

RHODE ISLAND AIRPORT CORPORATION
(A Component Unit of the Rhode Island
Economic Development Corporation)

FINANCIAL REPORT
June 30, 2012

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Independent Auditor's Report

INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Rhode Island Airport Corporation
Warwick, Rhode Island

We have audited the accompanying financial statements of the Rhode Island Airport Corporation (RIAC), a component unit of the Rhode Island Economic Development Corporation (EDC), which is a component unit of the State of Rhode Island, as of and for the years ended June 30, 2012 and 2011 as listed in the table of contents. These financial statements are the responsibility of RIAC's management. 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 of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of RIAC's internal control over financial reporting. 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.

In our opinion, the financial statement referred to above present fairly, in all material respects, the respective financial position of the Rhode Island Airport Corporation as of June 30, 2012 and 2011, and the statement of revenues, expenses and changes in net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated September 28, 2012 on our consideration of RIAC'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 the 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 – 16 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 an opinion on the financial statements that collectively comprise RIAC's basic financial statements. The supplemental schedules for the years ended June 30, 2012 and 2011, reported on pages 41 - 46 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 basic financial statements. The supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated in all material respects in relation to the basic financial statements as a whole.

McGladrey LLP

New Haven, Connecticut
September 28, 2012

Management's Discussion and Analysis

INTRODUCTION

The following Management's Discussion & Analysis (MD&A) of the Rhode Island Airport Corporation (RIAC) serves as an introduction and overview to the reader of the audited financial statements for the fiscal years ended June 30, 2012 and June 30, 2011. The information contained in the MD&A should be considered in conjunction with the audited financial statements.

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

RHODE ISLAND AIRPORT CORPORATION

RIAC was created by the Rhode Island Economic Development Corporation (EDC) on December 9, 1992 as a public corporation, governmental agency and public instrumentality, having a distinct legal existence from the State of Rhode Island (State) and EDC, having many of the same powers and purposes as EDC. RIAC is a component unit of the EDC, which is a component unit of the State. RIAC is empowered, pursuant to its Articles of Incorporation and Rhode Island law, to undertake the planning, development, management, acquisition, ownership, operation, repair, construction, reconstruction, rehabilitation, renovation, improvement, maintenance, development, sale, lease, or other disposition of any "airport facility", as defined in Title 42, Chapter 64 of the Rhode Island General Laws, as amended (the "Act"). "Airport facility" is defined in the Act in part as "developments consisting of runways, hangars, control towers, ramps, wharves, bulkheads, buildings, structures, parking areas, improvements, facilities, or other real or personal property, necessary, convenient, or desirable for the landing, takeoff, accommodation, and servicing of aircraft of all types, operated by carriers engaged in the transportation of passengers or cargo, or for the loading, unloading, interchange, or transfer of the passengers or their baggage, or the cargo, or otherwise for the accommodation, use or convenience of the passengers or the carriers or their employees (including related facilities and accommodations at sites removed from landing fields or other areas), or for the landing, taking off, accommodation, and servicing of aircraft owned or operated by persons other than carriers".

Pursuant to the State Lease Agreement, RIAC leases T.F. Green Airport (Airport) and the five general aviation airports (collectively, Airports) from the State for a term ending June 30, 2038 at a rental of \$1.00 per year. RIAC has also acquired all of the personal property and other assets of the State located at or relating to the Airports. In consideration of RIAC's assumption of the Rhode Island Department of Transportation's (RIDOT) responsibilities with respect to the Airports, the State and RIDOT have assigned to RIAC all of their rights to the revenues of the Airports, the proceeds of State General Obligation (G.O.) Bonds related to the Airports, Federal Aviation Administration (FAA) grant agreements, a Federal Highway Administration grant, insurance proceeds, all contracts including concession agreements and the prior airline agreements, and all licenses and permits.

RIAC operates on a fiscal year basis beginning on July 1st and continuing through the following June 30th of each year. RIAC was created to operate as a self-sustaining entity and receives no funds from the State's General Fund for the operation and maintenance of any of the Airports under its jurisdiction. RIAC has utilized State G.O. Bonds issued on behalf of RIAC for the intended use at the Airports. Per the Lease Agreement, RIAC is obligated to repay to the State the principal and interest on any G.O. Bonds issued for airport purposes.

RIAC does not have the authority to issue bonds or notes or borrow money without the approval of EDC. In addition, RIAC does not have the power of eminent domain with respect to real property. RIAC does have certain contractual rights under the Lease Agreement to require the State to exercise powers of eminent domain for the benefit of RIAC.

The Board of Directors of RIAC, consisting of seven members, annually approves an operating and maintenance budget, as well as a capital budget for the fiscal year. The Board of Directors relies upon the advice and

recommendation of RIAC's Finance & Audit Committee, which consists of three members of the full Board of Directors.

T.F. GREEN AIRPORT

RIAC operates T. F. Green Airport, which is Rhode Island's only certified Part 139 commercial airport. The Airport is primarily an origin – destination airport. In recent years, approximately 96% of the passengers at the Airport either began or ended their journeys at the Airport.

The terminal complex including access roads and related improvements was completed in September 1996 and replaced the prior terminal which was demolished. The terminal building is named the Bruce Sundlun Terminal at T.F. Green Airport (Terminal). The Terminal at the time of its opening was a two level facility of approximately 302,000 square feet including fifteen jet gates. There was also one commuter aircraft parking position. In 1998, the Terminal was expanded to add four new jet gates and one new commuter aircraft parking position. As a result of the expansion, the Terminal space increased to approximately 350,000 square feet with a capacity of nineteen jet gates and two commuter gates for a total of twenty-one gates.

The Terminal has passenger concourses that extend to the north and south of the central terminal area. Facilities for departing passengers are located on the second level where ticket counters, baggage checks, departure lounges and concessions such as restaurants and news/gift stands are located. On the second level, passengers pass through the central terminal area and then through the security checkpoint. From there, departing passengers take the concourse to the appropriate hold room and gate.

A major Terminal Improvement Project (TIP) at the Airport was undertaken in 2006 and substantially completed in 2008 to minimize congestion, ease circulation, improve security procedures, and enhance concessions. The expansion and improvement project increased the Terminal to approximately 402,000 square feet. As of June 30, 2012, airlines serving the Airport lease approximately 71,000 square feet of exclusive and preferential use area and approximately 64,000 square feet of common use area.

A total of approximately 9,740 public parking spaces are available on Airport property and/or leased space. They are divided as follows: a short term lot in front of the Terminal (Lot D) with approximately 420 spaces; a parking garage with approximately 1,500 spaces (Garage A); a garage with 720 spaces (Garage B); a leased garage with approximately 1,540 spaces (Garage C); and an express lot with approximately 4,360 spaces with an additional overflow capacity of 1,200 spaces that can be put into service, if needed (Lot E). Garage A, Garage B, Garage C, Lot D and Lot E (RIAC controlled parking facilities) are operated pursuant to a parking management agreement with Standard Parking Corporation.

RIAC leased Garage C from New England Parking, LLC in December 2007 for a ten year term through November 30, 2017. Per the terms of the lease agreement RIAC is responsible for all Garage C operations and maintenance costs and for the collection of all revenues from Garage C.

Public vehicular access is provided by a roadway system that directs vehicular traffic from Post Road and Interstate Route 95 to the Terminal curbs. These roads connect to a dual-level curb system accommodating arriving and departing passengers. When approaching the Terminal, the roadway divides into an upper level for departing passengers and a lower level for arriving passengers. The upper level includes a curb to provide an unloading area for private vehicles, taxis, limousines, and rental car company and hotel shuttles. The lower level roadway includes a curb designated as loading zones for private vehicles and various commercial vehicles such as buses, courtesy vans, taxis and limousines.

The present airfield configuration consists of two intersecting runways, Runway 5/23 and Runway 16/34. Other facilities at the Airport include: fuel storage areas, facilities for fixed base operators, certain rental car service facilities, air freight and air cargo facilities, various hangars and other aviation-related facilities.

Air Carriers Serving the Airport

As of June 2012, and based upon classifications defined by the U.S. Department of Transportation, the Airport has scheduled passenger service provided by fifteen major/national and two regional airlines. Air Georgian provides international service at the Airport. Two airlines provide all-cargo service.

