

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

**FINANCIAL STATEMENTS AND  
SUPPLEMENTARY INFORMATION  
FISCAL YEARS ENDED JUNE 30, 2012 AND 2011**

**RHODE ISLAND INDUSTRIAL-RECREATIONAL BUILDING AUTHORITY**

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JUNE 30, 2012 AND 2011**

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## **INDEPENDENT AUDITORS' REPORT**

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

We have audited the accompanying financial statements of the governmental activities and business-type activities of the Rhode Island Industrial-Recreational Building Authority (the Authority), a component unit of the State of Rhode Island, as of and for the years ended June 30, 2012 and 2011, which collectively comprise the Authority's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Authority'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 Authority as of June 30, 2012 and 2011, the changes in its financial position 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 28, 2012, on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. 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.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, on pages 3 through 5, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Authority's basic financial statements. The Schedule of Uncommitted Mortgage Insurance Availability on page 13 and Schedules B, C and D on pages 14, 15 and 16 are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion the Schedule of Uncommitted Mortgage Insurance Availability and Schedules B, C and D are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Braver PC*

Providence, Rhode Island  
September 28, 2012

## 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, 2012 and 2011. This information should be read in conjunction with the Authority's financial statements.

### Financial Highlights

- Net Assets at June 30, 2012 totaled \$1,737,320, a decrease of \$2,087,624 from Net Assets reported at June 30, 2011. This decrease is largely attributable to the recognition of a loss on insured commitments recognized during fiscal 2012. During the year ended June 30, 2012, CAPCO Steel defaulted on debt insured by the Authority. The Authority recognized a loss on insured commitments in the amount of \$1,962,682, the estimated loss relating to this insured commitment.
- The Authority's total net assets decreased by \$2,087,624 for the year ended June 30, 2012, as compared to an increase of \$167,785 for the year ended June 30, 2011. This is attributable to the default of Capco Steel listed above.

### 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**

	2012	2011	% of Change	2011	2010	% of Change
Capital assets, net	\$ -	\$ -		\$ -	\$ 533,739	-100.0%
Current and other assets	4,665,022	4,635,026	0.6%	4,635,026	3,967,962	16.8%
<b>Total assets</b>	<b>4,665,022</b>	<b>4,635,026</b>	<b>0.6%</b>	<b>4,635,026</b>	<b>4,501,701</b>	<b>3.0%</b>
Long-term liabilities	2,225,389	759,057	193.2%	759,057	768,941	-1.3%
Other liabilities	702,313	51,025	1276.4%	51,025	75,601	-32.5%
<b>Total liabilities</b>	<b>2,927,702</b>	<b>810,082</b>	<b>261.4%</b>	<b>810,082</b>	<b>844,542</b>	<b>-4.1%</b>
<b>Net assets</b>						
Invested in capital assets	-	-		-	533,739	-100.0%
Unrestricted	1,737,320	3,824,944	-54.6%	3,824,944	3,123,420	22.5%
<b>TOTAL NET ASSETS</b>	<b>1,737,320</b>	<b>3,824,944</b>	<b>-54.6%</b>	<b>3,824,944</b>	<b>3,657,159</b>	<b>4.6%</b>

