

**UNIVERSITY OF RHODE ISLAND
FOUNDATION**

Financial Statements

Year Ended June 30, 2018

(With Independent Auditors' Report Thereon)

UNIVERSITY OF RHODE ISLAND FOUNDATION
FINANCIAL STATEMENTS
Year Ended June 30, 2018

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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, 2018, 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, 2018, 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, 2017 financial statements, and we expressed an unmodified opinion on those audited financial statements in our report dated September 15, 2017. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2017, 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 14, 2018 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, Renya & Co., Ltd.

September 14, 2018

UNIVERSITY OF RHODE ISLAND FOUNDATION
STATEMENT OF FINANCIAL POSITION
June 30, 2018
(With Comparative Totals at June 30, 2017)

	2018	2017
Assets		
Cash and cash equivalents	\$ 15,799,421	\$ 14,489,190
Accounts receivable	549,355	272,589
Prepaid expenses	201,571	110,821
Pledges receivable, net	18,995,968	17,198,232
Note receivable	-	34,651
Investments, at fair value	160,146,084	144,676,606
Building, equipment, furniture and fixtures, net	2,001,016	1,914,169
Charitable remainder unitrusts	338,442	344,874
	\$ 198,031,857	\$ 179,041,132
Liabilities and Net Assets		
Liabilities:		
Accounts payable and accrued expenses	\$ 470,903	\$ 839,462
Other liability	426,818	597,139
Gift annuity payable	730,727	709,012
Due to URI Research Foundation	1,734,257	1,596,770
Total liabilities	3,362,705	3,742,383
Net Assets:		
Unrestricted:		
Available for operations	4,896,118	3,680,539
Board designated for endowments	2,505,645	2,504,675
Appreciation (depreciation) on board designated endowments	40,303	(107,757)
Total unrestricted	7,442,066	6,077,457
Temporarily restricted:		
Available for University support	29,717,849	26,054,972
Funds acting as endowments	33,110,208	27,844,796
Appreciation on endowments	23,532,514	19,928,288
Total temporarily restricted	86,360,571	73,828,056
Permanently restricted	100,866,515	95,393,236
Total net assets	194,669,152	175,298,749
Total Liabilities and Net Assets	\$ 198,031,857	\$ 179,041,132

UNIVERSITY OF RHODE ISLAND FOUNDATION
STATEMENT OF ACTIVITIES
Year Ended June 30, 2018
(With Comparative Totals for the Year Ended June 30, 2017)



	2018			2017	
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Total
Support and Revenue:					
Support:					
Gifts	\$ 1,032,318	\$ 16,982,399	\$ 6,298,458	\$ 24,313,175	\$ 18,684,162
Miscellaneous receipts	1,055,058	706,920	181,911	1,943,889	535,981
URI development reimbursements	6,076,229	-	-	6,076,229	3,614,217
Transfer to temporarily restricted net assets per donor stipulations	-	1,007,090	-	1,007,090	-
Net assets released from restrictions	15,367,173	(15,367,173)	(1,007,090)	(1,007,090)	-
Total support	23,530,778	3,329,236	5,473,279	32,333,293	22,834,360
Revenue:					
Net gain (loss) on non-endowed investments	97,806	-	-	97,806	(24,526)
Net gain on endowment investments	-	9,258,160	-	9,258,160	14,824,821
Net loss on annuity investments	-	(48,449)	-	(48,449)	(140,956)
Loss on charitable remainder unitrusts	-	(6,432)	-	(6,432)	(24,879)
Total revenue	97,806	9,203,279	-	9,301,085	14,634,460
Total support and revenue	23,628,584	12,532,515	5,473,279	41,634,378	37,468,820
Expenditures:					
Program expenditures:					
Contributions to University of Rhode Island	13,836,844	-	-	13,836,844	15,609,238
Contributions to Alumni Association	819,837	-	-	819,837	561,575
Total program expenditures	14,656,681	-	-	14,656,681	16,170,813
Other expenditures:					
Foundation management expenses	1,362,477	-	-	1,362,477	1,170,037
Development expenses	6,006,317	-	-	6,006,317	5,613,935
Depreciation expense	101,014	-	-	101,014	92,298
Transfer to URI Research Foundation	137,486	-	-	137,486	1,596,770
Total other expenditures	7,607,294	-	-	7,607,294	8,473,040
Total expenditures	22,263,975	-	-	22,263,975	24,643,853
Change in Total Net Assets	1,364,609	12,532,515	5,473,279	19,370,403	12,824,967
Net Assets, beginning of year	6,077,457	73,828,056	95,393,236	175,298,749	162,473,782
Net Assets, end of year	\$ 7,442,066	\$ 86,360,571	\$ 100,866,515	\$ 194,669,152	\$ 175,298,749

