

**THE UNIVERSITY OF RHODE ISLAND
FOUNDATION & ALUMNI ENGAGEMENT
(A Component Unit of the University of Rhode Island)**

Financial Statements

Year Ended June 30, 2020

(With Independent Auditors' Report Thereon)

**THE UNIVERSITY OF RHODE ISLAND FOUNDATION & ALUMNI ENGAGEMENT
(A Component Unit of the University of Rhode Island)**

FINANCIAL STATEMENTS

Year Ended June 30, 2020

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
The University of Rhode Island Foundation & Alumni Engagement:

Report on the Financial Statements

We have audited the accompanying financial statements of The University of Rhode Island Foundation & Alumni Engagement (a non-profit organization) (a component unit of the University of Rhode Island) (the Organization), which comprise the statement of financial position as of June 30, 2020, and the related statements of activities, cash flows, and functional expenses 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 Organization'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 Organization'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 The University of Rhode Island Foundation & Alumni Engagement as of June 30, 2020, 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 Organization's June 30, 2019 financial statements, and we expressed an unmodified opinion on those audited financial statements in our report dated September 13, 2019. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2019, 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 8, 2020, on our consideration of the Organization'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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Organization's 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 Organization's internal control over financial reporting and compliance.

Emphasis of a Matter

Effective July 1, 2019, the Organization merged with another not-for-profit organization, as described in Note 1.

September 8, 2020

Kahn, Litwin, Renya & Co., Ltd.

THE UNIVERSITY OF RHODE ISLAND FOUNDATION & ALUMNI ENGAGEMENT
STATEMENT OF FINANCIAL POSITION
(A Component Unit of the University of Rhode Island)
June 30, 2020
(With Comparative Totals at June 30, 2019)



	2020	2019
Assets		
Cash and cash equivalents	\$ 12,156,029	\$ 12,313,254
Accounts receivable	1,915,066	68,944
Prepaid expenses	249,376	169,499
Pledges receivable, net (Note 4)	30,423,965	15,737,404
Investments, at fair value	202,821,094	179,912,921
Building, equipment, furniture and fixtures, net	1,821,070	1,916,195
Charitable remainder unitrusts	319,922	332,947
	\$ 249,706,522	\$ 210,451,164
Total Assets		
Liabilities and Net Assets		
Liabilities:		
Accounts payable and accrued expenses	\$ 761,237	\$ 514,632
Due to URI	4,940,457	3,193,436
Gift annuity payable	1,354,664	1,348,261
Due to URI Research Foundation	1,515,609	1,557,073
Total liabilities	8,571,967	6,613,402
Net Assets:		
Without donor restrictions:		
Available for operations	9,240,323	4,714,940
Board designated for endowments	5,206,482	2,505,801
Depreciation on board designated endowments	(71,065)	(4,429)
Total net assets without donor restrictions	14,375,740	7,216,312
With donor restrictions:		
Restricted by purpose:		
Available for University support	52,857,115	34,346,181
Funds acting as endowments	43,590,841	34,903,439
Appreciation on endowments	18,217,075	21,417,530
Total net assets with donor restrictions by purpose	114,665,031	90,667,150
Restricted in perpetuity:	112,093,784	105,954,300
Total net assets	241,134,555	203,837,762
Total Liabilities and Net Assets	\$ 249,706,522	\$ 210,451,164

THE UNIVERSITY OF RHODE ISLAND FOUNDATION & ALUMNI ENGAGEMENT
STATEMENT OF ACTIVITIES
(A Component Unit of the University of Rhode Island)
Year Ended June 30, 2020
(With Comparative Totals for the Year Ended June 30, 2019)