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

<b>Operating revenues:</b>						
Mortgage insurance premiums	267,412	156,910	70.4%	156,910	91,894	70.8%
Other Income	33,750	-		-	-	
Rental	-	31,250	-100.0%	31,250	75,000	-58.3%
Bad debt recovery	-	8,721	-100.0%	8,721	10,250	-14.9%
<b>Total operating revenues</b>	<b>301,162</b>	<b>196,881</b>	<b>53.0%</b>	<b>196,881</b>	<b>177,144</b>	<b>11.1%</b>
Gain on sale of assets	-	153,014		153,014	-	
Nonoperating revenues, interest income	4,437	4,356	1.9%	4,356	12,524	-65.2%
<b>Total nonoperating revenues</b>	<b>4,437</b>	<b>157,370</b>	<b>-97.2%</b>	<b>157,370</b>	<b>12,524</b>	<b>1156.5%</b>
<b>TOTAL REVENUES</b>	<b>305,599</b>	<b>354,251</b>	<b>-13.7%</b>	<b>354,251</b>	<b>189,668</b>	<b>86.8%</b>
<b>Operating expenses</b>						
General and administrative	430,541	186,466	130.9%	186,466	163,223	14.2%
Loss on Insured Commitments	1,962,682	-		-	-	
<b>Total operating expenses</b>	<b>2,393,223</b>	<b>186,466</b>	<b>1183.5%</b>	<b>186,466</b>	<b>163,223</b>	<b>14.2%</b>
Nonoperating expense, interest expense	-	-	0.0%	-	-	0.0%
<b>Total nonoperating expense</b>	<b>-</b>	<b>-</b>	<b>0.0%</b>	<b>-</b>	<b>-</b>	<b>0.0%</b>
<b>TOTAL EXPENSES</b>	<b>2,393,223</b>	<b>186,466</b>	<b>1183.5%</b>	<b>186,466</b>	<b>163,223</b>	<b>14.2%</b>
Change in net assets	\$ (2,087,624)	\$ 167,785	-1344.2%	\$ 167,785	\$ 26,445	534.5%

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

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

Mortgage insurance premiums increased from the year ended June 30, 2011 to the year ended June 30, 2012. This increase was due to the insurance guarantees issued at the end of FY 2010 and during FY 2011. 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. One company prepaid its obligation and its prepayment caused an acceleration of its annual payment of mortgage insurance premiums.

### **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, 2012 AND 2011**

**ASSETS**

	<u>2012</u>	<u>2011</u>
<b>Current assets:</b>		
Cash and cash equivalents	\$ 3,956,042	\$ 3,929,156
Mortgage insurance premiums receivable, net of allowance for doubtful accounts of \$15,653 in 2012	12,423	9,313
Other receivables, net of allowance of \$162,117 in 2012	-	-
<b>Total current assets</b>	<u>3,968,465</u>	<u>3,938,469</u>
<b>Noncurrent assets:</b>		
Due from Rhode Island Industrial Facilities Corporation	696,557	696,557
<b>Total noncurrent assets</b>	<u>696,557</u>	<u>696,557</u>
<b>TOTAL ASSETS</b>	<u>4,665,022</u>	<u>4,635,026</u>

**LIABILITIES AND NET ASSETS**

***Liabilities:***

<b>Current liabilities:</b>		
Accounts payable	20,078	7,306
Deferred revenue	10,000	10,000
Due to Rhode Island Industrial Facilities Corporation	84,058	6,000
Due to Rhode Island Economic Development Corporation	101,827	27,719
Insured commitments payable	486,350	-
<b>Total current liabilities</b>	<u>702,313</u>	<u>51,025</u>
<b>Noncurrent liabilities:</b>		
Deferred revenue	52,500	62,500
Escrow deposit, Rhode Island Economic Development Corporation	696,557	696,557
Insured commitments payable	1,476,332	-
<b>Total noncurrent liabilities</b>	<u>2,225,389</u>	<u>759,057</u>
<b>TOTAL LIABILITIES</b>	<u>2,927,702</u>	<u>810,082</u>
Commitments and contingencies (note 4)		
<b>Net assets</b>		
Unrestricted	<u>1,737,320</u>	<u>3,824,944</u>
<b>TOTAL NET ASSETS</b>	<u>\$ 1,737,320</u>	<u>\$ 3,824,944</u>

SEE ACCOMPANYING NOTES.

