

**RHODE ISLAND INDUSTRIAL-RECREATIONAL**  
**BUILDING AUTHORITY**

**FINANCIAL STATEMENTS AND  
SUPPLEMENTARY INFORMATION  
FISCAL YEARS ENDED JUNE 30, 2008 AND 2007**

**RHODE ISLAND INDUSTRIAL-RECREATIONAL BUILDING AUTHORITY**

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JUNE 30, 2008 AND 2007**

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**INDEPENDENT AUDITORS' REPORT**

Board of Directors  
Rhode Island Industrial-Recreational Building Authority  
Providence, Rhode Island

We have audited the accompanying basic financial statements of the RHODE ISLAND INDUSTRIAL-RECREATIONAL BUILDING AUTHORITY (the Corporation), a component unit of the State of Rhode Island, as of June 30, 2008 and 2007, as listed in the table of contents. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audits in accordance with auditing standards generally accepted in the United States and 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 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 audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Corporation as of June 30, 2008 and 2007 the results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States.

In accordance with Government Auditing Standards, we have also issued our report dated September 19, 2008 on our consideration of the Corporation'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 or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 2 through 4 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

September 19, 2008



Boston

Newton

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

As management of Rhode Island Industrial-Recreational Building Authority (the Authority), we offer readers of the Authority's financial statements this narrative overview and analysis of the financial activities of the Authority as of and for the years ended June 30, 2008 and 2007 (restated – See Financial Statements- Note 7). This information should be read in conjunction with the Authority's financial statements.

### **Financial Highlights**

- Total assets exceeded total liabilities by \$2,959,908 and \$2,759,096 (net assets) at June 30, 2008 and 2007, respectively. Net assets invested in capital assets total \$534,633, and unrestricted net assets available to be used to meet the Authority's operating requirements total \$2,425,275 at June 30, 2008.
- The Authority's total net assets increased by \$200,812 for the year ended June 30, 2008, as compared to an increase of \$704,054 for the year ended June 30, 2007 (restated).

### **Overview of the Financial Statements**

This discussion and analysis is intended to serve as an introduction to the Authority's basic financial statements.

The Authority engages only in business-type activities, that is, activities that are financed in whole or in part by charges to external parties for services. As a result, the Authority's basic financial statements include the statement of net assets, the statement of revenues, expenses and changes in net assets, the statement of cash flows, and the notes to the financial statements. These basic financial statements are designed to provide readers with a broad overview of the Authority's finances, in a manner similar to a private-sector business.

The statement of net assets presents information on all of the Authority's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in the Authority's net assets may serve as a useful indicator of whether the financial position of the Authority is improving or deteriorating. Other non-financial factors might also need to be considered when evaluating the Authority's financial position. The statement of revenues, expenses and changes in net assets presents information on how the Authority's net assets changed during the year.

All assets and liabilities and changes in net assets are reported using the accrual basis of accounting for governmental entities. All assets and liabilities and changes in net assets are reported as soon as the underlying event giving rise to the asset or liability and resulting change in net assets occurs, regardless of the timing of when the cash is received or paid. Consequently, certain revenues and expenses reported in the statement of revenues, expenses, and changes in net assets will result in cash flows in future periods.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

### Financial Analysis of the Authority

#### STATEMENT OF NET ASSETS

	2008	2007 as restated	% of Change	2007 as restated	2006	% of Change
Capital assets, net	\$ 534,633	\$ 548,919	-2.6%	\$ 548,919	\$ 563,205	-2.5%
Current and other assets	3,199,452	2,897,518	10.4%	2,897,518	2,193,030	32.1%
<b>Total assets</b>	<b>3,734,085</b>	<b>3,446,437</b>	<b>8.3%</b>	<b>3,446,437</b>	<b>2,756,235</b>	<b>25.0%</b>
Long-term liabilities	688,500	662,555	3.9%	662,555	632,744	4.7%
Other liabilities	85,677	24,786	245.7%	24,786	68,449	-63.8%
<b>Total liabilities</b>	<b>774,177</b>	<b>687,341</b>	<b>12.6%</b>	<b>687,341</b>	<b>701,193</b>	<b>-2.0%</b>
<b>Net assets</b>						
Invested in capital assets	534,633	548,919	-2.6%	548,919	563,205	-2.5%
Unrestricted	2,425,275	2,210,177	9.7%	2,210,177	1,491,837	48.2%
<b>TOTAL NET ASSETS</b>	<b>2,959,908</b>	<b>2,759,096</b>	<b>7.3%</b>	<b>2,759,096</b>	<b>2,055,042</b>	<b>34.3%</b>

#### STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS

<b>Operating revenues:</b>						
Mortgage insurance premiums	181,576	300,771	-39.6%	300,771	217,704	38.2%
Rental	70,420	75,000	-6.1%	75,000	77,083	-2.7%
Bad debt recovery	29,240	349,970	100.0%	349,970	99,969	100.0%
Other	-	-	0.0%	-	3,176	-100.0%
<b>Total operating revenues</b>	<b>281,236</b>	<b>725,741</b>	<b>-61.2%</b>	<b>725,741</b>	<b>397,932</b>	<b>82.4%</b>
Nonoperating revenues, interest income	76,481	72,214	5.9%	72,214	141,675	-49.0%
<b>Total nonoperating revenues</b>	<b>76,481</b>	<b>72,214</b>	<b>5.9%</b>	<b>72,214</b>	<b>141,675</b>	<b>-49.0%</b>
<b>TOTAL REVENUES</b>	<b>357,717</b>	<b>797,955</b>	<b>-55.2%</b>	<b>797,955</b>	<b>539,607</b>	<b>47.9%</b>
<b>Operating expenses</b>						
General and administrative	156,905	93,901	67.1%	93,901	138,051	-32.0%
Loss on insured commitment	-	-	0.0%	-	-	0.0%
<b>Total operating expenses</b>	<b>156,905</b>	<b>93,901</b>	<b>67.1%</b>	<b>93,901</b>	<b>138,051</b>	<b>-32.0%</b>
Nonoperating expense, interest expense	-	-	0.0%	-	86,083	-100.0%
<b>Total nonoperating expense</b>	<b>-</b>	<b>-</b>	<b>0.0%</b>	<b>-</b>	<b>86,083</b>	<b>-100.0%</b>
<b>TOTAL EXPENSES</b>	<b>156,905</b>	<b>93,901</b>	<b>67.1%</b>	<b>93,901</b>	<b>224,134</b>	<b>-58.1%</b>
Change in net assets	\$ 200,812	\$ 704,054	-71.5%	\$ 704,054	\$ 315,473	123.2%

## **MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)**

### **Financial Analysis of the Authority (Continued)**

Mortgage insurance premiums decreased from the year ended June 30, 2007 to the year ended June 30, 2008. Premiums are received from private-sector entities based upon a percentage of the outstanding balance of each private-sector entity's insured obligation and, as such, decline as amounts outstanding under insured obligations are repaid by the private-sector entities and increase as new private-sector entities obtained insurance obligations from the Authority. Insured outstanding balances, net of new current year commitments decreased by \$9,084,587 during 2007 primarily due to payoffs by Hotel Providence and FAE-BC Enterprises of \$8 million.

Bad Debt Recovery decreased from \$349,970 in 2007 to \$29,240 in 2008 due to settlements agreed to during 2007 with principals of AKL Flexo -Tech. As of June 30, 2008 a settlement with one of the principals totaling \$300,000 remained outstanding. Collection has been deemed doubtful as the individual and collateral are located outside of the U.S. As a result, nothing has been recorded relative to this agreement in the accompanying financial statements.

### **Requests for Information**

This financial report is designed to provide a general overview of the Authority's finances for all those interested in the Authority's finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the Manager, Rhode Island Industrial-Recreational Building Authority, 315 Iron Horse Way Suite 101 , Providence, Rhode Island 02908.