AIRLINES SERVING THE AIRPORT

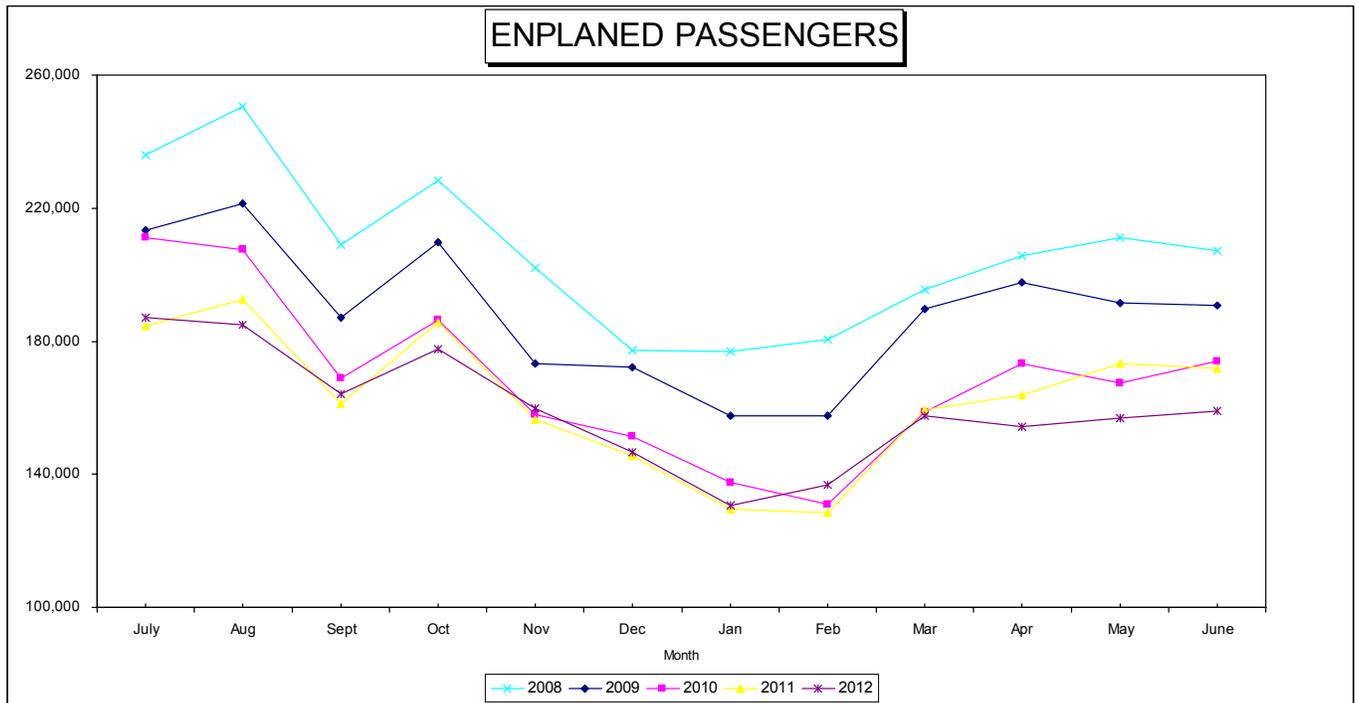
<u>Majors (5)</u>	<u>Doing Business As:</u>
Delta	
Pinnacle Airlines	Delta Connection
Southwest Airlines	
United Airlines	
US Airways	
<hr/>	
<u>Nationals (10)</u>	
Air Wisconsin	US Airways Express
Chautauqua Airlines	Delta Connection and US Airways Express
Colgan Air	United Express
Comair	Delta Connection
Commutair	United Express
Compass Airlines	Delta Connection
ExpressJet Airlines	Delta Connection and United Express
Mesa Airlines	United Express and US Airways Express
PSA Airlines	US Airways Express
Republic Airlines	US Airways Express
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<u>Regionals (2)</u>	
Cape Air ¹	
Piedmont Airlines	US Airways Express
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<u>Foreign Flag (1)</u>	
Air Georgian	Air Canada
<hr/>	
<u>All Cargo Carriers (2)</u>	
FedEx	
United Parcel Service	

¹ Cape Air offers seasonal service to Martha's Vineyard, Nantucket, and Hyannis

Historical Enplanement Data

T.F. Green Airport was ranked as the 63rd busiest airport in the country for federal fiscal year 2010 according to the latest published data in the “Terminal Area Forecast Summary” produced by the U.S. Department of Transportation, FAA. This compares with rankings of 61st busiest in federal fiscal years 2009 and 2008, and 60th busiest in federal fiscal years 2007 and 2006.

Actual enplaned passengers for fiscal year 2012 were 36,752 below 2011, resulting in a decrease of 1.9%. The decline in enplanements at the Airport is attributable to the ongoing impact of the economic downturn. The following chart and table depict the historical trend of enplaned passenger traffic at T. F. Green Airport for the fiscal years 2008 through 2012.



Fiscal Year	July	Aug	Sept	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	June	Total
2008	236,080	250,601	208,814	228,225	202,108	177,188	176,863	180,582	195,527	205,645	211,244	207,077	2,479,954
2009	213,521	221,326	187,006	209,650	173,168	172,106	157,477	157,573	189,817	197,807	191,596	190,653	2,261,700
2010	211,083	207,465	169,032	186,350	157,792	151,501	137,372	131,135	158,778	173,325	167,298	174,013	2,025,144
2011	184,400	192,516	161,065	185,570	156,605	145,430	129,441	128,318	159,394	163,786	173,426	171,629	1,951,580
2012	187,246	184,841	164,003	177,584	159,746	146,565	130,457	136,917	157,438	154,185	156,691	159,155	1,914,828

Airport Use and Lease Agreements

RIAC established Signatory Airline Agreements with Delta Airlines, FedEx, Southwest Airlines, United Airlines, United Parcel Service Co. and US Airways. Affiliates of Signatory Airlines operate under the terms and conditions of the Signatory Airline Agreements. Air Georgian and Cape Air executed Non-Signatory Agreements.

The term of the Signatory Airline Agreement is five years from July 1, 2010 through June 30, 2015. A Cost Center Residual Rate Methodology is utilized to establish the Landing Fee and Apron Rental Rates. The Terminal Rental Rate Methodology is Commercial Compensatory. A Majority-in-Interest approval is not required for Capital Improvement Projects. The Signatory Agreement incorporates an Airline Net Revenue Sharing methodology for Signatory Passenger Airlines. Distribution of each Signatory Passenger Airline's portion of the revenue-sharing is based on enplanements. Under this process, RIAC retains the first \$1 million and the Signatory Passenger Airlines share the next \$600,000. If there are remaining funds after the \$1.6 million, the Signatory Airlines share 40% and RIAC retains 60%. Non-Signatory Airlines' landing fees, apron fees and terminal rental rates are 125% of the Signatory Airlines' rates.

GENERAL AVIATION AIRPORTS

There are five General Aviation Airports operated by RIAC, each of which is managed pursuant to a Management Contract by and between RIAC and AFCO AvPORTS Management LLC (AvPORTS). Each of these airports is briefly described below:

North Central Airport

Located approximately fifteen miles north of the Airport, North Central Airport is classified as a reliever airport by the FAA and is located in Smithfield.

Quonset Airport

This airport is located in North Kingstown, approximately ten miles south of the Airport. The Rhode Island Air National Guard moved its operations from the Airport to Quonset Airport in 1986. The Rhode Island Army National Guard also maintains a presence at Quonset Airport. Quonset Airport has additional industrial facilities which are leased to several companies by the Quonset Development Corporation (QDC), a subsidiary of the EDC. Quonset Airport is classified by the FAA as a reliever airport.

Westerly Airport

This airport is located in Westerly, approximately thirty-five miles southwest of the Airport. Westerly Airport is classified as a commercial service airport and enplanes approximately 10,000 commuter passengers annually.

Newport Airport

This airport is located in Middletown, approximately seventeen miles southeast of the Airport. Newport Airport is classified as a general aviation airport.

Block Island Airport

Situated on Block Island just off the southern coast of Rhode Island, Block Island Airport is approximately twenty-five miles from the Airport. Block Island Airport is classified as a commercial service airport and enplanes approximately 10,000 commuter passengers annually.

FINANCIAL STATEMENTS

RIAC's financial statements are prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP) as promulgated by the Governmental Accounting Standards Board (GASB). RIAC is structured as a single enterprise fund with revenues recognized when earned, not when received. Expenses are recognized when incurred, not when they are paid. Capital assets, except land, are capitalized and depreciated over their useful lives. See the notes to the financial statements for a summary of RIAC's significant accounting policies.

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

SUMMARY OF OPERATIONS AND CHANGE IN NET ASSETS

SUMMARY OF OPERATIONS AND CHANGE IN NET ASSETS

	2012	2011	2010
Operating Revenues	\$ 50,270,029	\$ 50,152,396	\$ 51,655,142
Operating Expenses	(48,107,201)	(48,127,052)	(50,134,795)
Operating Income	2,162,828	2,025,344	1,520,347
Non-Operating Revenues/(Expenses), net	(7,652,954)	(4,772,754)	311,373
Income/(Loss) before Capital Contributions	(5,490,126)	(2,747,410)	1,831,720
Capital Contributions, net	4,654,657	(5,768,578)	13,716,510
Change in Net Assets	\$ (835,469)	\$ (8,515,988)	\$15,548,230