**RHODE ISLAND INDUSTRIAL-RECREATIONAL BUILDING AUTHORITY**

**STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS  
YEARS ENDED JUNE 30, 2012 AND 2011**

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	<u>2012</u>	<u>2011</u>
<b><i>Operating revenues:</i></b>		
Mortgage insurance premiums	\$ 267,412	\$ 156,910
Other income	33,750	-
Rental income	-	31,250
Recovery of bad debt	-	8,721
<b><i>Total operating revenues</i></b>	<u>301,162</u>	<u>196,881</u>
<b><i>Operating expenses:</i></b>		
Contractual services	54,078	46,663
Administrative	187,174	119,060
Insurance	11,031	11,021
Building maintenance and repairs	488	2,969
Bad debt	177,770	-
Depreciation	-	6,753
Loss on insured commitments (Note 4)	1,962,682	-
<b><i>Total operating expenses</i></b>	<u>2,393,223</u>	<u>186,466</u>
<b><i>Operating income (loss)</i></b>	(2,092,061)	10,415
<b><i>Nonoperating revenues (expenses):</i></b>		
Interest income	4,437	4,356
Gain on sale of assets	-	153,014
<b><i>Total non-operating revenues and expenses</i></b>	<u>4,437</u>	<u>157,370</u>
<b><i>Change in net assets</i></b>	(2,087,624)	167,785
<b><i>Total net assets beginning of year</i></b>	<u>3,824,944</u>	<u>3,657,159</u>
<b><i>Total net assets, end of the year</i></b>	<u>\$ 1,737,320</u>	<u>\$ 3,824,944</u>

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SEE ACCOMPANYING NOTES.

**RHODE ISLAND INDUSTRIAL-RECREATIONAL BUILDING AUTHORITY**

**STATEMENTS OF CASH FLOWS  
YEARS ENDED JUNE 30, 2012 AND 2011**

	<u>2012</u>	<u>2011</u>
<b><i>Cash flows from operating activities:</i></b>		
Cash received from mortgage insurance premiums	\$ 254,303	\$ 131,436
Other receivables	-	-
Other revenue	33,750	8,721
Rent payments received	-	31,250
Cash payments to suppliers for goods and services	(265,603)	(193,716)
<b><i>Net cash provided by (used for) operating activities</i></b>	<u>22,450</u>	<u>(22,309)</u>
<b><i>Cash flows from investing activities:</i></b>		
Interest on investments	4,436	4,356
<b><i>Net cash provided by investing activities</i></b>	<u>4,436</u>	<u>4,356</u>
<b><i>Cash flows from capital and related financing activities</i></b>		
Cash received from sale of capital assets	-	680,000
<b><i>Net cash provided by (used for) capital and related financing activities</i></b>	<u>-</u>	<u>680,000</u>
<b><i>Increase in cash and cash equivalents</i></b>	26,886	662,047
<b><i>Cash and cash equivalents, beginning of the year</i></b>	<u>3,929,156</u>	<u>3,267,109</u>
<b><i>Cash and cash equivalents, end of the year</i></b>	<u>\$ 3,956,042</u>	<u>\$ 3,929,156</u>
<b><i>Reconciliation of operating income to net cash used in operating activities:</i></b>		
Operating income (loss)	\$ (2,092,061)	\$ 10,415
Adjustments to reconcile operating income (loss) to net cash used by operating activities:		
Depreciation	-	6,753
Changes in assets and liabilities:		
Mortgage insurance premiums receivable	(3,109)	(4,901)
Accounts payable	12,772	7,306
Other payables	1,962,682	-
Deferred revenue	(10,000)	(20,573)
Due to Rhode Island Industrial Facilities Corporation	78,058	(7,500)
Due to Rhode Island Economic Development Corporation	74,108	(13,809)
Total adjustments	<u>2,114,511</u>	<u>(32,724)</u>
<b><i>Net cash provided by (used for) operating activities</i></b>	<u>\$ 22,450</u>	<u>\$ (22,309)</u>

SEE ACCOMPANYING NOTES.

**RHODE ISLAND INDUSTRIAL-RECREATIONAL BUILDING AUTHORITY**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2012 AND 2011**

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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. However, during the year ended June 30, 2010 the General Assembly restored authorization to \$60,000,000.