UNIVERSITY OF RHODE ISLAND FOUNDATION
STATEMENT OF CASH FLOWS
Year Ended June 30, 2018
(With Comparative Totals for the Year Ended June 30, 2017)



	<u>2018</u>	<u>2017</u>
Cash Flows from Operating Activities:		
Change in total net assets	\$ 19,370,403	\$ 12,824,967
Adjustments to reconcile change in total net assets to net cash provided (used) by operating activities:		
Depreciation expense	101,014	92,298
Net realized and unrealized gain on investments	(8,162,501)	(13,845,552)
Net realized and unrealized loss on charitable remainder unitrusts	6,432	24,879
Contributions restricted for investment in permanently restricted net assets	(5,473,279)	(8,129,695)
Changes in operating assets and liabilities:		
Accounts receivable	(276,766)	(83,375)
Prepaid expenses	(90,750)	826
Temporarily restricted pledges receivable	(1,454,142)	6,804,040
Unrestricted pledges receivable	-	21,252
Accounts payable and accrued expenses	(368,559)	32,378
Other liability	(170,321)	(894,176)
Gift annuity payable	21,715	39,209
Due to URI Research Foundation	137,487	1,596,770
Net cash provided (used) by operating activities	<u>3,640,733</u>	<u>(1,516,179)</u>
Cash Flows from Investing Activities:		
Note receivable	34,651	6,312
Purchases of equipment, furniture and fixtures	(187,861)	(147,346)
Proceeds from investments sold	104,182,721	65,116,421
Purchases of investments	(111,489,698)	(64,362,120)
Net cash provided (used) by investing activities	<u>(7,460,187)</u>	<u>613,267</u>
Cash Flows from Financing Activities:		
Contributions restricted for investment in permanently restricted net assets	5,473,279	8,129,695
Increase in permanently restricted pledges receivable	(343,594)	(4,067,910)
Net cash provided by financing activities	<u>5,129,685</u>	<u>4,061,785</u>
Net Increase in Cash and Cash Equivalents	1,310,231	3,158,873
Cash and Cash Equivalents, beginning of year	<u>14,489,190</u>	<u>11,330,317</u>
Cash and Cash Equivalents, end of year	<u>\$ 15,799,421</u>	<u>\$ 14,489,190</u>

UNIVERSITY OF RHODE ISLAND FOUNDATION
NOTES TO THE FINANCIAL STATEMENTS
Year Ended June 30, 2018

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, 2018

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 the related 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, 2018

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, 2018, approximately 63% of the Foundation's pledges receivable were from four 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 \$1,168,000 for uncollectible amounts is considered necessary at June 30, 2018.

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, 2018

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, 2017 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 standard will be effective for the Foundation's year ending June 30, 2019. 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 14, 2018, which is the date these financial statements were available to be issued.

UNIVERSITY OF RHODE ISLAND FOUNDATION
NOTES TO THE FINANCIAL STATEMENTS
Year Ended June 30, 2018

3. Pledges Receivable

At June 30, 2018, contributors to the Foundation have promised to give \$20,859,446 over the next several years.

The present value of pledges receivable has been calculated using an interest rate of 2.11 % which approximates the Federal Reserve two-year Treasury bill.

