

# Independent Auditors' Report

We have audited the statements of financial position—modified cash basis of the University of Rhode Island Foundation (a non-profit corporation) as of March 31, 2002 and the related statements of activities—modified cash basis and cash flows—modified cash basis for the year then ended. These financial statements are the responsibility of the University of Rhode Island Foundation's management. Our responsibility is to express an opinion on these financial statements based on our audit. Information for the year ended March 31, 2001 is presented for comparative purposes only and was extracted from financial statements which we previously audited in accordance with auditing standards generally accepted in the United States of America.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in note 1, these financial statements were prepared on the modified cash basis of accounting and are not intended to be presented in conformity with accounting principles generally accepted in the United States of America.

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 March 31, 2002 and the changes in its net assets and its cash flows for the year then ended, on the basis of accounting described in note 1.

Kahn, Litwin, Renza & Co., Ltd.



## Statements of Financial Position Modified Cash Basis March 31, 2002 and 2001

Assets	2002	2001
Cash and cash equivalents	\$3,657,303	6,888,435
U.S. Government securities at market value	19,564,006	22,062,848
Corporate bonds at market value	4,289,711	4,990,953
Common stock at market value	44,689,732	40,147,063
Notes receivable	712,333	826,029
Net investments in sales-type leases	148,866	183,658
Other assets	4,888,731	2,666,205
<b>Total assets</b>	<b>\$77,950,682</b>	<b>77,765,191</b>
<b>Net Assets</b>		
Unrestricted	\$7,249,981	5,706,614
Temporarily restricted	25,773,954	30,186,299
Permanently restricted	44,926,747	41,872,278
Commitments (notes 11 and 12)	-	-
<b>Total net assets</b>	<b>\$77,950,682</b>	<b>77,765,191</b>

See accompanying notes to financial statements and independent auditors' report.

## Statement of Activities Modified Cash Basis March 31, 2002 and 2001

Support and Revenue	Unrestricted	Temporarily Restricted	Permanently Restricted	2002 Total	2001 Total
<b>Support</b>					
Gifts	\$1,496,115	8,050,881	1,888,336	11,435,332	11,910,452
Sale of boats	151,473	-	-	151,473	206,283
Miscellaneous receipts	375,000	1,371,880	-	1,746,880	972,868
Patent receipts	-	887,014	-	887,014	699,497
Net assets released from restrictions	14,587,302	(14,587,302)	-	-	-
<b>Total support</b>	<b>16,609,890</b>	<b>(4,277,527)</b>	<b>1,888,336</b>	<b>14,220,699</b>	<b>13,789,100</b>
<b>Revenue</b>					
Investment income	838,556	1,650,004	-	2,488,560	2,525,568
Net realized and unrealized gains (losses) on sale of investments	(160,394)	(811,198)	-	(971,592)	(7,247,363)
Transfer to permanently restricted net assets (note 9)	(192,509)	(973,624)	1,166,133	-	-
<b>Total revenue</b>	<b>485,653</b>	<b>(134,818)</b>	<b>1,166,133</b>	<b>1,516,968</b>	<b>(4,721,795)</b>
<b>Total support and revenue (loss)</b>	<b>17,095,543</b>	<b>(4,412,345)</b>	<b>3,054,469</b>	<b>15,737,667</b>	<b>9,067,305</b>
<b>Expenditures:</b>					
<b>Program expenditures</b>					
Contributions to the University of Rhode Island	13,256,868	-	-	13,256,868	8,491,130
<b>Total program expenditures</b>	<b>13,256,868</b>	<b>-</b>	<b>-</b>	<b>13,256,868</b>	<b>8,491,130</b>
<b>Other expenditures</b>					
Investment management fees	437,078	-	-	437,078	488,671
Foundation management expenses	639,894	-	-	639,894	625,553
Payments to annuitants and beneficiaries	86,193	-	-	86,193	49,729
Cost and expenses of boats sold	369,383	-	-	369,383	429,204
Patent expense	267,553	-	-	267,553	159,748
Miscellaneous expenses	495,207	-	-	495,207	42,693
<b>Total other expenditures</b>	<b>2,295,308</b>	<b>-</b>	<b>-</b>	<b>2,295,308</b>	<b>1,795,598</b>
<b>Total expenditures</b>	<b>15,552,176</b>	<b>-</b>	<b>-</b>	<b>15,552,176</b>	<b>10,286,728</b>
<b>Increase (decrease) in net assets</b>	<b>1,543,367</b>	<b>(4,412,345)</b>	<b>3,054,469</b>	<b>185,491</b>	<b>(1,219,423)</b>
<b>Net assets at beginning of year</b>	<b>5,706,614</b>	<b>30,186,299</b>	<b>41,872,278</b>	<b>77,765,191</b>	<b>78,984,614</b>
<b>Net assets at end of year</b>	<b>\$7,249,981</b>	<b>25,773,954</b>	<b>44,926,747</b>	<b>77,950,682</b>	<b>77,765,191</b>