	2020			2019
	Without Donor Restrictions	With Donor Restrictions	Total	Total
Support and Revenue:				
Support:				
Gifts	\$ 1,056,749	\$ 46,410,960	\$ 47,467,709	\$ 23,508,124
Miscellaneous receipts	440,809	1,133,960	1,574,769	1,177,828
URI development reimbursements	6,369,832	-	6,369,832	6,813,517
In-kind donations	768,773	-	768,773	-
Transfer to net assets with donor restrictions	-	-	-	755,797
Net assets released from restrictions	20,946,725	(20,946,725)	-	(755,797)
Total support	29,582,888	26,598,195	56,181,083	31,499,469
Revenue:				
Net gain on non-endowed investments	2,054,277	-	2,054,277	1,456,040
Net gain on endowment investments	-	3,321,570	3,321,570	3,952,336
Net change in annuity investments	-	(707,486)	(707,486)	(724,414)
Loss on charitable remainder unitrusts	-	(13,025)	(13,025)	(5,495)
Total revenue	2,054,277	2,601,059	4,655,336	4,678,467
Total support and revenue	31,637,165	29,199,254	60,836,419	36,177,936
Expenditures:				
Program expenditures:				
Contributions to University of Rhode Island	19,004,863	-	19,004,863	17,326,807
Contributions to Alumni Association	-	-	-	1,557,125
Total program expenditures	19,004,863	-	19,004,863	18,883,932
Other expenditures:				
Foundation management expenses	1,706,006	-	1,706,006	1,434,368
Alumni engagement expenses	2,197,595	-	2,197,595	-
Development expenses	7,393,740	-	7,393,740	6,767,993
Depreciation expense	101,035	-	101,035	100,217
Transfer from URI Research Foundation	(41,464)	-	(41,464)	(177,184)
Total other expenditures	11,356,912	-	11,356,912	8,125,394
Total expenditures	30,361,775	-	30,361,775	27,009,326
Change in net assets before changes related to merger with URI Alumni Association	1,275,390	29,199,254	30,474,644	9,168,610
Excess of assets over liabilities assumed in merger with URI Alumni Association	5,884,038	938,111	6,822,149	-
Net Assets, beginning of year	7,216,312	196,621,450	203,837,762	194,669,152
Net Assets, end of year	\$ 14,375,740	\$ 226,758,815	\$ 241,134,555	\$ 203,837,762

THE UNIVERSITY OF RHODE ISLAND FOUNDATION & ALUMNI ENGAGEMENT
STATEMENT OF CASH FLOWS
(A Component Unit of the University of Rhode Island)
Year Ended June 30, 2020
(With Comparative Totals for the Year Ended June 30, 2019)



	<u>2020</u>	<u>2019</u>
Cash Flows from Operating Activities:		
Change in net assets before changes related to merger with URI Alumni Association	\$ 30,474,644	\$ 9,168,610
Adjustments to reconcile change in total net assets to net cash provided by operating activities:		
Depreciation expense	101,035	100,217
Net realized and unrealized gain on investments	(2,425,141)	(3,149,716)
Net realized and unrealized loss on charitable remainder unitrusts	13,025	5,495
Contributions restricted by donor in perpetuity	(6,139,482)	(5,087,785)
Changes in operating assets and liabilities:		
Accounts receivable	(1,682,495)	480,411
Prepaid expenses	(61,572)	32,072
Pledges receivable restricted by donor with purpose	(13,941,742)	1,342,765
Accounts payable and accrued expenses	(2,627,532)	43,729
Due to URI	4,102,694	2,766,618
Gift annuity payable	6,403	617,534
Due to URI Research Foundation	(41,464)	(177,184)
Net cash provided by operating activities	<u>7,778,373</u>	<u>6,142,766</u>
Cash Flows from Investing Activities:		
Purchases of equipment, furniture and fixtures	-	(15,396)
Proceeds from investments sold	54,108,950	38,493,374
Purchases of investments	(68,484,077)	(55,110,495)
Net cash used by investing activities	<u>(14,375,127)</u>	<u>(16,632,517)</u>
Cash Flows from Financing Activities:		
Contributions restricted by donor in perpetuity	6,139,482	5,087,785
Increase in pledges receivable restricted by donor in perpetuity	(744,819)	1,915,799
Net cash provided by financing activities	<u>5,394,663</u>	<u>7,003,584</u>
Net Decrease in Cash and Cash Equivalents	(1,202,091)	(3,486,167)
Cash transferred in merger with URI Alumni Association	1,044,866	-
Cash and Cash Equivalents, beginning of year	<u>12,313,254</u>	<u>15,799,421</u>
Cash and Cash Equivalents, end of year	<u>\$ 12,156,029</u>	<u>\$ 12,313,254</u>