**RHODE ISLAND INDUSTRIAL-RECREATIONAL BUILDING AUTHORITY**

**STATEMENTS OF NET ASSETS  
JUNE 30, 2008 AND 2007**

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	<u>2008</u>	<u>2007</u> (As restated)
<b><u>ASSETS</u></b>		
Current assets:		
Cash and cash equivalents	\$ 2,510,743	\$ 2,216,535
Mortgage insurance premiums receivable, less allowance for uncollectible accounts of \$0 and \$20,000	209	18,428
Total current assets	<u>2,510,952</u>	<u>2,234,963</u>
Noncurrent assets:		
Due from Rhode Island Industrial Facilities Corporation	688,500	662,555
Capital assets, net of accumulated depreciation	534,633	548,919
Total noncurrent assets	<u>1,223,133</u>	<u>1,211,474</u>
<b>TOTAL ASSETS</b>	<u>3,734,085</u>	<u>3,446,437</u>
 <b><u>LIABILITIES AND NET ASSETS</u></b>		
<b>Liabilities:</b>		
Current liabilities:		
Accounts payable	17,849	-
Due to Rhode Island Industrial Facilities Corporation	67,828	24,786
Total current liabilities	<u>85,677</u>	<u>24,786</u>
Noncurrent liabilities:		
Escrow deposit, Rhode Island Economic Development Corporation	688,500	662,555
Total noncurrent liabilities	<u>688,500</u>	<u>662,555</u>
<b>TOTAL LIABILITIES</b>	<u>774,177</u>	<u>687,341</u>
Commitments and contingencies (note 6)		
<b>Net assets</b>		
Invested in capital assets	534,633	548,919
Unrestricted	2,425,275	2,210,177
<b>TOTAL NET ASSETS</b>	<u>\$ 2,959,908</u>	<u>\$ 2,759,096</u>

SEE ACCOMPANYING NOTES.

**RHODE ISLAND INDUSTRIAL-RECREATIONAL BUILDING AUTHORITY**

**STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS  
YEARS ENDED JUNE 30, 2008 AND 2007**

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	<u>2008</u>	<u>2007</u> <u>(As restated)</u>
<b>Operating revenues:</b>		
Mortgage insurance premiums	\$ 181,576	\$ 300,771
Rental income	70,420	75,000
Recovery of bad debt	29,240	349,970
<b>Total operating revenues</b>	<u>281,236</u>	<u>725,741</u>
<b>Operating expenses:</b>		
Contractual services	51,823	51,999
Administrative	61,801	-
Insurance	28,995	27,616
Depreciation	14,286	14,286
<b>Total operating expenses</b>	<u>156,905</u>	<u>93,901</u>
<b>Operating income</b>	124,331	631,840
<b>Nonoperating revenues (expenses):</b>		
Interest income	76,481	72,214
<b>Total non-operating revenues and expenses</b>	<u>76,481</u>	<u>72,214</u>
<b>Change in net assets</b>	200,812	704,054
<b>Total net assets beginning of year, as restated</b>	<u>2,759,096</u>	<u>2,055,042</u>
<b>Total net assets, end of the year</b>	<u>\$ 2,959,908</u>	<u>\$ 2,759,096</u>

SEE ACCOMPANYING NOTES.