See accompanying notes to financial statements and independent auditors' report.

## Statements of Cash Flows Modified Cash Basis March 31, 2002 and 2001

Cash flows from operating activities	2002	2001
Change in net assets	\$185,491	(1,219,423)
<b>Adjustments to reconcile change in net assets to net cash provided (used) by operating activities</b>		
Net realized and unrealized losses on investments	971,592	7,247,363
Decrease (increase) in notes receivable	113,696	(149,063)
Decrease in net investment in sales-type leases	34,792	36,340
Increase in other assets	(2,222,526)	(2,016,822)
Transfer to permanently restricted net assets	(1,166,133)	(1,263,092)
Contributions restricted for investment in permanently restricted net assets	(1,888,336)	(2,418,307)
<b>Total adjustments</b>	<b>(4,156,915)</b>	<b>1,436,419</b>
<b>Net cash provided (used) by operating activities</b>	<b>(3,971,424)</b>	<b>216,996</b>
<b>Cash flows from investing activities</b>		
Purchases of investments, net	(2,314,177)	(1,618,454)
<b>Net cash used by investing activities</b>	<b>(2,314,177)</b>	<b>(1,618,454)</b>
<b>Cash flows from financing activities</b>		
Transfer to permanently restricted net assets	1,166,133	1,263,092
Proceeds from contributions restricted for investment in permanently restricted net assets	1,888,336	2,418,307
<b>Net cash provided by financing activities</b>	<b>3,054,469</b>	<b>3,681,399</b>
Net increase (decrease) in cash and cash equivalents	(3,231,132)	2,279,941
Cash and cash equivalents at beginning of year	6,888,435	4,608,494
<b>Cash and cash equivalents at end of year</b>	<b>\$3,657,303</b>	<b>6,888,435</b>

See accompanying notes to financial statements and independent auditors' report.



## Notes to Financial Statements *March 31, 2002 and 2001*

### (1) Summary of Significant Accounting Policies

#### (a) 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 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.

#### (b) Financial Statement Presentation

Unrestricted net assets consist of unrestricted amounts which are available for use in carrying out the mission of the organizations.

Temporarily restricted net assets consist of those amounts which are donor restricted for a specific purpose. When a donor restriction expires, either by the passage of a stipulated time restriction or by the accomplishment of a specific purpose restriction, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Permanently restricted net assets result from contributions from donors who place restrictions on the use of donated funds mandating that the original principal remain invested in perpetuity.

#### (c) Basis of Accounting

The Foundation's financial statements are presented on the modified cash basis. Under the modified cash basis of accounting, revenue is recognized when received, and expenses are recognized when paid with the exception of unrealized gains and losses on investments. Appreciation and depreciation are recognized as incurred in order to maintain assets at fair market value.

#### (d) Estimates

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.

#### (e) Income Taxes

The Internal Revenue Service has determined that the Foundation is exempt from federal income tax under the provisions of Section 501(c)(3) of the Internal Revenue Code.

#### (f) 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.

#### (g) Concentrations of Credit Risk

The Foundation maintains its operating accounts in a financial institution. The balances are insured by the Federal Deposit Insurance Corporation up to \$100,000, and from time to time during the year, aggregate amounts of all balances exceed the insurance limit.