THE UNIVERSITY OF RHODE ISLAND FOUNDATION & ALUMNI ENGAGEMENT
STATEMENT OF FUNCTIONAL EXPENSES
(A Component Unit of the University of Rhode Island)
Year Ended June 30, 2020
(With Comparative Totals for the Year Ended June 30, 2019)



	2020			2019	
	Foundation Management	Alumni Engagement	Development	Total	Total
Payroll and benefits	\$ 1,092,115	1,561,622	\$ 6,293,956	\$ 8,947,693	\$ 6,719,862
Donor cultivation activities	11,458	227,589	155,708	394,755	206,963
Building occupancy and maintenance	78,710	103,361	38,802	220,873	124,887
Professional services	354,574	39,277	434,513	828,364	656,971
Office expenses	154,513	69,964	107,822	332,299	206,969
Dues and subscriptions	14,636	39,613	360,139	414,388	199,709
Sponsorship and event support	-	156,169	2,800	158,969	87,000
Total Expenses, exclusive of depreciation and transfer from URI Research Foundation	\$ 1,706,006	\$ 2,197,595	\$ 7,393,740	\$ 11,297,341	\$ 8,202,361

THE UNIVERSITY OF RHODE ISLAND FOUNDATION & ALUMNI ENGAGEMENT
(A Component Unit of the University of Rhode Island)
NOTES TO THE FINANCIAL STATEMENTS
Year Ended June 30, 2020



1. Nature of Operations

The 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.

Effective July 1, 2019, the Foundation merged with the University of Rhode Island Alumni Association (the Alumni Association). The Boards of both entities approved the merger unanimously on June 5, 2019 and June 7, 2019. These votes were later ratified by the Foundation and Alumni Association Trustees prior to the effective date of July 1, 2019. The University of Rhode Island Foundation, the surviving entity of the merger changed its name to The University of Rhode Island Foundation & Alumni Engagement (URIFAE) (the Organization), to better reflect the combined activities of the new organization.

The merger was the final step following ongoing efforts between both organizations to integrate operational synergies across advancement and alumni engagement, while remaining focused on the shared mission of advancing the University of Rhode Island.

In accordance with authoritative guidance, the assets acquired and liabilities assumed in the transaction are allocated based on their estimated fair values at the acquisition date. In valuing acquired assets and assumed liabilities, fair values are based on quoted market prices, expected future cash flows, current replacement costs, market rate assumptions and appropriate discount and growth rates.

The following assets and liabilities were acquired by the University of Rhode Island Foundation (at fair value):

Assets:	
Cash	\$ 1,044,866
Investments	6,107,905
Accounts receivable	163,627
Prepaid expenses	18,305
Property and equipment, net	<u>5,910</u>
Total Assets	<u><u>\$ 7,340,613</u></u>

THE UNIVERSITY OF RHODE ISLAND FOUNDATION & ALUMNI ENGAGEMENT
(A Component Unit of the University of Rhode Island)
NOTES TO THE FINANCIAL STATEMENTS
Year Ended June 30, 2020



Liabilities:	
Accounts payable and accrued expenses	\$ 107,519
Due to URI	410,945
Total Liabilities	518,464
Net Assets:	
Without donor restrictions	5,884,038
With donor restrictions	938,111
Total Net Assets	6,822,149
Total Liabilities and Net Assets	\$ 7,340,613

2. Summary of Significant Accounting Policies

This summary of significant accounting policies of the Organization is presented to assist in understanding the Organization’s financial statements. The financial statements and notes are representations of the Organization’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.

Accounting Pronouncements Adopted

In June 2018, the FASB issued ASU 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*, which is effective for annual periods beginning after December 15, 2018. The standard provides guidance on characterizing grants and similar contracts as reciprocal exchanges or contributions, determining whether a contribution is conditional and the simultaneous release option. The Organization adopted the provisions of this new standard during the year ended June 30, 2020.