**RHODE ISLAND INDUSTRIAL-RECREATIONAL BUILDING AUTHORITY**

**STATEMENTS OF CASH FLOWS  
YEARS ENDED JUNE 30, 2008 AND 2007**

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	<u>2008</u>	<u>2007</u> <u>(As restated)</u>
<b><i>Cash flows from operating activities:</i></b>		
Cash received from mortgage insurance premiums	\$199,795	\$ 286,290
Other revenue	29,240	349,970
Rent payments received	70,420	68,750
Cash payments to suppliers for goods and services	(81,728)	(117,028)
<b><i>Net cash provided by operating activities</i></b>	<u>217,727</u>	<u>587,982</u>
<b><i>Cash flows from investing activities:</i></b>		
Interest on investments	76,481	72,214
<b><i>Net cash provided by investing activities</i></b>	<u>76,481</u>	<u>72,214</u>
<b><i>Increase in cash and cash equivalents</i></b>	294,208	660,196
<b><i>Cash and cash equivalents, beginning of the year</i></b>	<u>2,216,535</u>	<u>1,556,339</u>
<b><i>Cash and cash equivalents, end of the year</i></b>	<u>\$ 2,510,743</u>	<u>\$ 2,216,535</u>
<b><i>Reconciliation of operating income to net cash provided by operating activities:</i></b>		
Operating income	\$ 124,331	631,840
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:		
Depreciation	14,286	14,286
Changes in assets and liabilities:		
Mortgage insurance premiums receivable	18,219	(14,481)
Accounts payable	17,849	-
Due to Rhode Island Industrial Facilities Corporation	43,042	(37,413)
Deferred revenue	-	(6,250)
Total adjustments	<u>93,396</u>	<u>(43,858)</u>
<b><i>Net cash provided by operating activities</i></b>	<u>\$ 217,727</u>	<u>587,982</u>

SEE ACCOMPANYING NOTES.

**RHODE ISLAND INDUSTRIAL-RECREATIONAL BUILDING AUTHORITY**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2008 AND 2007**

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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

***Organization***

The Rhode Island Industrial-Recreational Building Authority (the Authority) was created by the Rhode Island General Assembly under Chapter 34 of Title 42 of the General Laws of Rhode Island. The Authority constitutes a body corporate and politic and a public instrumentality of the State of Rhode Island (the State) having a distinct legal existence from the State. It is a component unit of the State for financial reporting purposes. As such, the financial statements of the Authority will be included in the State's Comprehensive Annual Financial Report.

The Authority is authorized to insure contractual principal and interest payments required under first mortgages and first security agreements issued to private sector entities by financial institutions and the Rhode Island Industrial Facilities Corporation (RIIFC) a component unit of the State, on industrial and/or recreational projects in the State of Rhode Island up to a maximum of \$80,000,000 of outstanding principal balances under such insured mortgages and security agreements. Effective July 1, 2008, the General Assembly reduced the authorization to \$20,000,000.

***Income Taxes***

The Authority is exempt from federal and state income taxes.

***Basis of Accounting***

The Authority engages only in business-type activities. Business-type activities are activities that are financed in whole or in part by fees charged to external users.

The Authority uses the economic resources measurement focus and accrual basis of accounting. The Authority applies all pronouncements of the Governmental Accounting Standards Board (GASB), as well as all Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedures issued on or before November 30, 1989, unless they conflict with or contradict GASB pronouncements. In accordance with GASB Statement No. 20, "Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting," the Authority has elected not to apply all FSB pronouncements issued after November 30, 1989.

The Authority distinguishes between operating and non-operating revenues and expenses. Operating revenues and expenses generally result from providing services in connection with the Authority's principal ongoing operations. Operating expenses include the cost of and losses resulting from services provided, administrative expenses, and depreciation expenses. All other operating revenues and expenses are reported as non-operating revenues and expenses.

***Capital Assets***

Capital assets consist of property under operating lease stated at cost. Depreciation is provided over an estimated useful life of 40 years on the straight-line basis. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

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**RHODE ISLAND INDUSTRIAL-RECREATIONAL BUILDING AUTHORITY**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2008 AND 2007**

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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

***Foreclosed Assets***

Assets acquired through, or in lieu of, loan foreclosure are held for sale and are initially recorded at fair value at the date of foreclosure, establishing a new cost basis. Subsequent to foreclosure, valuations are periodically performed by managements and the assets are carried at the lower of carrying amount or fair value less cost to sell. Revenue and expenses from operations and changes in the valuation allowance are included in net expenses from foreclosed assets.

