordance with the direction of the Executive Board and/or applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in the permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Foundation in a manner consistent with the standard of prudence by Rhode Island UPMIFA. In accordance with Rhode Island UPMIFA, the Foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- The duration and preservation of the Endowment Fund,
- The purposes of the Foundation and the Endowment Fund,
- General economic conditions,
- The possible effect of inflation or deflation,
- The expected total return from income and the appreciation of investments,
- Other resources of the Foundation, and
- The investment policy of the Foundation.

The endowment of the Foundation is composed of two separately held and invested components, a General Endowment Fund and an endowment for the College of Pharmacy.

The General Endowment Fund (GEF) is made up of over 1,000 individually named endowment funds pooled together for investment purposes. The mechanics of the GEF are similar to those of mutual funds. Each individual named endowment purchases and owns units in the pool based on the gift value and the unit value on the date the gift is received. As each quarter ends, the market value of the GEF determines the new unit value. The GEF holds the vast majority of gifts received by the Foundation through the years with a historic dollar value and fair market value at June 30, 2017 of approximately \$109,359,300 and \$126,252,300, respectively.

**UNIVERSITY OF RHODE ISLAND FOUNDATION**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**Year Ended June 30, 2017**



The endowment for the College of Pharmacy was established by the General Assembly of the State of Rhode Island at its January session in 1958 and approved on May 9, 1958 with a historic dollar value and fair market value at June 30, 2017 of approximately \$134,800 and \$986,900, respectively.

The Foundation adopted an investment policy for endowments with a long-term investment objective to maintain and grow its purchasing power through earnings net of fee average annual compound returns equal to or greater than the spending rate plus inflation of the endowment assets.

The Foundation's spending rate for the fiscal year ended June 30, 2017 was 4.5%, calculated on a rolling prior 12-quarter average market value of the investment portfolio. The spending rate will increase to 4.79% for the fiscal year ending June 30, 2018. These rates contain both the University distribution and the Foundation's management fee.

Endowment Net Asset Composition by Type of Fund as of June 30, 2017

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Scholarships, fellowships and prizes	\$ -	\$ 17,127,389	\$ 51,919,454	\$ 69,046,843
Academic support	-	24,332,887	17,130,273	41,463,160
Board designated	2,396,918	-	-	2,396,918
Research support	-	331,681	639,310	970,991
Faculty chairs	-	1,845,546	11,580,957	13,426,503
Library	-	681,726	2,956,724	3,638,450
Buildings and equipment	-	1,759,195	1,046,721	2,805,916
Outreach programs	-	890,790	5,414,559	6,305,349
Athletics	-	284,858	1,385,846	1,670,704
Administrative	-	202,125	1,666,757	1,868,882
Visiting lecturers	-	205,358	1,115,744	1,321,102
Other	-	111,529	536,891	648,420
<b>Total</b>	<u><u>\$2,396,918</u></u>	<u><u>\$ 47,773,084</u></u>	<u><u>\$95,393,236</u></u>	<u><u>\$145,563,238</u></u>

**UNIVERSITY OF RHODE ISLAND FOUNDATION**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**Year Ended June 30, 2017**

Changes in Endowment Net Assets for the Year Ended June 30, 2017

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, July 1, 2016	\$ 2,174,747	\$ 35,191,086	\$ 87,263,541	\$ 124,629,374
Investment return:				
Net appreciation	143,469	14,681,352	-	14,824,821
Contributions	78,702	4,964,095	8,129,695	13,172,492
Appropriations	-	(7,063,449)	-	(7,063,449)
Endowment net assets, June 30, 2017	<u>\$ 2,396,918</u>	<u>47,773,084</u>	<u>\$ 95,393,236</u>	<u>\$ 145,563,238</u>

**10. Miscellaneous Receipts**

Miscellaneous receipts for the year ended June 30, 2017, consisted of goods and services for activities across University departments totaling approximately \$536,000.

**11. Retirement Plan**

The Foundation established the University Foundation Defined Contribution Retirement Plan (the Plan) under Section 403(b) of the Internal Revenue Code. The Plan requires contributions of 5% of eligible employees' compensation with matching contributions of 9% by the Foundation. Total contributions by the Foundation under the Plan were approximately \$350,400 for the year ended June 30, 2017.

**12. Commitments and Contingencies**

***Operating Leases***

The Foundation leases two copy machines under operating leases expiring through September 2021.

**UNIVERSITY OF RHODE ISLAND FOUNDATION**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**Year Ended June 30, 2017**

Total approximate minimum operating lease payments are as follows for the years ending June 30:

<u>Year Ending</u>	
June 30, 2018	\$ 2,700
June 30, 2019	2,700
June 30, 2020	1,900
June 30, 2021	<u>500</u>
 Total	 <u><u>\$ 7,800</u></u>

***University Contractual Agreement***

On March 24, 2015, the Foundation agreed to provide (a maximum of) \$1,000,000 in unrestricted, non-donor funds to the URI Athletics Department during the five years beginning July 1, 2015 and ending June 30, 2021, not to exceed \$250,000 in any one year. As of June 30, 2017, the Foundation has contributed a total of \$250,000 to the URI Athletics Department as part of this agreement. The agreement also outlines the conditions of repayment to the Foundation depending on the success of the men’s basketball program. The Foundation bears the risk of no repayment, or in the event that the men’s basketball team participates in the NCAA tournament, the URI Athletics Department shall reimburse the Foundation for funds contributed to date plus an additional amount not to exceed the original contribution.