Financial Statement Presentation

The Organization 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 two classes of net assets: net assets without donor restrictions and net assets with donor restrictions.

Net Assets without Donor Restrictions (Note 8 & 9)

Net assets without donor restrictions are available for use at the discretion of the Board of Directors (the Board) and/or management for general operating purposes. From time to time the Board designates a portion of these net assets for specific purposes which make them unavailable for use at management’s discretion.

THE UNIVERSITY OF RHODE ISLAND FOUNDATION & ALUMNI ENGAGEMENT
(A Component Unit of the University of Rhode Island)
NOTES TO THE FINANCIAL STATEMENTS
Year Ended June 30, 2020



Net Assets with Donor Restrictions (Note 8 & 9)

Net assets with donor restrictions consist of assets whose use is limited by donor-imposed, time and/or purpose restrictions. Other imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity.

Donor restricted contributions are reported as increases in net assets with donor restrictions. When a restriction expires, net assets are reclassified from net assets with donor restrictions to net assets without donor restrictions in the statement of activities.

Cash and Cash Equivalents

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

Accounts and Pledges Receivable

The Organization 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 Organization evaluates its receivables and establishes an allowance for doubtful accounts using historical collection rates and general economic conditions. The Organization's management has determined that a reserve of approximately \$2,268,000 for uncollectible amounts is considered necessary at June 30, 2020.

The Organization does not accrue interest on receivables. A receivable is considered past due if payment has not been received within stated terms. 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.

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 an accrual basis. Dividends are recorded on the ex-dividend date. Interest and dividends, net of investment consulting and management fees, are reported as investment income.

THE UNIVERSITY OF RHODE ISLAND FOUNDATION & ALUMNI ENGAGEMENT
(A Component Unit of the University of Rhode Island)
NOTES TO THE FINANCIAL STATEMENTS
Year Ended June 30, 2020



Building, Equipment, Furniture and Fixtures

Building, equipment, furniture and fixtures are recorded at cost except for 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	5-7 years

Revenue Recognition

Contributions received are recorded as without donor restrictions or with donor restrictions depending on the existence and nature of donor restrictions. Contributions may include actual gifts or promises to give. Such contributions are considered to be available for general operating purposes 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 in a timely manner, in order to avoid any market fluctuations.

Concentrations of Credit Risk

Financial instruments which potentially subject the Organization to concentrations of credit and market risk are cash and cash equivalents, receivables and investments. The Organization's cash balance in its checking account exceeds \$250,000, the amount covered by insurance through the Federal Deposit Insurance Corporation (FDIC). Management is aware of this potential loss exposure and has adopted a practice of depositing funds only with highly capitalized financial institutions.

Concentration of credit risk with respect to pledges receivable is generally limited due to the large number of donors comprising the Organization's donor base and their dispersion across different geographic areas. However, as of June 30, 2020, approximately 61% of the Organization'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 necessary as a result of this concentration.

Investments in securities are exposed to various risks, such as interest rate, market and credit risks. Due to the level of risk associated with certain investments, 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 as the Organization's investment portfolio is highly diversified (Note 5).

THE UNIVERSITY OF RHODE ISLAND FOUNDATION & ALUMNI ENGAGEMENT
(A Component Unit of the University of Rhode Island)
NOTES TO THE FINANCIAL STATEMENTS
Year Ended June 30, 2020

Income Tax Status

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

The Organization 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 Organization also annually files IRS Form 990-T – *Exempt Organization's Business Income Tax Return* for all of its foreign investment disclosure requirements. The Organization currently has no tax examinations in progress.

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.

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.

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 Organization's financial statements and related notes to the financial statements for the year ended June 30, 2019, from which the summarized information was derived.

Recent Accounting Pronouncement

In February 2016, the FASB issued ASU 2016-02, Leases. The standard requires all leases with lease terms of 12 months or more to be capitalized as a right-of-use asset and a 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 Organization's year ending June 30, 2022, with early adoption permitted. The Organization is currently in the process of evaluating the impact of adoption on the financial statements.