Promised contributions are due as follows:

Within one year	\$ 8,675,847
One to five years	12,183,599
	<hr style="width: 100%;"/>
	20,859,446
Less allowance for uncollectible pledges	1,168,042
Less present value component	695,436
	<hr style="width: 100%;"/>
Pledges receivable, net	<u>\$ 18,995,968</u>

Promised contributions as of June 30, 2018 have been designated for the following purposes:

Temporarily restricted	\$ 12,451,097
Permanently restricted	6,544,871
	<hr style="width: 100%;"/>
Total pledges receivable, net	<u>\$ 18,995,968</u>

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 bore interest at 6% and required monthly principal and interest payments of \$716 through February 2022. The note was paid in full during June 2018.

5. Investments and Fair Value Measurements

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, 2018



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, 2018, 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	<u>\$160,146,084</u>	<u>\$ 17,579,544</u>	<u>\$ 61,489,406</u>	<u>\$ 81,077,134</u>

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

Description	U.S. Equity Funds	Foreign Equity Funds	Private Equity/ Venture Capital Funds	Real Asset Funds	Hedge Funds	Total
Beginning balance at						
July 1, 2017	\$ 13,410,803	\$ 22,037,149	\$ 1,146,078	\$ 2,638,951	\$15,224,602	\$54,457,583
Purchases	-	12,200,000	1,641,598	2,000,000	7,360,000	23,201,598
Withdrawals	-	(1,400,000)	-	(700,000)	-	(2,100,000)
Reinvested income (loss), net of investment expenses	97,490	250,096	(103,346)	29,827	(82,305)	191,762
Realized gain	-	1,008,918	85,267	12,739	-	1,106,924
Unrealized gain relating to investments still held at the reporting date	<u>1,895,362</u>	<u>435,251</u>	<u>115,120</u>	<u>306,192</u>	<u>1,467,342</u>	<u>4,219,267</u>
Ending balance at						
June 30, 2018	<u>\$ 15,403,655</u>	<u>\$ 34,531,414</u>	<u>\$ 2,884,717</u>	<u>\$ 4,287,709</u>	<u>\$23,969,639</u>	<u>\$81,077,134</u>

UNIVERSITY OF RHODE ISLAND FOUNDATION
NOTES TO THE FINANCIAL STATEMENTS
Year Ended June 30, 2018

The following represents the Foundation's fair value hierarchy for its investments measured at fair value on a recurring basis at June 30, 2018:

	Cost	Fair Value	Gross Unrealized Gains (Losses)
<u>Level 1</u>			
Equity Securities:			
U.S.	9,108,240	13,164,152	4,055,912
Foreign	3,817,966	4,415,392	597,426
	<hr/>	<hr/>	<hr/>
Total level 1	12,926,206	17,579,544	4,653,338
<u>Level 2</u>			
Fixed Income:			
U.S. Treasuries	17,580,486	17,386,138	(194,348)
U.S. Corporate	11,020,043	10,932,220	(87,823)
Foreign	3,127,062	3,096,634	(30,428)
Multi-Strategy/Other	11,746,134	11,267,733	(478,401)
	<hr/>	<hr/>	<hr/>
	43,473,725	42,682,725	(791,000)
Real Assets	3,665,001	3,647,540	(17,461)
Equity Securities:			
U.S.	5,246,160	9,179,759	3,933,599
Foreign	3,089,752	5,979,382	2,889,630
	<hr/>	<hr/>	<hr/>
	8,335,912	15,159,141	6,823,229
Total level 2	55,474,638	61,489,406	6,014,768
<u>Level 3</u>			
Equity Securities:			
U.S.	3,758,786	15,403,655	11,644,869
Foreign	29,918,650	34,531,414	4,612,764
Private Equity/Venture			
Capital Funds	2,666,806	2,884,717	217,911
Real Asset Funds	5,092,566	4,287,709	(804,857)
Hedge Funds	19,938,667	23,969,639	4,030,972
	<hr/>	<hr/>	<hr/>
Total level 3	61,375,475	81,077,134	19,701,659
Total investments	<hr/> <u>\$ 129,776,319</u>	<hr/> <u>\$ 160,146,084</u>	<hr/> <u>\$ 30,369,765</u>

UNIVERSITY OF RHODE ISLAND FOUNDATION
NOTES TO THE FINANCIAL STATEMENTS
Year Ended June 30, 2018

Total investment income for the year ended June 30, 2018 consisted of \$2,217,062 of interest and dividends, \$7,111,392 net gain on sale of investments, \$1,051,109 net unrealized gain on investments, \$(162,483) of annuity payments and \$(909,563) of investment consulting and management fees.