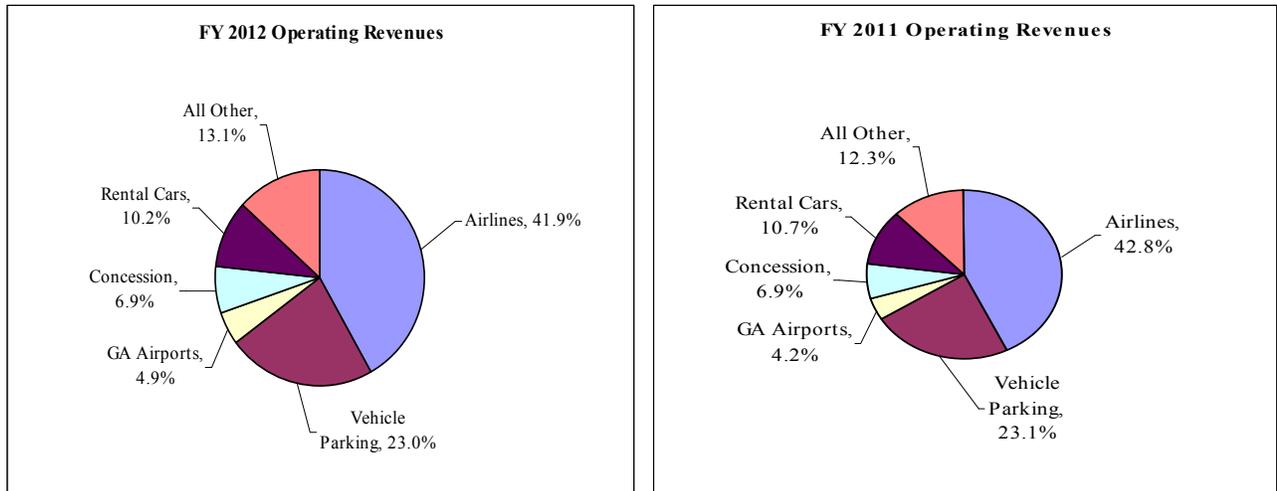
FINANCIAL POSITION SUMMARY

	2012	2011	2010
ASSETS			
Current assets	\$ 93,543,299	\$ 77,345,780	\$ 77,117,505
Noncurrent assets	50,349,843	59,048,516	77,982,118
Capital assets, net	<u>526,782,467</u>	<u>533,018,453</u>	<u>531,023,776</u>
Total assets	<u>670,675,609</u>	<u>669,412,749</u>	<u>686,123,399</u>
LIABILITIES			
Current liabilities	32,863,910	34,486,971	49,190,963
Long term obligations	<u>335,742,880</u>	<u>332,021,490</u>	<u>325,512,160</u>
Total liabilities	<u>368,606,790</u>	<u>366,508,461</u>	<u>374,703,123</u>
NET ASSETS			
Invested in capital assets, net of related debt	201,865,575	214,790,463	230,415,366
Restricted	54,216,042	48,032,872	50,164,939
Unrestricted	<u>45,987,202</u>	<u>40,080,953</u>	<u>30,839,971</u>
TOTAL NET ASSETS	<u>\$302,068,819</u>	<u>\$302,904,288</u>	<u>\$ 311,420,276</u>

OPERATING REVENUES

The following chart shows the major sources and the percentage of total operating revenues for the fiscal years ended June 30, 2012, 2011 and 2010.

	2012	% of Total Revenues	2011	% of Total Revenues	2010	% of Total Revenues
OPERATING REVENUES						
Passenger Airlines	\$21,063,108	41.9%	\$21,467,380	42.8%	\$21,210,814	41.1%
Vehicle Parking	11,542,017	23.0%	11,588,344	23.1%	11,952,964	23.1%
Rental Cars	5,128,359	10.2%	5,342,656	10.7%	5,868,274	11.4%
Concession	3,456,791	6.9%	3,436,313	6.9%	3,424,162	6.6%
General Aviation Airports	2,476,389	4.9%	2,128,317	4.2%	1,968,001	3.8%
Tiedowns and Hangar Rentals	1,327,577	2.6%	1,248,499	2.5%	1,147,372	2.2%
Fuel Flowage Fees	1,088,250	2.2%	1,069,788	2.1%	1,000,457	1.9%
Non-Airline Rent	1,063,063	2.1%	1,060,603	2.1%	1,066,813	2.1%
Other Revenues	894,251	1.8%	738,420	1.5%	2,072,484	4.0%
Rental Revenues - Airport Support	815,492	1.6%	719,170	1.4%	686,456	1.3%
General Aviation & Cargo	767,401	1.5%	728,291	1.5%	627,263	1.2%
Off Airport Courtesy Fees	<u>647,331</u>	1.3%	<u>624,615</u>	1.2%	<u>630,082</u>	1.2%
TOTAL OPERATING REVENUES	<u>\$ 50,270,029</u>	100.0%	<u>\$ 50,152,396</u>	100.0%	<u>\$ 51,655,142</u>	100.0%



Revenues for fiscal year 2012 increased slightly by \$118 thousand from fiscal year 2011 revenues. Overall revenues for fiscal year 2011 decreased by \$1.503 million from fiscal year 2010 revenues.

Passenger Airline revenues for fiscal year 2012 decreased by approximately \$404 thousand from fiscal year 2011. Passenger Airline revenues for fiscal year 2011 increased over fiscal year 2010 by \$257 thousand. Passenger Airline revenues include landing fees, terminal rentals, and apron rentals, net of an airline net revenue share. Passenger Airline revenue divided by fiscal year enplanements results in the Airport's Cost Per Enplanement (CPE). The calculated CPE's for fiscal years 2012, 2011 and 2010 are \$11.00, \$11.00, and \$10.47, respectively.

Vehicle Parking revenues for fiscal year 2012 and 2011 decreased by approximately \$46 thousand and \$365 thousand respectively, as a result of declines in passenger traffic at the Airport offset by the results of programs to maximize the use of Airport parking facilities.

Rental Car revenues decreased by approximately \$214 thousand and \$526 thousand for fiscal years 2012 and 2011, respectively. These revenues include RIAC's share of rental car transactions and space rentals at the Airport. The decreases are a result of the trend in enplanements in fiscal year 2012 and the relocation of certain operations from airport property to the InterLink in fiscal year 2011.

Concession revenues for fiscal year 2012 increased approximately \$20 thousand over fiscal year 2011. Concession revenues for fiscal year 2011 increased approximately \$12 thousand over fiscal year 2010 amounts. Included in this category are revenues from food, retail, and advertising concessionaires at the Airport.

General Aviation Airports revenues increased by \$348 thousand and \$160 thousand in fiscal years 2012 and 2011 respectively, due to increased hangar rental and fuel revenues primarily at Quonset Airport and North Central Airport.

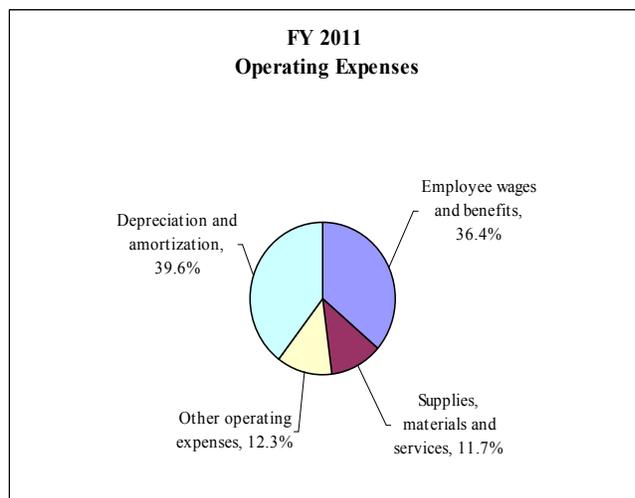
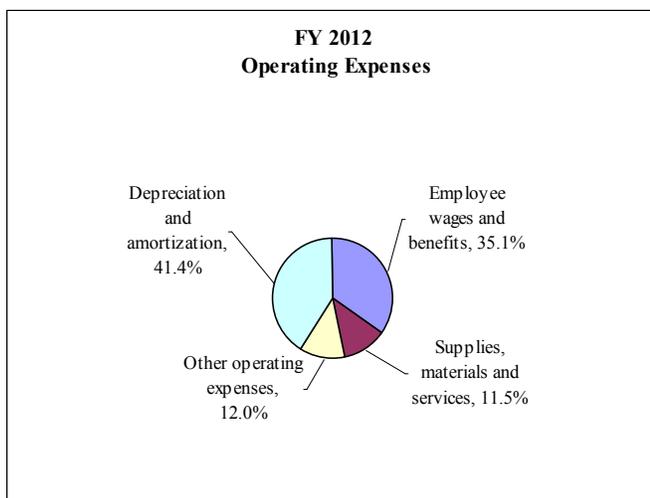
Other Revenues for fiscal year 2012 increased by \$156 thousand as compared to fiscal year 2011 due to the receipt of additional federal grants. Other Revenues in fiscal year 2011 decreased by \$1.334 million from fiscal year 2010. Certain airline charges that were previously recorded as other revenues in 2010 have either been eliminated or incorporated into the landing fee and rental rate calculations under the terms of the new Signatory Airline Agreement. Also, included in this line item are audit recoveries, bad debt expense and recoveries.

Rental Revenues – Airport Support Fund increased by \$96 thousand and \$33 thousand in fiscal years 2012 and 2011, respectively. These increases are a result of increased rental fees on certain revenue producing parcels located at Quonset State Airport.

OPERATING EXPENSES

The following chart illustrates major categories of operating expenses for the fiscal years ended June 30, 2012, 2011 and 2010:

	2012	% of Total Operating Expenses	2011	% of Total Operating Expenses	2010	% of Total Operating Expenses
OPERATING EXPENSES						
Employee wages and benefits	\$ 16,907,287	35.1%	\$ 17,542,387	36.4%	\$ 19,073,412	38.0%
Supplies, materials and services	5,549,336	11.5%	5,616,227	11.7%	5,576,636	11.1%
Other operating expenses	5,777,888	12.0%	5,925,242	12.3%	6,293,601	12.6%
Depreciation and amortization	<u>19,872,690</u>	41.4%	<u>19,043,196</u>	39.6%	<u>19,191,146</u>	38.3%
TOTAL OPERATING EXPENSES	<u>\$ 48,107,201</u>	100.0%	<u>\$ 48,127,052</u>	100.0%	<u>\$ 50,134,795</u>	100.0%



Employee wages and benefits for fiscal year 2012 and fiscal year 2011 decreased by \$635 thousand and \$1.531 million respectively, over prior year amounts due to the reduction in force during fiscal year 2011 and management's efforts to manage these costs in line with revenue streams.