THE UNIVERSITY OF RHODE ISLAND FOUNDATION & ALUMNI ENGAGEMENT
(A Component Unit of the University of Rhode Island)
NOTES TO THE FINANCIAL STATEMENTS
Year Ended June 30, 2020



Subsequent Events

The COVID-19 outbreak in the United States has caused disruption through mandated and voluntary closings of some of the University’s programs. The Organization directly services the University through development and alumni activities which have been restricted; however the Organization continues to provide donor support across University programs and any alumni activities held are in accordance with state guidelines. Management has taken steps to reduce the Organization's operating budget and will monitor it closely throughout the year to minimize exposure. While the disruption is currently expected to be temporary, there is considerable uncertainty around the duration of the interruptions. As of September 8, 2020, the date these financial statements were available to be issued, the extent to which COVID-19 may impact the financial condition or the results of operations is unknown.

Management has evaluated subsequent events through September 8, 2020, which is the date these financial statements were available to be issued.

3. Liquidity and Availability

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the statement of financial position date, comprise the following:

Financial assets:	
Cash	\$ 4,911,602
Accounts receivable	1,915,066
Investments	<u>45,776,622</u>
Financial assets, at June 30, 2020	<u>52,603,290</u>
Less those unavailable for general expenditure within one year, due to:	
Investments in board designated endowments and accumulated depreciation	985,355
Available for University support	<u>38,915,372</u>
	<u>39,900,727</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 12,702,563</u>

In addition, the Organization manages its liquidity by developing and adopting annual operating budgets that provide sufficient funds for general expenditures in meeting its liabilities and other obligations as they come due. Actual performance is reported and monitored monthly in comparison to these budgets. Adjustments are made as needed to ensure adequate liquidity.

THE UNIVERSITY OF RHODE ISLAND FOUNDATION & ALUMNI ENGAGEMENT
(A Component Unit of the University of Rhode Island)
NOTES TO THE FINANCIAL STATEMENTS
Year Ended June 30, 2020



4. Pledges Receivable

At June 30, 2020, contributors to the Organization have promised to give \$32,907,352 over the next five years.

The present value of pledges receivable has been calculated using an interest rate of 0.29%, which approximates the Federal Reserve five-year Treasury bill.

Promised contributions are due as follows:

Within one year	\$ 12,279,926
One to five years	20,627,426
	32,907,352
Less: allowance for uncollectible pledges	2,267,737
Less: present value component	215,650
	\$ 30,423,965

Promised contributions as of June 30, 2020 have been designated for the following purposes:

Donor restricted by purpose	\$ 25,050,074
Donor restricted in perpetuity	5,373,891
	\$ 30,423,965

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 Organization has the ability to access.

THE UNIVERSITY OF RHODE ISLAND FOUNDATION & ALUMNI ENGAGEMENT
(A Component Unit of the University of Rhode Island)
NOTES TO THE FINANCIAL STATEMENTS
Year Ended June 30, 2020



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 and significant to the fair value measurement. The unobservable inputs are developed based on the best information available in the circumstances and may include the Organization's own data.

The Organization 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 Organization 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 Organization'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.

Level 3 investment values are provided by the Organization'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 Organization's management periodically tests the asset balances of the individual funds.

The following table summarizes the Organization's investments measured at fair value on a recurring basis as of June 30, 2020, aggregated by the fair value hierarchy level within which those measurements were made:

<u>Fair Value</u>	<u>Quoted Prices in Active Markets for Identical Assets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>	
Investments	<u>\$ 202,821,094</u>	<u>\$ 37,755,938</u>	<u>\$ 63,145,317</u>	<u>\$ 103,157,335</u>

THE UNIVERSITY OF RHODE ISLAND FOUNDATION & ALUMNI ENGAGEMENT
(A Component Unit of the University of Rhode Island)
NOTES TO THE FINANCIAL STATEMENTS
Year Ended June 30, 2020