Subsequent to URI men’s basketball team participating in the 2017 NCAA tournament, a new agreement dated June 19, 2017 was executed between the Foundation and URI Athletics Department outlining a repayment schedule. The Foundation is no longer obligated to contribute funds to URI Athletics Department. The Foundation will receive a total of \$500,000 in repayment, as follows: \$186,000 in fiscal year 2018, \$64,000 in fiscal year 2019, \$125,000 in fiscal year 2021 and \$125,000 in fiscal year 2023.

**UNIVERSITY OF RHODE ISLAND FOUNDATION**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**Year Ended June 30, 2017**

***URI Research Foundation***

The Foundation has served as the designated agent on behalf of the RI Board of Governors for Higher Education (BOG) (now referred to as the Council on Postsecondary Education) since January 21, 1982 to manage all patents and intellectual property for the University of Rhode Island. During the 2007 legislative session, the General Assembly for the State of Rhode Island enacted RI general laws § 16-32.1-1 and established the University of Rhode Island Research Foundation (URI Research Foundation) as a separate and distinct public corporation for the purposes of serving as the sole and exclusive agent of the RI BOG in managing all patents and intellectual property made available to the University of Rhode Island. The RI BOG subsequently confirmed this agency designation by adopting a formal resolution on January 28, 2008. During 2017, the Foundation and the URI Research Foundation met to determine the ownership and presentation of these assets. As a result, it has been determined that all funds currently held by the Foundation on behalf of the URI Research Foundation are the assets of the URI Research Foundation. The recognition of this obligation is reflected in the accompanying financial statements dated June 30, 2017 as a liability in the amount of approximately \$1,596,800. It is unclear at this time whether the balance of the funds will be transferred to the URI Research Foundation or if the Foundation will continue to hold and invest the funds on their behalf while remaining under obligation to make the funds available upon request.

**13. Related Party Agreements**

**Contributions to University of Rhode Island**

The Foundation, at the direction of its donors, makes payments on behalf of or directly to the University. Such amounts are classified as Contributions to University of Rhode Island on the Statement of Activities. The primary sources of Foundation funds available to the University for immediate expenditure include charitable gifts, charitable grants and spending allocations from the accumulated investment earnings of individual endowment funds. The Foundation disbursed approximately \$15,609,200 in support of the University in accordance with the donated purpose for the year ended June 30, 2017. Fluctuations in spending from year to year are driven by the current needs of the University. The Foundation has recorded a liability to the University of approximately \$597,100 for amounts due related to these expenditures.



**UNIVERSITY OF RHODE ISLAND FOUNDATION**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**Year Ended June 30, 2017**

Fundraising Agreement with the University and Alumni Association

In June 2007, the Foundation assumed primary responsibilities for the fundraising and development activities conducted for the benefit of the University. The relationship, roles and arrangements between the Foundation and the University are documented in an Agreement (the Agreement) updated for the fiscal year beginning July 1, 2011 and ending on June 30, 2015. An Amendment (the Amendment) was made to the Agreement to extend the terms through June 30, 2017. As of the date of this report, the parties are negotiating a new agreement. The Amendment stipulates that the University will pay a fixed fee of approximately \$3,246,000 to the Foundation, payable quarterly in advance to support the Foundation's fundraising and development activities.

Under this Agreement, reimbursements from the University for the year ended June 30, 2017 amounted to approximately \$3,246,000.

As part of the Amendment, the Foundation will provide unrestricted annual support to the Alumni Association of the University totaling approximately \$561,600 (payable monthly in advance) through June 30, 2017. For the year ended June 30, 2017, the Foundation provided approximately \$561,600 in support to the Alumni Association of the University.

The Agreement provides for termination without cause by either party as of the end of any fiscal year by written notice no less than 12 months prior to the expiration of the fiscal year. If the University terminates before the initial term ends, the University must reimburse the Foundation for any unavoidable costs. The Agreement may be extended with the approval of both parties with notice no later than 90 days prior to the expiration of the initial term or any extension term as applicable.

Lease Agreement

The Foundation has a ground lease agreement with the University for the land on which its facility is located. The lease provides for annual payments of \$1 for 10 years ending February 2022. In addition, the University agrees to use its best efforts to grant the Foundation additional 10-year option periods not to exceed eight additional terms. Upon termination of the lease, the Foundation shall transfer all of its right, title, interest and ownership of the facility to the University.

The Foundation rents additional office storage space under operating leases on a tenant-at-will basis. Approximately \$32,400 in lease expense for the spaces has been recorded in the accompanying statement of activities for the year ended June 30, 2017.

**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***

To the Board of Directors of  
University of Rhode Island Foundation:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the University of Rhode Island Foundation (the Foundation), which comprise the statement of financial position as of June 30, 2017, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated September 15, 2017.

**Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Foundation'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 Foundation's internal control. Accordingly, we do not express an opinion on the effectiveness of the Foundation'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 combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Foundation'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.

**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*, (continued)**

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Foundation'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 Foundation'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 Foundation's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Kahn, Litwin, Kenya & Co., Ltd.*

September 15, 2017