The Foundation held the following investments as of June 30, 2018 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	Domestic Equity Funds	\$ 15,403,655	Bi-monthly - Annually	1-60 Days
Foreign Equities	Foreign Equity Funds	34,531,414	Bi-monthly - Annually	1-60 Days
Illiquid/Private Equity	Venture Capital and Growth-Related Private Equity Funds	2,884,717	None	None
Real Assets	Real Asset Funds	4,287,709	Monthly	5 Days
Hedge Funds	Hedge Funds	<u>23,969,639</u>	Monthly – 3 Years	5-95 Days
Total		<u>\$ 81,077,134</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.

UNIVERSITY OF RHODE ISLAND FOUNDATION
NOTES TO THE FINANCIAL STATEMENTS
Year Ended June 30, 2018



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

U.S. Equity Fund

The Foundation's investments have an interest in a commingled fund. This fund holds positions of publicly traded United States based common equities.

Foreign Equity Funds

The Foundation's investments have an interest in six commingled funds that hold stock in publicly traded foreign market equities.

Private Equity/Venture Capital Funds

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

Real Asset Funds

The Foundation's investments have an interest in two commingled funds which hold investments in real assets.

Hedge Funds

The Foundation's investments have an interest in six hedge funds which invest in a variety of assets with complex portfolio construction.

6. Building, Equipment, Furniture and Fixtures

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

Building and building improvements	\$ 2,849,237
Equipment, furniture and fixtures	319,272
	3,168,509
Less accumulated depreciation	1,167,493
	\$ 2,001,016

UNIVERSITY OF RHODE ISLAND FOUNDATION
NOTES TO THE FINANCIAL STATEMENTS
Year Ended June 30, 2018



7. Funds Held In Annuities and Unitrusts

Included in temporarily restricted net assets are annuities with a fair market value of approximately \$836,700, 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 \$731,000 at June 30, 2018, 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 \$338,400, 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.

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
Academic support	\$ 4,187,081	\$ 23,665,631	\$ 4,973,737	\$ 32,826,449
Administrative and other purposes	1,612,759	-	374,532	1,987,291
Athletics	1,114,801	-	354,999	1,469,800
Annuities, net	105,978	-	-	105,978
Buildings and equipment	8,852,693	1,134,782	684,045	10,671,520
Faculty chairs	447,236	-	2,341,741	2,788,977
Charitable remainder unitrusts	338,442	-	-	338,442
Library	1,177,601	-	752,605	1,930,206
Outreach programs	1,776,005	-	763,810	2,539,815
Research support	3,659,565	-	365,953	4,025,518
Scholarships, fellowships and awards	6,296,614	8,309,795	12,692,801	27,299,210
Visiting lecturers	149,074	-	228,291	377,365
Total temporarily restricted	\$ 29,717,849	\$ 33,110,208	\$ 23,532,514	\$ 86,360,571

UNIVERSITY OF RHODE ISLAND FOUNDATION
NOTES TO THE FINANCIAL STATEMENTS
Year Ended June 30, 2018

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.

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, 2018 of approximately \$119,531,500 and \$143,136,900, respectively.