#### (h) Reclassification

Certain reclassifications were made to the 2001 accounts to conform to the 2002 financial statement presentation.

### (2) Investments

Investments stated at quoted market value are comprised of the following at March 31, 2002 and 2001:

	Cost	Market	Unrealized Appreciation (Depreciation)
<b>2002</b>			
Government securities	\$19,345,467	19,564,006	218,539
Corporate bonds	4,301,351	4,289,711	(11,640)
Common stock	39,865,302	44,689,732	4,824,430
<b>Totals</b>	<b>\$63,512,120</b>	<b>68,543,449</b>	<b>5,031,329</b>

	Cost	Market	Unrealized Appreciation (Depreciation)
<b>2001</b>			
Government securities	\$21,619,235	22,062,848	443,613
Corporate bonds	4,907,806	4,990,953	83,147
Common stock	36,684,974	40,147,063	3,462,089
<b>Totals</b>	<b>\$63,212,015</b>	<b>67,200,864</b>	<b>3,988,849</b>

Total investment income for the years ended March 31, 2002 and 2001 consisted of approximately \$2,488,600 and \$2,525,600 of interest and dividends, (\$2,014,100) and (\$144,800) of net gain (loss) on sale of investments, and \$1,042,500 and (\$7,102,600) of net unrealized gain (loss) on investments.

### (3) Funds Held in Trust by Others

The statement of financial position-modified cash basis consists of total assets valued at \$77,950,682 representing cash and investments at fair market value and the fair market value of contributed assets at the date of original donation. Included in permanently restricted net assets are approximately \$756,200 and \$720,600 in annuities as of March 31, 2002 and 2001, respectively, of which the University is the beneficiary. The interest earned on these annuities is distributed to the annuitants, as stated in the agreements. In addition, these statements do not include assets approximating \$3,739,500 which are controlled by independent trustees in unitrusts. Such assets will eventually revert to the benefit of the Foundation as charitable contributions.

### (4) Notes Receivable

In June, 1994 the Foundation entered into an agreement with the Alton Jones Campus to loan \$80,000 for the construction of a new cabin at the Environmental Education Center on the Alton Jones Campus. The loan agreement calls for eight (8) annual payments of \$14,996, including interest at a rate of 10% beginning in 1995. The note is secured by the Earnings Share from the Alton Jones Campus Endowment. The balances due to the Foundation for the years ended March 31, 2002 and 2001 are \$13,632 and \$26,025, respectively.

In June, 1999 the Foundation entered into an agreement with the Board of Governors for Higher Education to loan \$650,000 for the purchase of certain high technology equipment. The loan agreement calls for one hundred twenty (120) monthly payments of \$8,146, including interest at a rate of 8.75% beginning in 1999. The note is secured by the unrestricted revenues of the University. The balances due to the Foundation for the years ended March 31, 2002 and 2001 are \$549,065 and \$604,847, respectively.

In May, 2000 the Foundation entered into an agreement with the Board of Governors for Higher Education to loan \$212,000 for the purchase of certain land including buildings and improvements. The loan agreement calls for sixty (60) monthly payments of \$4,504, including interest at a rate of 10.0% beginning in 2000. The note is secured by the unrestricted revenues of the University. The balances due to the Foundation for the years ended March 31, 2002 and 2001 are \$149,636 and \$195,157.

### (5) Net Investment in Sales-Type Leases

In June, 1989 the Foundation began the funding for the construction of a Fisheries Building at the East Farm Campus in Kingston, Rhode Island. As of March 31, 1991, the Foundation had expended the \$400,000 committed for this project. Under the construction agreement, the building was leased to the Board of Governors for Higher Education effective September 1, 1990. The lease calls for 180 monthly payments to fully amortize the cost to the Foundation using a 10% interest rate. The title to the building will remain with the Foundation until the completion of the lease at which time the Board shall have the right to purchase the building for \$1.