Supplies, materials and services for fiscal year 2012 decreased by approximately \$67 thousand from fiscal year 2011. Fiscal year 2011 increased by approximately \$40 thousand from fiscal year 2010. Included in this line item are contracted maintenance, outside services, professional fees and supplies.

Other operating expenses for fiscal years 2012 and 2011 decreased by \$147 thousand and \$368 thousand respectively from prior year amounts as a result of utility savings from the Energy Conservation Measures project, milder winters and management's efforts to manage costs in line with revenue streams. Included in this line item are utilities, maintenance agreements, insurance and advertising.

INTERLINK OPERATIONS

Net Income for the InterLink is recorded as Nonoperating Revenue in RIAC's Statements of Revenues, Expenses and Changes in Net Assets. Facility Revenues for the InterLink include Customer Facility Charges (CFCs), Rental Car Rental Fees, and Net Commuter Parking Revenues. Operating Expenses include utilities, contracted maintenance, insurance and other costs associated with the InterLink. Depreciation related to the InterLink is reflected in this line item. Interest Expense includes the interest component of RIAC's debt service on the 2006 Series Special Facility Bonds and the US Department of Transportation's (USDOT's) Transportation Infrastructure

Finance and Innovation Act (TIFIA) loan. Interest Income on accounts associated with the InterLink is also included in this line item.

Additional information on the InterLink operations may be found in the notes to the financial statements.

CUSTOMER FACILITY CHARGES

Since July of 2001, RIAC has been collecting CFCs per transaction day from the rental car companies that operate at, or near, the Airport and service customers who utilize the Airport in anticipation of the construction of a consolidated car rental facility to be located on, or near, Airport property. Effective July 1, 2011, the CFC rate was increased to \$5.50 from \$5.00 per eligible transaction day. The authority to collect Customer Facility Charges is pursuant to transportation ground rules promulgated by RIAC and Section 1-2-1.1 of the Rhode Island General Laws. During fiscal year 2012, CFC revenues including audit recoveries were \$5.978 million, as compared to \$5.052 million in fiscal year 2011 and \$4.758 million in fiscal year 2010.

PASSENGER FACILITY CHARGES

Passenger Facility Charges (PFCs) are available to airports to finance specific eligible projects that (i) preserve or enhance capacity, safety or security of the national air transportation system, (ii) reduce noise resulting from an airport or (iii) furnish opportunities for enhanced competition among air carriers. Prior to fiscal year 2006, RIAC had received approval of its applications for authority to impose and use PFCs of \$3.00 per enplaned passenger to pay for eligible components of several projects including the new T.F. Green Terminal as well as the payment of a portion of the debt service on the 1993 Series A Bonds, the 1994 Series A Bonds and the 2000 Series A and B Bonds issued therefore. During fiscal years 2006 and 2007 RIAC's PFC applications one through four were amended to increase the PFC from \$3.00 to \$4.50 per enplaned passenger and adjust the total PFC Authority from \$147.5 million to \$135.9 million. In fiscal year 2007 RIAC received approval of an additional application for certain airport projects in the amount of \$31.826 million to be collected at \$4.50 per enplaned passenger, bringing the total PFC Authority to \$167.726 million. In fiscal year 2010 RIAC received approval of an additional application for certain airport projects in the amount of \$15.833 million to be collected at \$4.50 per enplaned passenger, bringing the total PFC Authority to \$183.559 million.

Fiscal year 2012 PFC revenues were \$7.747 million as compared to \$8.090 million in fiscal year 2011 and \$8.294 million in fiscal year 2010. As of June 30, 2012, \$135.305 million (including interest earned) of PFCs have been collected. The authority to collect PFCs expires upon the expiration date specified by the FAA or once collections reach a maximum amount approved by the FAA, whichever occurs first.

In fiscal year 2012, \$4.169 million of pledged PFCs were used for debt service payments on the 1994 Series A, 2003 Series (which refunded a portion of the 1993 Series), 2004 Series (which refunded the remaining 1993 Series and a portion of the 1994 Series), and 2005 Series C bonds (which refunded the 2000 Series B). In fiscal year 2011, \$4.172 million of pledged PFCs were used for debt service payments on the 1994 Series A, 2003 Series (which refunded a portion of the 1993 Series), 2004 Series (which refunded the remaining 1993 Series and a portion of the 1994 Series), and 2005 Series C bonds (which refunded the 2000 Series B). In fiscal year 2010, \$4.181 million of pledged PFCs were used for debt service payments on the 1994 Series A, 2003 Series (which refunded a portion of the 1993 Series), 2004 Series (which refunded the remaining 1993 Series and a portion of the 1994 Series), and 2005 Series C bonds (which refunded the 2000 Series B).

CAPITAL ACQUISITIONS AND CONSTRUCTION ACTIVITIES

Capital asset acquisitions and improvements exceeding \$2,500 are capitalized at cost. Acquisitions are funded using a variety of financing techniques, including federal grants with matching RIAC funds.

In fiscal year 2012, RIAC capitalized \$14.163 million in leasehold improvements and \$4.013 million in machinery and equipment. Additional amounts were added to construction in progress (CIP) to reflect ongoing construction activities during the fiscal year, resulting in an ending balance of \$6.185 million at June 30, 2012.

In fiscal year 2011, RIAC capitalized \$1.349 million in land and easement acquisitions, \$145.171 million in leasehold improvements, and \$15.824 million in machinery and equipment. Additional amounts were added to construction in progress (CIP) to reflect ongoing construction activities during the fiscal year, resulting in an ending balance of \$6.155 million at June 30, 2011.

Additional information on capital assets may be found in the notes to the financial statements.

SIGNIFICANT PROJECTS - AIRPORTS

Voluntary Land Acquisition – T. F. Green Airport

In fiscal year 2012 \$964 thousand was expended for relocation, demolition, and related program costs associated with seventeen properties acquired in the prior year in connection with the 2020 No-Build Voluntary Land Acquisition program. In fiscal year 2011, \$4.96 million was expended in connection with the acquisition of seventeen properties under this program.

Amounts related to the value of land at the time of these acquisitions is capitalized, but not depreciated in accordance with U.S. GAAP.

Environmental Impact Statement (EIS) – T. F. Green Airport

In fiscal year 2012, approximately \$798 thousand was expended on the Environmental Impact Statement (EIS) as outlined in relevant FAA orders in accordance with the National Environmental Policy Act (NEPA) process. The amount expended in fiscal year 2011 totaled approximately \$1.897 million.

Deicer Management System

In fiscal year 2012, approximately \$1.770 million was expended on the design for the Deicer Management System. This project provides for the construction of a facility that will have the ability to collect, transfer, store, treat, and discharge glycol impacted storm water. The amount expended in fiscal year 2011 totaled approximately \$313 thousand.

Passenger Boarding Bridges

In fiscal year 2012, RIAC purchased and installed three passenger boarding bridges for use at T.F. Green Airport at gates 12, 14 and 22. The amount expended on this project totaled \$1.674 million.

Closed Circuit Television (CCTV) System Expansion –T.F. Green Airport

In fiscal year 2012, approximately \$2.405 million was expended on the Closed Circuit Television (CCTV) System Expansion. This project provides greater surveillance at T.F. Green Airport including surveillance of TSA areas to enhance security, aid in the speedy resolution of claims, and assist in resolution of law enforcement issues. This project is funded through a grant provided by the Transportation Security Administration (TSA). The amount expended in fiscal year 2011, totaled approximately \$892 thousand.

INTERLINK PROJECT

The InterLink includes consolidated facilities for Airport rental car operations; a train platform to provide access for commuter rail service south to Wickford, Rhode Island and north to both Providence and Boston; and a parking garage for rental car operators and rail commuters. An elevated and enclosed skywalk system connects the InterLink to the Airport. The InterLink was completed with a Date of Operational Opening (DOO) in October 2010. Expenditures for this project were approximately \$10.737 million in fiscal year 2012, \$25.966 million in fiscal year 2011 and \$81.215 million in fiscal year 2010.

The InterLink is funded from the following sources: 2006 First Lien Bonds, the TIFIA Bond, Federal Highway grants, State matching grants and CFCs.

LONG-TERM DEBT ADMINISTRATION - GENERAL

Under the State Lease Agreement, RIAC has agreed to reimburse the State for G.O. Bond debt service accruing after July 1, 1993. In the event there are not sufficient moneys available to reimburse the State, such event shall not constitute an event of default. Instead, the unpaid portion shall accrue and be payable in the next succeeding fiscal year and shall remain a payment obligation of RIAC until paid in full. If the unpaid portion is not reimbursed by the end of the following year, such failure could constitute an event of default on the part of RIAC under the State Lease Agreement. RIAC is current in all of its payment obligations to the State. These bonds mature annually through 2023. The balance outstanding at June 30, 2012 and 2011 was \$5.225 million and \$6.79 million, respectively.

In 1994, RIAC issued \$30 million Series A General Airport Revenue Bonds dated May 19, 1994, maturing annually from 1998 through 2014 with interest coupons ranging from 5.25% to 7%. The balance outstanding as of June 30, 2012 and 2011 was \$3.345 and \$4.315 million respectively.

In 1998, RIAC issued \$8.035 million Series A and \$53.14 million Series B General Airport Revenue Bonds dated June 11, 1998, maturing annually from 2001 through 2028 with interest coupons ranging from 4.2% to 5.25%. The balance outstanding as of June 30, 2012 and 2011 was \$32.06 million for both years.