***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 FASB 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 15-40 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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**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2012 AND 2011**

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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 estimated and 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, 2012 and 2011, cash equivalents totaled \$3,956,042 and \$3,929,156 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 four entities for the year ended June 30, 2012 represent 90% of the Authority's mortgage insurance premiums and four entities 84% of the Authority's mortgage insurance premiums for the year ended June 30, 2011.

***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.

**2. CASH AND CASH EQUIVALENTS**

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.

(CONTINUED)

**RHODE ISLAND INDUSTRIAL-RECREATIONAL BUILDING AUTHORITY**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2012 AND 2011**

**2. CASH AND CASH EQUIVALENTS (Continued)**

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.

At June 30, 2012, the Authority had investments consisting of \$3,648,603 in the Ocean State Investment Pool Trust (OSIP), an investment pool established by the State General Treasurer. Funds of agencies, authorities, commissions, boards, municipalities, political subdivisions, and other public units of the State are eligible to invest in OSIP. OSIP operates in a manner consistent with a SEC Rule 2a-7 like pool and thus, reports all investments at amortized cost rather than fair value. The OSIP is not rated and the weighted average maturity of investments held in the pool, by policy, is not to exceed 60 days. OSIP issues a publicly available financial report that can be obtained by writing to the Office of the General Treasurer, Finance Department, 50 Service Avenue - 2<sup>nd</sup> Floor, Warwick, RI 02886.

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

	<u>2012</u>	<u>2011</u>
Cash.....	\$ 307,439 (1)	\$ 284,991 (1)
Repurchase agreements .....		3,644,165 (1)
Ocean State Investment Pool Trust (OSIP).....	<u>3,648,603</u>	
<b>Total .....</b>	<b><u>\$3,956,042</u></b>	<b><u>\$3,929,156</u></b>

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

The Rhode Island General Treasurer's Office implemented a collateralization policy requiring 100% collateralization of all bank balances held in custody of the General Treasurer.

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.

**3. 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. For the years ended June 30, 2012 and 2011, the escrow deposit was \$696,557 and \$696,557, respectively.

(CONTINUED)

**RHODE ISLAND INDUSTRIAL-RECREATIONAL BUILDING AUTHORITY**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2012 AND 2011**

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

At June 30, 2012 and 2011, 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, 2012 and 2011 are \$19,467,587 and \$20,779,093 respectively.

At June 30, 2012, the Authority had \$2,860,000 in outstanding commitments.

The Authority insures a bond issued by RIIFC on behalf of a private sector entity. During the year ended June 30, 2012 the private sector entity was in default on its payments to the bond holder and the Authority has assumed responsibility for making the debt payments. These payments will be made by first exhausting insurance funds held by the Authority. The Authority must then request appropriations of the Rhode Island General Assembly for any loss in excess of the insured amount. The Authority has determined that it is likely that it will incur a loss under the insured commitment. Although the Authority is unable to estimate the exact amount of the loss, the Authority has accrued an insured commitment payable of \$1,962,682 equal to the minimum estimated loss at June 30, 2012. The current portion of the insured commitments payable was calculated by estimating the monthly payments due within one year on this bond.

**5. BAD DEBT EXPENSE**

Bad debt expense in the amount of \$177,770 for the year ended June 30, 2012 is comprised of amounts estimated to be uncollectible from other receivables and mortgage insurance premiums receivable of \$162,117 and \$15,653, respectively. Other receivables represents amounts paid during the year ended June 30, 2012 for debt service on the bond described in note 4.

**6. SUBSEQUENT EVENTS**

The Authority has evaluated all subsequent events through September 28, 2012, the date the financial statements were available to be issued.