UNIVERSITY OF RHODE ISLAND FOUNDATION
NOTES TO THE FINANCIAL STATEMENTS
Year Ended June 30, 2018



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, 2018 of approximately \$134,800 and \$990,800, 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, 2018 was 4.79%, calculated on a rolling prior 12-quarter average market value of the investment portfolio. The spending rate will increase to 5.05% for the fiscal year ending June 30, 2019. 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, 2018

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Scholarships, fellowships and prizes	\$ -	\$ 21,002,596	\$ 55,550,677	\$ 76,553,273
Academic support	-	28,639,368	18,192,619	46,831,987
Board designated	2,545,948	-	-	2,545,948
Research support	-	365,953	654,985	1,020,938
Faculty chairs	-	2,341,741	13,074,391	15,416,132
Library	-	752,605	2,991,874	3,744,479
Buildings and equipment	-	1,818,827	1,046,769	2,865,596
Outreach programs	-	763,810	4,405,713	5,169,523
Athletics	-	354,999	1,552,556	1,907,555
Administrative	-	245,528	1,707,881	1,953,409
Visiting lecturers	-	228,291	1,115,752	1,344,043
Other	-	129,004	573,298	702,302
Total	<u>\$ 2,545,948</u>	<u>\$ 56,642,722</u>	<u>\$ 100,866,515</u>	<u>\$ 160,055,185</u>

UNIVERSITY OF RHODE ISLAND FOUNDATION
NOTES TO THE FINANCIAL STATEMENTS
Year Ended June 30, 2018

Changes in Endowment Net Assets for the Year Ended June 30, 2018

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, July 1, 2017	\$ 2,396,918	\$ 47,773,084	\$ 95,393,236	\$ 145,563,238
Investment return:				
Net appreciation	148,060	9,110,100	-	9,258,160
Contributions	970	5,562,630	5,473,279	11,036,879
Appropriations	-	(5,803,092)	-	(5,803,092)
Endowment net assets, June 30, 2018	\$ 2,545,948	\$ 56,642,722	\$ 100,866,515	\$ 160,055,185

10. Miscellaneous Receipts

Miscellaneous receipts for the year ended June 30, 2018, consisted of goods and services for activities across University departments totaling approximately \$1,943,900.

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 \$405,600 for the year ended June 30, 2018.

12. Commitments and Contingencies

Operating Leases

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

UNIVERSITY OF RHODE ISLAND FOUNDATION
NOTES TO THE FINANCIAL STATEMENTS
Year Ended June 30, 2018

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

<u>Year Ending</u>	
June 30, 2019	\$ 3,600
June 30, 2020	3,600
June 30, 2021	2,100
June 30, 2022	<u>800</u>
Total	<u>\$ 10,100</u>

University Alumni Association

During fiscal year 2017, the University of Rhode Island Alumni Associations’ board approved a \$1,500,000 gift to the Foundation in support of the upcoming capital campaign. \$250,000 was transferred to the Foundation in fiscal year 2018 and \$250,000 is expected in fiscal year 2019. There are no formal payment terms for the remaining balance.

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, 2018 as a liability in the amount of approximately \$1,734,300. 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.

UNIVERSITY OF RHODE ISLAND FOUNDATION
NOTES TO THE FINANCIAL STATEMENTS
Year Ended June 30, 2018

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 \$13,836,800 in support of the University in accordance with the donated purpose for the year ended June 30, 2018. 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 \$426,800 for amounts due related to these expenditures.

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, 2018. 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 \$6,254,200 to the Foundation, payable monthly in advance to support the Foundation's fundraising and development activities.

Under this Agreement, reimbursements from the University for the year ended June 30, 2018 amounted to approximately \$6,254,200. As part of this agreement, the Foundation provided unrestricted annual support to the Alumni Association of the University totaling approximately \$819,800 (payable monthly in advance) through June 30, 2018.

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.

UNIVERSITY OF RHODE ISLAND FOUNDATION
NOTES TO THE FINANCIAL STATEMENTS
Year Ended June 30, 2018

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, 2018.

**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, 2018, 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 14, 2018.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the University of Rhode Island 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 University of Rhode Island Foundation's internal control. Accordingly, we do not express an opinion on the effectiveness of the University of Rhode Island 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 University of Rhode Island 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 University of Rhode Island 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 University of Rhode Island 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 University of Rhode Island Foundation's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Kahn, Litwin, Kenya & Co., Ltd.

September 14, 2018