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, 2019	\$ 22,550,846	\$ 44,000,629	\$ 5,239,497	\$ 2,342,016	\$27,781,748	\$ 101,914,736
Purchases	-	3,500,000	2,992,921	-	11,000,000	17,492,921
Withdrawals	-	(12,823,537)	-	(1,961,489)	(3,709,654)	(18,494,680)
Reinvested income (loss), net of investment expenses	186,128	229,227	(108,587)	47,376	(111,093)	243,051
Realized gain (loss)	-	2,038,298	105,479	(281,801)	(104,352)	1,757,624
Unrealized gain (loss) relating to investments still held at the reporting date	<u>1,984,813</u>	<u>(2,391,878)</u>	<u>(89,005)</u>	<u>(146,102)</u>	<u>885,855</u>	<u>243,683</u>
Ending balance at June 30, 2020	<u>\$ 24,721,787</u>	<u>\$ 34,552,739</u>	<u>\$ 8,140,305</u>	<u>\$ -</u>	<u>\$35,742,504</u>	<u>\$103,157,335</u>

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The following represents the Organization's fair value hierarchy for its investments measured at fair value on a recurring basis at June 30, 2020:

	Cost	Fair Value	Gross Unrealized Gains (Losses)
<u>Level 1</u>			
Mutual Funds	8,059,282	7,118,986	(940,296)
U.S. Equity Securities	27,796,231	29,399,455	1,603,224
Total level 1	35,855,513	36,518,441	662,928
<u>Level 2</u>			
Fixed Income:			
U.S. Treasuries	22,936,126	24,657,278	1,721,152
U.S. Corporate	20,897,273	21,561,743	664,470
Foreign	2,011,606	2,098,104	86,498
Multi-Strategy/Other	8,068,961	8,107,526	38,565
	53,913,966	56,424,651	2,510,685
Equity Securities:			
U.S. Equities	748,842	766,203	17,361
Foreign Equities	3,621,450	5,892,316	2,270,866
	4,370,292	6,658,519	2,288,227
Real Assets	68,997	62,148	(6,849)
Total level 2	58,353,255	63,145,317	4,792,063
<u>Level 3</u>			
Equity Securities:			
U.S.	8,952,697	24,721,787	15,769,090
Foreign	32,527,405	34,552,739	2,025,334
Private Equity/Venture			
Capital Funds	7,365,654	8,140,305	774,651
Hedge Funds	29,919,693	35,742,504	5,822,811
Total level 3	78,765,449	103,157,335	24,391,886
Total investments	\$ 172,974,217	\$ 202,821,094	\$ 29,846,877

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Total investment income for the year ended June 30, 2020 consisted of :

Interest and dividends	\$ 3,861,963
Net gain on sale of investments	4,374,936
Net unrealized loss on investments	(1,878,100)
Annuity payments	(636,809)
Investment consulting and management fees	<u>(1,053,629)</u>
 Total investment income	 <u>\$ 4,668,361</u>

The Organization held the following investments as of June 30, 2020 for which NAV was employed to estimate fair value:

Asset Class	Investment	Fair Value Determined Using NAV	Redemption Frequency	Redemption Notice Period
Domestic Equities	Domestic Equity Funds	\$ 24,721,787	Bi-monthly - Annually	1-60 Days
Foreign Equities	Foreign Equity Funds	34,552,739	Bi-monthly - Annually	1-60 Days
Private Equity	Venture Capital and Growth-Related Private Equity Funds	8,140,305	None	None
Hedge Funds	Hedge Funds	<u>35,742,504</u>	Monthly – 3 Years	5-95 Days
Total		<u>\$103,157,335</u>		

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

Domestic Equity Funds

The Organization’s investments includes interests in two commingled funds. This fund holds positions of publicly traded United States based common equities.

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Foreign Equity Funds

The Organization's investments include interests in seven commingled funds that hold stock in publicly traded foreign market equities.

Private Equity/Venture Capital Funds

The Organization's investments include interests in twelve venture capital and growth-related private equity funds, direct investments into start-up and development stage companies, and all activity related thereto. These investments require an initial capital commitment but are funded over time with ongoing capital calls (unfixed intervals) that typically take several years to fulfill. Unfunded commitments as of June 30, 2020 are approximately \$15,282,200.