***Losses on Mortgage Insurance Agreements***

Losses on mortgage insurance agreements are recognized when the amount of loss is determinable and occurrence is probable.

***Cash Equivalents***

The Authority considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents. On June 30, 2008 and 2007, cash equivalents totaled \$2,510,743 and \$2,216,535 respectively.

***Revenue Recognition and Concentration***

Mortgage insurance premiums are based on a percentage of the principal amount outstanding under mortgages insured by the Authority determined at specified measurement dates and are recognized when earned. In certain instances, mortgage insurance premiums are paid in advance and such fees are reported as deferred revenue and recognized as revenue when earned. Rental revenue is recognized based on the terms of the lease contract. Other revenue is recognized when received.

Mortgage insurance premiums from three entities for the years ended June 30, 2008 and 2007 represent 81% and 72% of the Authority's mortgage insurance premiums, respectively.

***Use of Estimates***

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the reporting period. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant change in the near term relate to the determination of losses on mortgage insurance agreements and valuation of equity investments in private-sector entities.

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**RHODE ISLAND INDUSTRIAL-RECREATIONAL BUILDING AUTHORITY**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2008 AND 2007**

**2. CASH AND CASH EQUIVALENTS**

The Authority has adopted the provisions of GASB Statement No. 40, "Deposit and Investment Risk Disclosures".

The Authority assumes levels of custodial credit risk for its cash and cash equivalents. Custodial credit risk is the risk that in the event of a bank failure, the Authority's deposits may not be recovered. The Authority is authorized to invest excess funds, by provisions of its Act, in obligations of the State and of the United States Government or certain agencies thereof, and in certificates of deposit. The Authority also is authorized to enter into repurchase agreements.

In accordance with State of Rhode Island General Laws, Chapter 35-10.1, depository institutions holding deposits of the State, its agencies or governmental subdivisions of the State, are required, at a minimum, to insure or pledge eligible collateral equal to one hundred percent of time deposits with maturities greater than sixty days. Any of these institutions which do not meet minimum capital standards prescribed by federal regulators are required to insure or pledge eligible collateral equal to one hundred percent of deposits, regardless of maturity. The Authority does not have a separate deposit policy for custodial credit risk.

The Authority has unrestricted cash and cash equivalents which are held by the General Treasurer of the State as follows:

	<u>2008</u>	<u>2007</u>
Cash.....	\$ 424,486(1)	\$ 906,569(1)
Repurchase agreement.....	<u>2,086,257 (1)</u>	<u>1,309,966(1)</u>
<b>Total</b> .....	<b><u>\$2,510,743</u></b>	<b><u>\$2,216,535</u></b>

(1) Collateralized with securities that are not in the Authority's name.

The amount of federal depository insurance on cash and cash equivalents held by the General Treasurer of the State is determined on a State-wide basis.

(CONTINUED)

**RHODE ISLAND INDUSTRIAL-RECREATIONAL BUILDING AUTHORITY**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2008 AND 2007**

**3. CAPITAL ASSETS**

The Authority acquired property through foreclosure which it leases to an unrelated party under an operating lease expiring March 31, 2010.

At June 30, 2008 and 2007, capital assets consist of the following:

	<u>2008</u>	<u>2007</u>
Land .....	\$181,301	\$181,301
Building and building improvements .....	571,439	571,439
Total .....	752,740	752,740
Less: accumulated depreciation, building and building improvements .....	218,107	203,821
Capital assets, net.....	<u>\$534,633</u>	<u>\$548,919</u>

During the years ended June 30, 2008 and 2007, there were no increases or decreases in capital assets, and accumulated depreciation increased \$14,286 each year.