A summary of net investments in sales-type leases for the years ended March 31, 2002 and 2001 are as follows:

	Total 2002	Total 2001
Total minimum lease payments to be received	\$182,466	224,058
Less: unearned income	33,600	40,400
Net investment in sales-type leases	\$148,866	183,658

### (6) Other Assets

Included in other assets are the following:

	2002	2001
Stocks *	\$35,800	35,800
Boats	2,252,343	973,506
Real estate	221,000	596,000
Land	52,364	162,364
Building (note 12)	2,267,801	895,591
Furniture and equipment	56,479	-
Other	2,944	2,944
<b>Total</b>	<b>\$4,888,731</b>	<b>2,666,205</b>

\*The Foundation held restricted stock at March 31, 2002 and 2001, which was recorded at par value as no market or appraised values were available.

### (7) Unrestricted Net Assets

Unrestricted net assets are comprised of contributions to the Foundation with no donor-imposed restrictions and unspent investment income and gains which can be used at the discretion of the Board of Trustees for operations, capital acquisitions or program support.

The unrestricted net assets for the years ended March 31, 2002 and 2001 consist of the following:

	2002	2001
<b>Cash assets</b>		
Board designated for URI programs	\$1,274,895	976,568
Board designated for the URI Foundation House	100,000	1,137,779
Board designated for fiscal 2002 URI programs from fiscal 2001 income	561,935	899,178
Foundation reserve fund, boat fund and budget carryforward	460,220	437,684
<b>Non-cash assets</b>		
Foundation building	2,267,801	-
Other assets	2,585,130	2,255,405
<b>Total</b>	<b>\$7,249,981</b>	<b>5,706,614</b>

The designated funds of \$1,274,895 are being held in perpetuity as voted by the Board of Trustees with only the income available for URI programs.

### (8) Temporarily Restricted Net Assets

Temporarily restricted net assets of \$25,773,954 and \$30,186,299 for the years ended March 31, 2002 and 2001, respectively, are comprised of contributions and related income with donor-imposed restrictions for purposes such as scholarships, educational programs, etc., past years' appreciation and quasi endowments.

### (9) Permanently Restricted Net Assets

Permanently restricted net assets of \$44,926,747 and \$41,872,278 for the years ended March 31, 2002 and 2001, respectively, represent contributions designated by the donor to be held in perpetuity with the related income supporting programs and operations.

As allowed under Rhode Island State law and SFAS No. 117 (financial statements of not-for-profit organizations), the Foundation allocates to the principal of the permanently restricted net assets a certain amount of investment income to adjust for inflation. The total inflation adjustment recorded to permanently restricted net assets was \$1,166,133 and \$1,263,092 for the years ended March 31, 2002 and 2001, respectively.

Under the Foundation's endowment spending policy, 4.5% of the average of the market values at the end of the previous two (2) years is appropriated to temporarily restricted net assets based upon donor restrictions and for appropriations by the Board of Trustees.

### (10) Miscellaneous Receipts

Miscellaneous receipts consist of the following:

	2002	2001
Alumni Association and URI transfers	\$474,700	423,586
Fundraisers, conferences and other events	227,169	241,102
Academic support for URI	440,538	281,613
Proceeds from sale of Theta Chi house	375,000	-
Other	229,473	26,567
<b>Total</b>	<b>\$1,746,880</b>	<b>972,868</b>

### (11) Retirement Plan

The Foundation established the University of Rhode Island Foundation Defined Contribution Retirement Plan (the Plan) under Section 403(b) of the Internal Revenue Code. The Plan requires contributions of up to 5% of eligible employees' compensation with matching contributions of 9% by the Foundation. Total contributions paid by the Foundation under the Plan were \$25,780 and \$25,143 for the years ended March 31, 2002 and 2001, respectively.

### (12) Other Matters

The Foundation began construction of a new facility for their operations during fiscal year 2001. The construction was completed near the end of fiscal year 2002. The new building is located on University of Rhode Island property in Kingston, Rhode Island. In December, 1999, the Foundation entered into a ground lease for the land with the University. The lease provides for annual payments of \$1 for ten years (the initial term) immediately following the completion of facility construction. The lease may be extended for one additional term of ten years commencing on the date immediately following the expiration of the initial term. In addition, the University agrees to use its best efforts to grant the Foundation additional ten-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 of Rhode Island.