Real Asset Funds

The Organization's investments include an interest in a commingled fund which hold investments in real assets.

Hedge Funds

The Organization's investments include interests in eight 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	341,034
	3,190,271
Less accumulated depreciation	1,369,201
	\$ 1,821,070

7. Funds Held in Annuities and Unitrusts

Included in net assets with donor restrictions are annuities with a fair market value of approximately \$2,351,700, 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 \$1,355,000 at June 30, 2020, which will be disbursed over the annuitants' and/or designated beneficiaries' lifetimes.

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In addition, these financial statements include assets at net present value of approximately \$319,900, which are controlled by independent trustees in unitrusts. Such assets are included in net assets with donor restrictions and will eventually revert to the benefit of the Organization upon satisfaction of each trusts' restrictions.

8. Net Assets with Donor Restrictions by Purpose

Net assets with donor restrictions by purpose consist of funds for general program needs and restricted endowments, which include appreciation and inflation (Note 9). These assets are held by the Organization 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	\$ 20,223,283	\$ 32,978,836	\$ 5,429,572	\$ 58,631,691
Administrative and other purposes	3,266,479	-	246,827	3,513,306
Athletics	2,002,543	-	353,399	2,355,942
Buildings and equipment	12,608,961	1,134,782	457,936	14,201,679
Faculty chairs	753,964	-	1,792,322	2,546,286
Charitable remainder unitrusts	319,922	-	-	319,922
Library	1,051,942	-	511,359	1,563,301
Outreach programs	1,888,026	-	530,586	2,418,612
Research support	2,600,283	218,648	344,523	3,163,454
Scholarships, fellowships and awards	7,947,320	9,258,575	8,379,629	25,585,524
Visiting lecturers	194,392	-	170,922	365,314
Total donor restricted by purpose	<u>\$ 52,857,115</u>	<u>\$ 43,590,841</u>	<u>\$ 18,217,075</u>	<u>\$ 114,665,031</u>

9. Endowment

The endowments primarily include donor-imposed restricted endowment funds, but also include a portion of funds designated by the Organization's Board to function as an endowment.

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Rhode Island UPMIFA requires 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. The net assets are classified with donor restrictions; restricted in perpetuity 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 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 net assets with donor restrictions; restricted in perpetuity is classified within net assets with donor restrictions by purpose until those amounts are appropriated for expenditure by the Organization in a manner consistent with the standard of prudence by Rhode Island UPMIFA. In accordance with Rhode Island UPMIFA, the Organization 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 Organization 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 Organization, and
- The investment policy of the Organization.

The endowment of the Organization 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 month ends, the market value of the GEF determines the new unit value. The GEF holds the vast majority of gifts received by the Organization through the years with a historic dollar value and fair market value at June 30, 2020 of approximately \$142,637,000 and \$159,221,600, respectively.

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, 2020 of approximately \$134,800 and \$1,058,800, respectively.

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

The Organization's spending rate for the fiscal year ended June 30, 2020 was 5.05%, calculated on a prior 12-quarter rolling average market value of the investment portfolio. The spending rate will be 5.55% for the fiscal year ending June 30, 2021. These rates contain both the University distribution and the Organization's management fee.

Endowment Net Asset Composition by Type of Fund as of June 30, 2020

	Without Donor Restrictions, net of Depreciation	Donor Restricted by Purpose*	Restricted in Perpetuity	Total
Scholarships, fellowships and prizes	\$ -	\$ 17,638,204	\$ 59,783,929	\$ 77,422,133
Academic support	-	38,408,408	18,516,370	56,924,778
Board designated	5,135,417	-	-	2,435,417
Research support	-	563,171	1,569,574	2,132,745
Faculty chairs	-	1,792,322	17,311,286	19,103,608
Library	-	511,359	3,059,426	3,570,785
Buildings and equipment	-	1,592,718	1,049,052	2,641,770
Outreach programs	-	530,586	4,580,697	5,111,283
Athletics	-	353,399	2,578,452	2,931,851
Administrative	-	164,385	1,528,046	1,692,431
Visiting lecturers	-	170,922	1,236,917	1,407,839
Other	-	82,442	880,035	962,477
Total	\$ 5,135,417	\$ 61,807,916	\$ 112,093,784	\$ 179,037,117