At June 30, 2008, annual minimum future rentals are as follows:

<u>Year Ending June 30,</u>	<u>Amount</u>
2009 .....	75,000
2010 .....	<u>56,250</u>
Total .....	<u>\$131,250</u>

**4. DUE FROM RIIFC AND ESCROW DEPOSIT**

In conjunction with the insurance of a private-sector entity's first mortgage and security agreement, the Authority received from the private-sector entity escrow funds to cover certain principals and interest payments in the event of default by the private-sector entity. The private-sector entity relocated its facilities to another state, and under a Settlement Agreement dated March 3, 2000 by and between the private-sector entity, Authority, RIIFC, and the Rhode Island Economic Development Corporation (RIEDC), the Authority returned the escrow funds to the private-sector entity. Concurrently, RIEDC provided the Authority with an escrow equal to that previously funded by the private-sector entity to be held as an escrow deposit in the event of default by the private-sector entity. The escrow funds are held by RIIFC in a repurchase agreement in RIIFC's name on behalf of the Authority.

**5. EQUITY INVESTMENT IN PRIVATE-SECTOR ENTITY**

During May 1995, the Authority received 300,000 shares of \$.01 par value Series E Convertible Preferred Stock (the Preferred Stock) in a private-sector entity, for whom the Authority insures first mortgage and security agreements, in lieu of payment of a demand note in the amount of \$470,674 owed by the entity to the Authority. The Preferred Stock may at any time, at the option of the Authority, be converted into common stock of the private-sector entity at an initial conversion rate of one share for one share, adjusted for as provided in the private-sector entity's certificate of incorporation, article four.

(CONTINUED)

**RHODE ISLAND INDUSTRIAL-RECREATIONAL BUILDING AUTHORITY**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2008 AND 2007**

**5. EQUITY INVESTMENT IN PRIVATE-SECTOR ENTITY (Continued)**

During August 1999, the Authority received warrants (the Warrants) in the private-sector entity in lieu of payment of mortgage insurance premiums in the amount of \$134,256 owed by the entity to the Authority. At June 30, 2008, the Authority may purchase a total of 295,034 shares of common stock of the private-sector entity for an initial purchase price of \$.01 per share, adjusted for as provided in the Common Stock Purchase Warrant dated August 1, 1999. There is no termination date relating to the Authority's ability to exercise its Warrants.

During December 2004, the private-section entity reduced its capital structure to only common stock eliminating the preferred shares and effected a reverse stock split whereby each 100 shares of stock was converted into one share.

The Common Stock and Warrants received have been recorded by the Authority in the accompanying financial statements at their fair value was estimated to be zero due to the private-sector entity's financial position. See Note 8 for subsequent event.

**6. INSURED COMMITMENT PAYABLE AND LONG-TERM DEBT**

At June 30, 2008 and 2007, the Authority has insured contractual principal and interest payments required under first mortgages and first security agreements principally for land and buildings of manufacturing and distribution entities located throughout Rhode Island. Principal balances outstanding under first mortgages and first security agreements insured by the Authority at June 30, 2008 and 2007 are \$10,946,868 and \$13,154,957 respectively.

At June 30, 2008, the Authority has one outstanding commitment in the amount of \$4,000,000 to insure contractual principal and interest payments required under first mortgages and first security agreements issued to private-sector entities by financial institutions and RIIFC.

**7. RESTATEMENT**

Net assets at June 30, 2007 have been restated to reflect a correction of an error in the reporting of amounts due to Rhode Island Industrial Facilities Corporation and investment income. As a result, interest income at June 30, 2007 has been increased and Due to Rhode Island Industrial Facilities Corporation has been decreased by \$54,826.

The following comprise the restatements resulting from the corrections of errors in the amounts reported at June 30, 2007:

<b>Net assets end of year, as originally reported</b> .....	\$2,704,270
Understatement of investment income .....	54,826
<b>Net assets end of year, as restated</b> .....	<u>\$2,759,096</u>

**8. SUBSEQUENT EVENTS**

During August, 2008, the Authority was notified that the value of the common stock and warrants described in Note 5 was \$571,687. These funds are expected to be available during fiscal year 2009.