In 2003, RIAC issued \$31.725 million Series A Airport Revenue Refunding Bonds dated October 2, 2003 to enable the defeasance of \$31.395 million of 1993 Series A General Airport Revenue Bonds. The refund issue matures annually through 2015 with interest coupons ranging from 3.5% to 5%. The balance outstanding as of June 30, 2012 and 2011 was \$11.57 million and \$14.19 million, respectively.

In 2004, RIAC issued \$52.665 million Series A Airport Revenue Refunding Bonds dated March 12, 2004 to enable the defeasance of \$31.915 million and \$20.19 million of 1993 Series A and 1994 Series A General Airport Revenue Bonds, respectively. The refund issue matures annually through 2024 with interest coupons from 2% to 5%. The balance outstanding as of June 30, 2012 and 2011 was \$48.90 million and \$48.985 million, respectively.

In 2005, RIAC issued \$43.545 million Series A and \$27.245 million Series B General Airport Revenue Bonds dated June 28, 2005 maturing annually from 2009 through 2030 with interest coupons ranging from 4.625% to 5%. Also on June 28, 2005, RIAC issued \$44.465 million Series C Airport Revenue Refunding Bonds to enable the defeasance of \$42.165 million of 2000 Series B General Airport Revenue Bonds. The refund issue matures annually through 2028 with interest coupons ranging from 3% to 5%. RIAC's defeasance of the 2000 Series B Bonds resulted in an economic present value gain of \$3.04 million or 7.2% of the refunded bonds. The outstanding balance for the 2005 Series as of June 30, 2012 and 2011 was \$109.89 million and \$112.21 million, respectively.

In 2008, RIAC issued \$17.645 million Series A and \$15.49 million Series B General Airport Revenue Bonds dated May 30, 2008 maturing annually through 2038 with interest coupons ranging from 3.5% to 5.25%. Also on May 30, 2008, RIAC issued \$18.03 million Series C Airport Revenue Refunding Bonds to enable the defeasance of \$18.06 million of 1998 Series B General Airport Revenue Bonds. The refund issue matures annually from 2010

through 2018 with interest coupons ranging from 4% to 5%. RIAC's defeasance of these 1998 Series B Bonds resulted in an economic present value gain of \$597 thousand or 3.3% of the refunded bonds. The outstanding balance for the 2008 Series as of June 30, 2012 and June 30, 2011 was \$46.825 million and \$49.185 million, respectively.

LONG TERM DEBT ADMINISTRATION – SPECIAL FACILITY

In 2006, RIAC issued \$48.765 million Series 2006 First Lien Special Facility Bonds for the InterLink Project (2006 First Lien Bonds) dated June 14, 2006 maturing annually from 2011 through 2036 with interest coupons ranging from 4% to 5%. The balance outstanding for the 2006 First Lien Bonds was \$48.195 million and \$48.765 million as of June 30, 2012 and 2011, respectively. The principal amount of redemption premium, if any, and interest on the 2006 First Lien Bonds is payable from and secured by a pledge of the respective interests of EDC and RIAC in the Trust Estate created under the Indenture.

The Trust Estate consists of: (i) Facility Revenues (which include CFCs); (ii) moneys, including investment earnings, in funds and accounts pledged under the Indenture; (iii) certain insurance proceeds required to be deposited in such funds and accounts under the Indenture; and (iv) EDC's right, title and interest to receive loan payments from RIAC under the EDC Loan Agreement.

As part of the financing for the InterLink Project, RIAC and the EDC secured additional funds under the USDOT's TIFIA for the payment of eligible project costs of the InterLink up to \$42 million at an interest rate of 5.26%. This TIFIA Bond is issued pursuant to the First Supplemental Indenture as a Second Lien Obligation payable from and secured by a pledge of and secondary interest in the Trust Estate under the Indenture, subject to the pledge of the Trust Estate for the security and payment of the 2006 First Lien Bonds. The 2006 TIFIA Bond is also secured by the Second Lien Debt Service Reserve Fund that was funded from CFCs on the DOO in an amount of \$3,328,407. As of June 30, 2012 and June 30, 2011 approximately \$40.059 million and \$23.838 million, respectively had been drawn on the TIFIA loan.

CREDIT RATINGS AND BOND INSURANCE

Since the inception of RIAC in 1992, there have been six General Airport Revenue Bonds issued by the EDC, the parent of RIAC, to finance construction and other related costs for certain capital improvements and four Airport Revenue Refunding Bonds to defease all of the 1993 debt, a portion of the 1994 debt, a portion of the 1998 debt, and all of the 2000 Series B debt. The General Airport Revenue Bonds include the 1993 Series A Bonds (\$78.1 million issued and insured by Financial Security Assurance (FSA), (now Assured Guaranty Municipal (AGM)), all of which are now defeased), 1994 Series A Bonds (\$30 million issued and insured by FSA, (now AGM), with \$3.345 million outstanding), 1998 Series A&B Bonds (\$61.175 million insured by FSA, (now AGM), with \$32.06 million outstanding), 2000 Series A&B Bonds (\$50.545 million issued and insured by Financial Guaranty Insurance Company (FGIC), with \$0 outstanding), the 2005 Series A&B Bonds (\$70.79 million issued and insured by MBIA Insurance Company (MBIA) (now National Public Finance Guaranty (NPF)), with \$66.685 million outstanding), and the 2008 Series A&B Bonds (\$33.135 million issued and insured by Assured Guaranty Corp. (AGC) with \$32.25 million outstanding).

The Airport Revenue Refunding Bonds include the 2003 Series A Bonds (\$31.725 million issued and insured by FGIC, currently reinsured by NPF with \$11.57 million outstanding), the 2004 Series A Bonds (\$52.665 million issued and insured by FSA (now AGM), with \$48.90 million outstanding), the 2005 Series C Bonds (\$44.465 million issued and insured by MBIA (now NPF), with \$43.205 million outstanding), and the 2008 Series C Bonds (\$18.03 million issued and insured by AGC, with \$14.575 million outstanding).

As of June 30, 2012, EDC/RIAC's General ARBs are rated by three firms, Fitch Investor Services (Fitch), Moody's Investor Services (Moody's) and Standard & Poor's (S&P) as A- with a negative outlook, A3 with a negative outlook and BBB+ with a negative outlook, respectively.

In connection with the sale of RIAC's Series 2006 First Lien Bonds for the InterLink Project, insurance was purchased by RIAC to guarantee the payment of principal and interest when due from CFIG, Assurance North America, Inc. The policy is currently reinsured by AGC. The bonds are currently rated by Moody's and S&P as Baa1 with a negative outlook and BBB+ with a negative outlook, respectively.

CURRENT OPERATIONS AND FINANCIAL SITUATION

The Airport continues to experience the effects of the current economic climate. Despite a difficult economy and a struggling airline industry, the Airport's 96% Origin and Destination (O&D) market coupled with the strength of its catchment area will continue to make it attractive for air carriers. The fare structure at the Airport and the cost structure among the air carriers remain competitive in 2012.

JetBlue announced new service from the Airport with three daily flights, two to Orlando and one to Fort Lauderdale, effective November, 2012. Southwest announced new seasonal service to West Palm Beach effective February, 2013. Southwest has also announced that Las Vegas service will transition to seasonal service in 2013.

Effective July 1, 2012, the agreement with AFCO AvPORTS Management LLC (AvPORTS) for the management of the five General Aviation airports was extended through June 30, 2017.

In August 2012, Moody's affirmed its A3 rating on RIAC's General Airport Revenue Bonds with a continued negative outlook and its Baa1 rating on RIAC's Series 2006 First Lien Bonds with a continued negative outlook.

Any questions or comments concerning any of the information provided in this report, or requests for additional information, should be addressed to the Chief Financial Officer of the Rhode Island Airport Corporation, T. F. Green Airport, 2000 Post Road, Warwick, RI 02886 401-691-2000.

Financial Statements

RHODE ISLAND AIRPORT CORPORATION

STATEMENTS OF NET ASSETS

June 30, 2012 and 2011

	2012	2011
ASSETS		
Current Assets:		
Unrestricted assets:		
Cash and cash equivalents	\$ 47,163,642	\$ 47,456,627
Accounts receivable, net	4,093,695	4,434,188
Deposits and prepaid items	758,966	511,885
	<u>52,016,303</u>	<u>52,402,700</u>
Restricted assets:		
Restricted cash and cash equivalents	22,480,734	19,132,018
Restricted investments	12,413,358	-
Accounts receivable, net	1,565,956	1,582,369
Deposits and prepaid items	107,578	4,228,693
Due from primary government	4,959,370	-
	<u>41,526,996</u>	<u>24,943,080</u>
Total current assets	<u>93,543,299</u>	<u>77,345,780</u>
Noncurrent Assets:		
Restricted cash and cash equivalents	37,913,415	53,683,263
Restricted investments	7,471,610	-
Accounts receivable	135,046	142,458
Capital assets, net of accumulated depreciation and amortization	526,782,467	533,018,453
Deferred charges, net of accumulated amortization of \$3,756,124 and \$3,363,101 in 2012 and 2011, respectively	4,829,772	5,222,795
Total noncurrent assets	<u>577,132,310</u>	<u>592,066,969</u>
Total assets	<u>670,675,609</u>	<u>669,412,749</u>
LIABILITIES		
Current Liabilities:		
Payable from unrestricted assets:		
Accounts payable	771,123	1,544,638
Accrued payroll and employee benefits	1,481,474	1,441,516
Accrued expenses	2,823,774	3,008,231
Deferred revenue	144,221	106,101
Liability for claims, judgements and other settlements	276,500	378,000
Current portion of long-term obligations	160,819	407,468
	<u>5,657,911</u>	<u>6,885,954</u>
Payable from restricted assets:		
Accounts and retainage payable	4,834,758	4,706,086
Accrued expenses	2,701,481	5,402,752
Accrued interest payable	8,839,760	8,567,179
Current portion of long-term obligations	10,830,000	8,925,000
	<u>27,205,999</u>	<u>27,601,017</u>
Total current liabilities	<u>32,863,910</u>	<u>34,486,971</u>
Noncurrent Liabilities:		
Long-Term Obligations, less current portion	330,517,880	325,231,490
Due to primary government	5,225,000	6,790,000
Total noncurrent liabilities	<u>335,742,880</u>	<u>332,021,490</u>
Total liabilities	<u>368,606,790</u>	<u>366,508,461</u>
NET ASSETS		
Invested in capital assets, net of related debt	201,865,575	214,790,463
Restricted	54,216,042	48,032,872
Unrestricted	45,987,202	40,080,953
Total net assets	<u>\$ 302,068,819</u>	<u>\$ 302,904,288</u>

The accompanying notes are an integral part of these financial statements.