(CONCLUDED)

**SUPPLEMENTARY INFORMATION**

**RHODE ISLAND INDUSTRIAL-RECREATIONAL BUILDING AUTHORITY**  
**SCHEDULES OF UNCOMMITTED MORTGAGE INSURANCE AVAILABILITY**  
**YEARS ENDED JUNE 30, 2012 AND 2011**

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	<u>2012</u>	<u>2011</u>
Aggregate maximum contractual principal payments the Authority is authorized to insure .....	\$60,000,000	\$60,000,000
Principal balances outstanding under first mortgages and first security agreements at year-end .....	19,476,587	20,779,093
Commitments outstanding at year-end .....	2,860,000	0
Approved resolutions outstanding at year-end .....	<u>0</u>	<u>1,500,000</u>
Subtotal .....	<u>22,336,587</u>	<u>22,279,093</u>
<b>TOTAL</b> .....	<b><u>\$37,663,413</u></b>	<b><u>\$ 37,720,907</u></b>

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

**RHODE ISLAND INDUSTRIAL-RECREATIONAL BUILDING AUTHORITY**

**(A COMPONENT UNIT OF THE STATE OF RHODE ISLAND)**

**STATEMENT OF NET ASSETS**

**JUNE 30, 2012**

*Schedule B*

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**Assets**

Current Assets:

Cash and cash equivalents	\$	3,956,042
Receivables		12,423
Total current assets		<u>3,968,465</u>

Noncurrent Assets:

Due from other component units		<u>696,557</u>
Total noncurrent assets		<u>696,557</u>

Total assets 4,665,022

**Liabilities**

Current liabilities:

Due to other component units		185,885
Deferred revenue		10,000
Other liabilities		<u>506,428</u>
Total current liabilities		<u>702,313</u>

Noncurrent liabilities:

Deferred revenue		52,500
Other liabilities		<u>2,172,889</u>
Total noncurrent liabilities		<u>2,225,389</u>

Total liabilities 2,927,702

**Net assets**

Unrestricted 1,737,320

Total net assets \$ 1,737,320

**RHODE ISLAND INDUSTRIAL-RECREATIONAL BUILDING AUTHORITY**

**(A COMPONENT UNIT OF THE STATE OF RHODE ISLAND)  
STATEMENT OF CHANGES IN NET ASSETS  
YEAR ENDED JUNE 30, 2012**

Schedule C

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<b>Operating revenues:</b>	
Other operating income	\$ 301,162
Total operating revenues	<u>301,162</u>
<b>Operating expenses:</b>	
Supplies, materials, and services	241,252
Other operating expenses	<u>2,151,971</u>
Total operating expenses	<u>2,393,223</u>
Operating income (loss)	<u>(2,092,061)</u>
<b>Nonoperating revenues (expenses):</b>	
Interest revenue	<u>4,437</u>
Total nonoperating revenue (expenses)	<u>4,437</u>
Income (loss) before contributions	(2,087,624)
Change in net assets	(2,087,624)
Total net assets - beginning	<u>3,824,944</u>
Total net assets - ending	<u>\$ 1,737,320</u>

**RHODE ISLAND INDUSTRIAL-RECREATIONAL BUILDING AUTHORITY**

**(A COMPONENT UNIT OF THE STATE OF RHODE ISLAND)  
COMBINED SCHEDULE OF CHANGES IN LONG-TERM DEBT  
YEAR ENDED JUNE 30, 2012**

*Schedule D*

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	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Amounts Due Within One Year</u>	<u>Amounts Due Thereafter</u>
<b><i>Other liabilities</i></b>						
Deferred Revenue	\$ 72,500		\$ (10,000)	\$ 62,500	\$ 10,000	\$ 52,500
Other long-term liabilities	<u>696,557</u>	<u>\$ 1,476,332</u>		<u>2,172,889</u>		<u>2,172,889</u>
Total long-term debt	<u>\$ 769,057</u>	<u>\$ 1,476,332</u>	<u>\$ (10,000)</u>	<u>\$ 2,235,389</u>	<u>\$ 10,000</u>	<u>\$ 2,225,389</u>

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**REPORT OF INDEPENDENT AUDITOR 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, 2012, and have issued our report thereon dated September 28, 2012. 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

Management of the Rhode Island Industrial-Recreational Building Authority is responsible for establishing and maintaining effective 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.

*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 misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

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 deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Needham  
Boston  
Concord  
Taunton

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 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.

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.

*Braver PC*

Providence, Rhode Island  
September 28, 2012