(CONCLUDED)

**INDEPENDENT AUDITORS' REPORT ON ACCOMPANYING INFORMATION**

Board of Directors  
Rhode Island Industrial-Recreational Building Authority  
Providence, Rhode Island

We conducted our audits to form an opinion on the 2008 and 2007 basic financial statements of Rhode Island Industrial-Recreational Building Authority (the Authority), a component unit of the State of Rhode Island, taken as a whole. The supplemental schedules of uncommitted mortgage insurance availability on Page 14 are presented for purposes of additional analysis. The schedules are not a required part of the basic financial statements. These schedules have been subjected to the auditing procedures applied in the audits of the 2008 and 2007 basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the 2008 and 2007 basic financial statements taken as a whole.

*Braver PC*

September 19, 2008

**RHODE ISLAND INDUSTRIAL-RECREATIONAL BUILDING AUTHORITY**

**SCHEDULES OF UNCOMMITTED MORTGAGE INSURANCE AVAILABILITY  
YEARS ENDED JUNE 30, 2008 AND 2007**

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	<u>2008</u>	<u>2007</u>
Aggregate maximum contractual principal and interest payments the Authority is authorized to insure .....	\$80,000,000*	\$80,000,000
Principal balances outstanding under first mortgages and first security agreements at year-end .....	10,946,868	13,154,957
Commitments outstanding at year-end .....	0	0
Approved resolutions outstanding at year-end .....	<u>4,000,000</u>	<u>852,567</u>
Subtotal .....	<u>14,946,868</u>	<u>14,007,524</u>
<b>TOTAL</b> .....	<u>\$65,053,132</u>	<u>\$65,992,476</u>

The amounts presented above exclude interest accrued at year-end and contractual interest to become due in future periods under the bonds and notes.

\*Effective July 1, 2008, the General Assembly reduced the bond authorization for bonds issued by the State of Rhode Island to pay off any losses of the Authority to \$20,000,000.

**INDEPENDENT AUDITOR'S 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**

Board of Directors  
Rhode Island Industrial-Recreational Building Authority  
Providence, Rhode Island

We have audited the financial statements of Rhode Island Industrial-Recreational Building Authority (the Authority), a component unit of the State of Rhode Island, as of and for the year ended June 30, 2008, and have issued our report thereon dated September 19, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the Authority's internal control over financial reporting as a basis for designing our auditing procedures 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 Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over financial reporting.

Our consideration of internal control over financial reporting was for limited purpose described in the preceding paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the Authority's ability to initiate, authorize, record, process or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Authority's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiency described in the accompanying schedule of findings to be a significant deficiency in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Authority's internal control.

Our consideration of internal control over financial reporting was for limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, we consider the deficiency described above to be a material weakness.

Board of Directors  
Rhode Island Industrial-Recreational Building Authority  
Providence, Rhode Island

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's Financial statements are free of material misstatement, we performed tests of it's 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.

This report is intended solely for the information and use of the Board of Directors and management of Rhode Island Industrial-Recreational Building Authority, the Rhode Island Department of Administration, and the Rhode Island Auditor General and is not intended to be and should not be used by anyone other than these specified parties.

September 19, 2008

A handwritten signature in black ink, appearing to read "Bawa, JC". The signature is written in a cursive style with a large, stylized initial "B" and "J".

**RHODE ISLAND INDUSTRIAL-RECREATIONAL BUILDING AUTHORITY**  
**SCHEDULE OF FINDINGS**  
**YEARS ENDED JUNE 30, 2008 AND 2007**

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**FINDINGS – FINANCIAL STATEMENT AUDIT**

2008-1            The Authority's cash is held and managed by the State of Rhode Island. Based on the confirmation provided by the State for fiscal year ended June 30, 2007, the Authority's interest income was understated and the amount due to Rhode Island Facilities Corporation was overstated by \$54,826 as of June 30, 2007. A prior period adjustment of \$54,826 has been recorded by the Authority during fiscal year ended June 30, 2008 to correct this error. The error was not discovered until analysis was completed based on the confirmation received from the State for fiscal year ended June 30, 2008.