RHODE ISLAND AIRPORT CORPORATION

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
For the Years Ended June 30, 2012 and 2011

	2012	2011
OPERATING REVENUES		
Charges for services:		
Rental, concession fees and other	\$ 25,026,223	\$ 24,815,837
Landing fees and airfield revenues	13,800,015	13,748,215
Parking	11,443,791	11,588,344
Total operating revenues	50,270,029	50,152,396
OPERATING EXPENSES		
Employee wages and benefits	16,907,287	17,542,387
Supplies, materials and services	5,549,336	5,616,227
Other operating expenses	5,777,888	5,925,242
Depreciation and amortization	19,872,690	19,043,196
Total operating expenses	48,107,201	48,127,052
Operating income	2,162,828	2,025,344
NONOPERATING REVENUES (EXPENSES)		
Passenger facility charges	7,747,347	8,089,543
InterLink, net (Note 9)	(2,234,099)	224,176
Investment income	39,808	140,756
Claims, judgements and other settlements	-	205,987
Other	94,667	120,217
Grant revenues for Noise Mitigation Program	795,213	3,983,623
Grant expenses for Noise Mitigation Program	(964,161)	(3,869,237)
Interest expense	(13,131,729)	(13,667,819)
Total nonoperating revenues (expenses), net	(7,652,954)	(4,772,754)
Loss before capital contributions	(5,490,126)	(2,747,410)
CAPITAL CONTRIBUTIONS, net	4,654,657	(5,768,578)
Change in net assets	(835,469)	(8,515,988)
NET ASSETS, beginning of year	302,904,288	311,420,276
NET ASSETS, end of year	\$ 302,068,819	\$ 302,904,288

The accompanying notes are an integral part of these financial statements.

RHODE ISLAND AIRPORT CORPORATION

STATEMENTS OF CASH FLOWS

For the Years Ended June 30, 2012 and 2011

	2012	2011
Cash Flows From Operating Activities		
Receipts from rentals and other services or fees	\$ 49,813,900	\$ 53,088,487
Payments to employees for services	(16,867,329)	(17,509,465)
Payments to suppliers and other	(12,381,571)	(12,013,355)
Net cash provided by operating activities	20,565,000	23,565,667
Cash Flows From Noncapital Financing Activities		
Noise Mitigation Program receipts	1,278,706	3,301,512
Noise Mitigation Program payments	(968,056)	(3,841,395)
InterLink, net	6,485,223	5,363,177
Net cash provided by noncapital financing activities	6,795,873	4,823,294
Cash Flows From Capital and Related Financing Activities		
Collection of passenger facility charges	7,809,213	8,400,269
Proceeds from sale of capital assets	-	11,700
Other	94,673	108,516
Interest paid, long-term obligations	(17,258,685)	(15,380,159)
Capital contributions and grant revenues, net	4,539,531	(3,501,199)
Acquisition and construction of capital assets	(20,842,897)	(39,290,311)
Proceeds from long-term obligations	16,220,825	18,729,265
Payments on long-term obligations	(10,784,464)	(11,916,137)
Net cash used in capital and related financing activities	(20,221,804)	(42,838,056)
Cash Flows From Investing Activities		
Proceeds from sale and maturity of investments	-	3,386,224
Purchase of investments	(19,885,629)	-
Interest on investments	32,443	194,161
Net cash provided by (used in) investing activities	(19,853,186)	3,580,385
Net decrease in cash and cash equivalents	(12,714,117)	(10,868,710)
Cash and cash equivalents, beginning of year	120,271,908	131,140,618
Cash and cash equivalents, end of year	\$ 107,557,791	\$ 120,271,908
Reconciliation of Cash and Cash Equivalents to the Statement of Net Assets		
Current unrestricted assets	\$ 47,163,642	\$ 47,456,627
Current restricted assets	22,480,734	19,132,018
Noncurrent restricted assets	37,913,415	53,683,263
	\$ 107,557,791	\$ 120,271,908

The accompanying notes are an integral part of these financial statements.

RHODE ISLAND AIRPORT CORPORATION

STATEMENTS OF CASH FLOWS, Continued
For the Years Ended June 30, 2012 and 2011

	2012	2011
Reconciliation of Operating Income to Net Cash Provided by Operating Activities		
Operating income	\$ 2,162,828	\$ 2,025,344
Adjustments to reconcile operating income to net cash provided by operations		
Depreciation and amortization	19,872,690	19,043,196
Changes in assets and liabilities:		
(Increase) decrease in:		
Accounts receivable, net	(494,249)	2,898,425
Deposits and prepaid items	(247,081)	(32,559)
Increase (decrease) in:		
Accounts payable	(773,515)	(677,794)
Accrued expenses	6,207	271,389
Deferred revenue	38,120	37,666
Net cash provided by operating activities	\$ 20,565,000	\$ 23,565,667
Supplemental Disclosure for Cash Flow Information		
Noncash capital and related financing activities:		
Capital assets acquired through accounts payable	\$ 6,914,844	\$ 9,739,648
Capital contribution recognized through accounts receivable	6,566,597	1,582,369
Deferred amount on refundings recorded through:		
Reduction of unamortized bond issuance costs and unamortized original issue premiums and discounts	393,023	393,021

RHODE ISLAND AIRPORT CORPORATION

NOTES TO FINANCIAL STATEMENTS

June 30, 2012

Note 1. Nature of the Organization and Summary of Significant Accounting Policies

Reporting entity

Rhode Island Airport Corporation ("RIAC") is a public corporation organized in December 1992 for the purpose of assuming operating responsibility for the six airports in the State of Rhode Island ("State"). RIAC is a component unit of the Rhode Island Economic Development Corporation ("EDC"), which is a component unit of the State. The airports are owned by the State and prior to July 1, 1993 were managed by the Department of Transportation, Department of Airports ("RIDOT"). RIAC and the State entered into a Lease and Operating Agreement ("Lease Agreement") which transferred operating responsibility for the airports to RIAC effective July 1, 1993, which agreement was amended in fiscal year 2008 to extend the term to 2038 (see Note 8). RIAC does not have the power to issue bonds, notes or borrow money without the approval of the EDC, nor does it have the power of eminent domain with respect to real property.

RIAC is governed by a board of directors which consists of seven members who serve without compensation but are entitled to reimbursement for necessary expenses incurred in performance of their duties relating to RIAC.

RIAC is not subject to federal, state or local income taxes.

In evaluating the inclusion of other separate and distinct legal entities as component units within its financial reporting structure, RIAC applies the criteria prescribed by Governmental Accounting Standards Board (GASB) Statement No. 14, The Financial Reporting Entity, as amended by GASB Statement No. 39, Determining Whether Certain Organizations are Component Units. No component units are reported in the accompanying financial statements based on operational or financial relationships with RIAC.

Measurement focus and basis of accounting

The accounting policies of RIAC conform to accounting principles generally accepted in the United States of America applicable to state and local government agencies and, as such, RIAC is accounted for as a proprietary fund. The basic financial statements presented are reported using the economic resources measurement focus and the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred. This measurement focus emphasizes the determination of the change in RIAC's net assets. RIAC applies all applicable Financial Accounting Standards Board (FASB) pronouncements, issued on or prior to November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

RIAC distinguishes between operating and non-operating revenues and expenses. Operating revenues and expenses generally result from providing services in connection with RIAC's principal ongoing operations. The principal operating revenues of RIAC are charges to customers for fees and services. Operating expenses include the cost of providing services, administrative expenses and depreciation and amortization expense on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. The major components of the nonoperating revenue sources are interest income from cash and investments, passenger facility charges, InterLink operations and revenues from the Noise Mitigation Program. The major components of nonoperating expense sources are expenditures for the Noise Mitigation program, interest expense and other nonoperating expenses such as legal settlements. When both restricted and unrestricted resources are available for use, it is RIAC's policy to use restricted assets first, then unrestricted resources as they are needed.

RHODE ISLAND AIRPORT CORPORATION

NOTES TO FINANCIAL STATEMENTS, Continued June 30, 2012

Cash and cash equivalents

For the purposes of the Statement of Cash Flows, RIAC considers all highly liquid investments (including restricted assets) with a maturity of three months or less when purchased to be cash equivalents.