*Funds acting as endowments, including appreciation

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Changes in Endowment Net Assets for the Year Ended June 30, 2020

	Without Donor Restrictions	Donor Restricted by Purpose	Restricted in Perpetuity	Total
Endowment net assets, July 1, 2019	\$ 2,501,372	\$ 56,320,969	\$ 105,954,300	\$ 164,776,641
Investment return:				
Net appreciation (depreciation)	(66,634)	3,388,204	-	3,321,570
Contributions	2,700,679	8,645,939	6,139,484	17,486,102
Appropriations	-	(6,547,196)	-	(6,547,196)
Endowment net assets, June 30, 2020	\$ 5,135,417	\$ 61,807,916	\$ 112,093,784	\$ 179,037,117

10. Miscellaneous Receipts

Miscellaneous receipts for the year ended June 30, 2020 consisted of goods and services for activities across University departments totaling approximately \$1,574,800.

11. Retirement Plans

The Organization maintains The University of Rhode Island Foundation Defined Contribution Retirement Plan and The Alumni Association of the University of Rhode Island Retirement Plan (the Plans) under Section 403(b) of the Internal Revenue Code. The Plans require contributions of 5% of eligible employees' compensation with matching contributions of 9% by the Foundation. Total contributions by the Organization under the Plans was approximately \$491,000 for the year ended June 30, 2020, which is included in foundation management expenses in the accompanying statement of activities.

Effective January 1, 2019, the Organization adopted the University of Rhode Island Foundation 457(b) Plan under Section 457(b) of the Internal Revenue Code of 1986. The approximate amount of employee deferrals for the year ended June 30, 2020 was \$5,400. The Organization contributed approximately \$5,800 during the year ended June 30, 2020.

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12. Commitments and Contingencies

Operating Leases

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

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

<u>Year Ending</u>	
June 30, 2021	\$ 2,100
June 30, 2022	<u>800</u>
Total	<u><u>\$ 2,900</u></u>

URI Research Foundation

The Organization 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 Organization 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 Organization 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, 2020 as a liability in the amount of approximately \$1,515,600. It is unclear at this time whether the balance of the funds will be transferred to the URI Research Foundation or if the Organization will continue to hold and invest the funds on their behalf while remaining under obligation to make the funds available upon request.

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13. Related Party Agreements

Contributions to University of Rhode Island

The Organization, 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 Organization 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 Organization disbursed approximately \$19,004,900 in support of the University in accordance with the donated purpose for the year ended June 30, 2020. Fluctuations in spending from year to year are driven by the current needs of the University. The Organization has recorded a liability to the University of approximately \$4,940,500 for amounts due related to these expenditures.

Lease Agreement

The Organization 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 Organization additional 10-year option periods not to exceed eight additional terms. Upon termination of the lease, the Organization shall transfer all of its right, title, interest and ownership of the facility to the University.

The Organization rents additional office and storage space under operating leases on a tenant-at-will basis. Approximately \$35,800 in lease expense for the space has been recorded in the accompanying statement of activities for the year ended June 30, 2020.

University Support

The University provides various services and other items to the Organization, which are reported as in-kind donations in the accompanying statement of activities. A summary is as follows:

Personnel	\$ 563,679
General and administrative costs	98,701
Rent	82,000
Telephone	9,833
Printing costs	9,546
Postage	<u>5,014</u>
 Total in-kind	 <u><u>\$ 768,773</u></u>

**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
The University of Rhode Island Foundation & Alumni Engagement:

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 The University of Rhode Island Foundation & Alumni Engagement (a component unit of the University of Rhode Island) (the Organization), which comprise the statement of financial position as of June 30, 2020, 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 8, 2020.

Internal Control over Financial Reporting

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

September 8, 2020

Kahn, Litwin, Renga & Co., Ltd.