RIAC's cash and cash equivalents include amounts designated by the Board of Directors for capital acquisition, construction and operating costs (see Note 6). Such amounts totaled \$5,100,000 as of June 30, 2012 and 2011.

Receivables

Receivables are reported at the original amount billed less an estimate made for doubtful accounts. Management determines the allowance for doubtful accounts by identifying troubled accounts and by using historical experience, aviation industry trends and current information regarding the credit worthiness of the debtors. RIAC requires collateral or other forms of security from certain customers.

Receivables from state and federal agencies are reported based on reimbursable capital expenditures.

Investments

Investments, which include money market funds with maturities of greater than three months, are recorded at fair market value.

Restricted assets

Restricted assets consist of monies and other resources whose use is restricted either through external restrictions imposed by creditors, grantors, contributors, and the like, or through restrictions imposed by law through constitutional provisions or enabling legislation. These restrictions are described below:

Restricted for Certain Expenditures

These assets are restricted under RIAC's capital grants and other agreements for certain capital projects and operating expenses. These assets include amounts collected for Passenger Facility Charges, InterLink Facility Revenues and bond proceeds to be used for construction and operating expenses related to the InterLink.

Restricted for Deposits

These assets are restricted from operations because they represent deposits that are held to ensure performance by tenants.

Restricted for Reserves

These assets are restricted by the Master Indenture of Trust dated October 1, 1993, which authorizes EDC to issue bonds on behalf of RIAC. The operating and maintenance reserve reports resources set aside to subsidize potential deficiencies from RIAC's operations that could adversely affect debt service payments. The repair and rehabilitation reserve reports resources set aside to meet unexpected contingencies or to fund asset repairs and rehabilitation. The InterLink has assets that are restricted per the First Supplemental Indenture of Trust dated June 1, 2006. The operating and maintenance reserve reports resources set aside to subsidize potential deficiencies from the InterLink's operations that could adversely affect debt service payments. The Emergency Renewal and Replacement Reserve Fund reports assets set aside to be used by RIAC to pay emergency renewal and replacement costs.

RHODE ISLAND AIRPORT CORPORATION

NOTES TO FINANCIAL STATEMENTS, Continued

June 30, 2012

Capital assets and depreciation and amortization

Capital assets are stated at cost, or estimated historical cost, if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation, except for capital assets donated by the State which were recorded at the same net book value as previously reported by the State. Assets leased from the State by RIAC are recorded at the present value of the future minimum lease payments plus the amounts expended from the funding received from the federal government. RIAC defines capital assets as assets with an initial cost of more than \$2,500 and an estimated useful life in excess of two years. Expenditures that substantially increase the useful lives of existing assets are capitalized. Routine maintenance and repairs and costs associated with the Noise Mitigation Program are expensed as incurred except for the value of the land acquired, which is capitalized. Interest expense incurred on bonds payable during the construction phase of capital assets, net of interest income earned on project specific bond proceeds invested over the same period, is included as part of the capitalized value of the assets constructed.

Depreciation and amortization of capital assets is calculated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Assets leased from the State	5-25
Leasehold improvements	7-40
Machinery and equipment	3-15
Vehicles	5-10

Compensated absences

RIAC accrues vacation and sick pay benefits as earned by its employees in accordance with established personnel policies using the salary rates in effect at the statement of net assets date. Sick pay benefits are accrued using the vesting method in accordance with GASB Statement No. 16, Accounting for Compensated Absences.

Bond issuance costs, original issue premium or discount and deferred amounts on refundings

Bond issuance costs are deferred and amortized over the life of the related bonds using the straight line method and are reported as deferred charges. Bond premiums and discounts are deferred and amortized over the life of the related bonds using the effective interest method. Deferred amounts on refundings are amortized over the shorter of the remaining life of the refunded bonds or the life of the refunding bonds using the straight line method, which approximates the effective interest method. Revenue bonds payable are reported net of the original issue bond premium or discount, as appropriate, and deferred amounts on refundings, as applicable.

Net assets

RIAC's net assets are presented in the following three categories:

Invested in capital assets, net of related debt - This category represents capital assets, net of accumulated depreciation and amortization and reduced by outstanding balances for bonds, notes and other debt that are attributed to the acquisition, construction or improvement of capital assets. Invested in capital assets, net of related debt, excludes unspent debt proceeds.

RHODE ISLAND AIRPORT CORPORATION

NOTES TO FINANCIAL STATEMENTS, Continued June 30, 2012

Restricted Net Assets - RIAC's net assets are reported as restricted when there are limitations imposed on its use, either through external restrictions imposed by creditors, grantors, laws or regulations of the State of Rhode Island or other governments.

Unrestricted Net Assets - This category represents the net assets of RIAC, which are not externally restricted for any project or purpose.

Revenue recognition

Rental, Concession Fees and Other

Rental and concession fees are generated from airlines, food and beverage outlets, retailers, rental car agencies, advertising and commercial tenants. Leases executed by RIAC with such parties are accounted for as operating leases. RIAC recognizes rental income on a straight-line basis over the terms of the various leases.

Concession fees are recognized based on reported concessionaire revenue. Where agreements permit audits of concessionaire revenue, any additional fees resulting from such audits are recognized when such amounts become known. Other Income includes federal grants, bad debt expenses and recoveries, and audit recoveries.

Landing Fees and Airfield Revenues

Landing fees are generated principally from scheduled airlines, cargo carriers and nonscheduled commercial aviation based on landed weight of the aircraft and/or signed contracts. Airfield revenues include tiedown and hangar rentals, fuel flowage fees and other airfield related revenues. Landing fees and airfield revenues are recognized as revenue as the related facilities are used.

Parking

Parking revenues are generated principally from on-site facilities managed by a third party. Revenues are based upon utilization of the facilities. Parking revenues are recognized based upon reported revenue by the management company. Additional parking revenues resulting from an audit of the management company records are recognized when such amounts become known.

Passenger Facility Charges

Passenger Facility Charges ("PFC") net receipts are restricted for use on pre-approved Federal Aviation Administration ("FAA") projects, including related debt service. The FAA has approved PFC funding for twenty-six projects that comprise a significant portion of RIAC's capital improvement program. RIAC has been authorized to collect PFCs in the aggregate amount of approximately \$183,559,000 based on a rate of \$4.50 per enplaned passenger. Aggregate collections, including interest thereon, through June 30, 2012 were approximately \$135,305,000. Passenger facility charges are recorded as non-operating revenue as earned, based on enplaned passengers.

Customer Facility Charges

Effective July 1, 2001, rental car agencies operating under lease agreements with RIAC were required to impose a customer facility charge ("CFC") per transaction day on substantially all car rentals. Effective July 1, 2011 the CFC is \$5.50. CFC revenue is recorded as non-operating revenue as earned, based upon daily car rentals reported by the rental car agencies. Additional CFC revenues resulting from audits of the rental car agency records are recognized when such amounts become known. See Note 9 for further discussion.

RHODE ISLAND AIRPORT CORPORATION

NOTES TO FINANCIAL STATEMENTS, Continued June 30, 2012

Grants and Capital Contributions

Certain expenditures for airport capital improvements are funded through the Airport Improvement Program of the FAA. The funding provided under these government grants is considered earned when eligibility requirements are met.

Grants for capital asset acquisition, facility development and eligible long-term planning studies are reported in the statements of revenues, expenses and change in net assets after non-operating revenues and expenses as capital contributions net of expenditures made on behalf of third parties.

Revenues from other grants are recognized as non-operating revenue as soon as all eligibility requirements imposed by the grantor have been met.

Contributions of capital assets by the State are reported as capital contributions at the same net book value as previously reported by the State.

Capital assets conveyed to RIAC based on the expiration of certain concession and lease agreements are reported as capital contributions at estimated fair market value as of the date of transfer.

Noise Mitigation Program

The Noise Mitigation Program consists of the acquisition of properties under the "70 Day Night Level" (DNL) land acquisition program, which is funded in part by federal grants. The program includes the purchase and demolition of homes within the 70 DNL contours, as well as related relocation costs of the occupants. The acquisition of the homes is on a voluntary basis. Costs related to this program are expensed as incurred, except for the value of land acquired, which is capitalized.

Pension plans

The provision for pension costs are recorded when the related payroll is accrued and the obligation is incurred.

Use of estimates

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts and disclosures in the financial statements. Actual results could differ from those estimates.

Pronouncements issued, not yet effective:

The GASB issued pronouncements prior to June 30, 2012 that have an effective date that may impact future financial presentations. Management has not currently determined what, if any, impact implementation of the following Statements may have on the financial statements of RIAC:

- **GASB Statement 60, *Accounting and Financial Reporting for Service Concession Arrangements***, was issued in November 2010. The objective of this Statement is to provide accounting and financial reporting guidance by addressing issues related to service concession arrangements, which are a type of public-private or public-public partnership. The provisions of this Statement will be effective for RIAC beginning with its year ending June 30, 2013.

RHODE ISLAND AIRPORT CORPORATION

NOTES TO FINANCIAL STATEMENTS, Continued June 30, 2012

- **GASB Statement No. 61, *Financial Reporting Entity: Omnibus***, was issued in November 2010. This Statement amends Statement 14, The Financial Reporting Entity, as well as Statement 34, Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments. The primary purpose of this Statement is to improve financial reporting for governmental entities. The provisions of this Statement will be effective for RIAC beginning with its year ending June 30, 2013.
- **GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements***, was issued in December 2010. The objective of this Statement is to incorporate into the GASB’s authoritative literature certain additional accounting and financial reporting guidance that was issued before November 30, 1989. The provisions of this Statement will be effective for RIAC beginning with its year ending June 30, 2013.
- **GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position***. This Statement provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources. Concepts Statement No. 4, *Elements of Financial Statements*, introduced and defined those elements as a consumption of net assets by the government that is applicable to a future reporting period, and an acquisition of net assets by the government that is applicable to a future reporting period, respectively. Previous financial reporting standards do not include guidance for reporting those financial statement elements, which are distinct from assets and liabilities. The provisions of this Statement will be effective for RIAC beginning with its year ending June 30, 2013. Earlier application is encouraged.
- **GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities***, was issued March 2012. This Statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. The provisions of this Statement will be effective for RIAC beginning with its year ending June 30, 2013.
- **GASB Statement No. 66, *Technical Corrections—2012***, was issued in March 2012. The objective of this Statement is to improve accounting and financial reporting for a governmental financial reporting entity by resolving conflicting guidance that resulted from the issuance of two pronouncements, Statements No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, and No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. The provisions of this Statement will be effective for RIAC beginning with its year ending June 30, 2013.
- **GASB Statement No. 67, *Financial Reporting for Pension Plans an amendment of GASB Statement No. 25***, was issued in June 2012. The objective of this Statement is to improve financial reporting by state and local governmental pension plans. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for pensions with regard to providing decision-useful information, supporting assessments of accountability and inter-period equity, and creating additional transparency. This Statement replaces the requirements of Statements No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, and No. 50, *Pension Disclosures*, as they relate to pension plans that are administered through trusts or equivalent arrangements (hereafter jointly referred to as trusts) that meet certain criteria. The requirements of Statements 25 and 50 remain applicable to pension plans that are not administered through trusts covered by the scope of this Statement and to defined contribution plans that provide postemployment benefits other than pensions. The provisions of this Statement will be effective for RIAC beginning with its year ending June 30, 2013.

RHODE ISLAND AIRPORT CORPORATION

NOTES TO FINANCIAL STATEMENTS, Continued June 30, 2012

- **GASB Statement No. 68, Accounting and Financial Reporting for Pensions, an amendment of GASB Statement No. 27**, was issued in June 2012. The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for pensions with regard to providing decision-useful information, supporting assessments of accountability and inter-period equity, and creating additional transparency. The provisions of this Statement will be effective for RIAC beginning with its year ending June 30, 2014.

Note 2. Cash, Cash Equivalents and Investments

Components of cash, cash equivalents and investments at June 30 are summarized below:

	<u>2012</u>	<u>2011</u>
Unrestricted cash and cash equivalents:		
Demand deposits	<u>\$ 47,163,642</u>	\$ 47,456,627
Restricted cash, cash equivalents and investments:		
Demand deposits	22,480,734	19,132,018
U.S. Treasury Notes	3,965,808	-
U.S. Treasury Bills	8,447,550	-
Total restricted cash, cash equivalents and investments	<u>34,894,092</u>	19,132,018
Non-current restricted cash, cash equivalents and investments:		
Demand deposits	8,664,632	5,138,897
Money Market funds	29,248,783	48,544,366
U.S. Treasury Notes	4,157,963	-
U.S. Treasury Bills	3,313,647	-
Total non-current restricted cash, cash equivalents and investments	<u>45,385,025</u>	53,683,263
Total	<u>\$ 127,442,759</u>	\$ 120,271,908

Deposits

Custodial credit risk is the risk that, in the event of a bank failure, RIAC will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. RIAC has a deposit policy for custodial credit risk in addition to that which is provided by Rhode Island General Laws, Chapter 35-10.1 under which an amount equal to or greater than 100% of the uninsured bank balances of RIAC's cash deposits are collateralized with securities held by the pledging bank's trust department or agent in RIAC's name. In accordance with Rhode Island General Laws, Chapter 35-10.1, depository institutions holding deposits of the State, its agencies or governmental subdivisions of the State shall, at a minimum, insure or pledge eligible collateral equal to 100 percent of time deposits with maturities greater than 60 days. Any of these institutions which do not meet minimum capital standards prescribed by federal regulators shall insure or pledge eligible collateral equal to 100 percent of deposits, regardless of maturity. Eligible collateral per the agreement and Rhode Island General Laws, Chapter 35-10.1 includes the following: obligations of the United States; obligations of the State of Rhode Island; obligations of any other State with a rating not less than "A" by Standard and Poor's Corporation or Moody's Investor Services, Inc.; certain one to four family residential mortgage loans providing they meet certain provisions; and other marketable securities and debt instruments determined to be satisfactory for purposes of providing liquid assets in the event of default or insolvency of a qualified depository institution

RHODE ISLAND AIRPORT CORPORATION

NOTES TO FINANCIAL STATEMENTS, Continued
June 30, 2012

providing that this type of collateral does not exceed 10% of the total collateral pledged by the financial institution.

The bank balances of RIAC's cash deposits totaling \$79,657,633 and \$72,596,760 that were exposed to custodial credit risk as of June 30, 2012 and 2011, respectively are as follows:

	<u>2012</u>	<u>2011</u>
Uninsured, but collateralized with securities held by the pledging bank's trust department or agent in RIAC's name	<u>\$ 77,807,751</u>	<u>\$ 70,836,974</u>

Investments

Interest rate risk

This is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. As a means of limiting its exposure to fair value losses arising from rising interest rates, RIAC's investment policy limits its investments to those that provide for sufficient liquidity to meet all operating requirements, annual debt service and a reasonable rate of return. Information about the exposure of the entity's debt type investments to this risk using segmented time distribution model is as follows:

<u>Type of Investment</u>	<u>Fair Value</u>	<u>2012</u>	
		<u>Investment Maturities</u>	
		<u>(in Years)</u>	
		<u>Less Than</u>	
		<u>1 Year</u>	<u>1-5 Years</u>
Money market funds	\$ 29,248,783	\$ 29,248,783	\$ -
U.S. Treasury Notes	8,123,771	3,965,808	4,157,963
U.S. Treasury Bills	11,761,197	8,447,550	3,313,647
	<u>\$ 49,133,751</u>	<u>\$ 41,662,141</u>	<u>\$ 7,471,610</u>

<u>Type of Investment</u>	<u>Fair Value</u>	<u>2011</u>	
		<u>Investment Maturities</u>	
		<u>(in Years)</u>	
		<u>Less Than</u>	
		<u>1 Year</u>	<u>1-5 Years</u>
Money market funds	\$ 48,544,366	\$ 48,544,366	\$ -

RHODE ISLAND AIRPORT CORPORATION

NOTES TO FINANCIAL STATEMENTS, Continued
June 30, 2012

Credit risk

Generally, credit risk is the risk that an issuer of a debt type investment will not fulfill its obligation to the holder of the investment. This is measured by assignment of a rating by a nationally recognized rating organization. U.S. government securities or obligations explicitly guaranteed by the U.S. government are not considered to have credit risk exposure.

Presented below is the minimum rating as required for each debt type investment. RIAC's investment policies are pursuant to the Master Indentures of Trust ("Indentures") and Rhode Island General Laws. Rhode Island General Laws and the Indentures permit RIAC to invest in certificates of deposit, savings accounts, money market funds, obligations of the United States Government or certain obligations thereof, repurchase agreements with any eligible depository for a period not to exceed 30 days, commercial paper with a rating of P-1, A-1 or higher as approved by RIAC's Board of Directors, and investment grade corporate debentures with a rating of AAA, AA by Standard & Poor's Rating Services and Aaa, Aa by Moody's Investor Service, Inc.

	<u>2012</u>	<u>2011</u>
	<u>AAA</u>	<u>AAA</u>
Money Market funds	<u>\$ 29,248,783</u>	<u>\$ 48,544,366</u>

Custodial credit risk

For an investment, custodial credit risk is the risk that, in the event of the failure of a counterparty, RIAC will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. RIAC does not have a policy for custodial credit risk.

RIAC's investments are held by the counterparty and in RIAC's name.

Concentration of credit risk

RIAC places no limit on the amount of investment in any one issuer. In accordance with GASB Statement No. 40, none of RIAC's investments require concentration of credit risk disclosures.

Note 3. Accounts Receivable

Accounts receivable consist of the following as of June 30, 2012 and 2011:

	<u>2012</u>	<u>2011</u>
Unrestricted:		
Accounts receivable, trade	\$ 1,942,017	\$ 1,530,382
Due from federal government	2,482,515	3,285,083
Other	60,126	15,888
	<u>4,484,658</u>	<u>4,831,353</u>
Less: allowance for uncollectible amounts	255,917	254,707
	<u>\$ 4,228,741</u>	<u>\$ 4,576,646</u>

RHODE ISLAND AIRPORT CORPORATION

NOTES TO FINANCIAL STATEMENTS, Continued June 30, 2012

The amounts due from the federal government are based on expenditures incurred by RIAC under terms of grant agreements or legislation.

	<u>2012</u>	<u>2011</u>
Restricted:		
Due from airlines - Passenger Facility Charges	\$ 814,084	\$ 875,950
Due from car rental agencies - InterLink Facility Revenues	734,549	706,419
Due from primary government	4,959,370	-
Other	75,917	-
	<u>\$ 6,583,920</u>	<u>\$ 1,582,369</u>

As of June 30, 2012, \$4,959,370 was due from RIDOT for certain capital expenditures related to the InterLink Facility.

The non-current account receivable is due from a tenant for leasehold improvements which was funded by RIAC, totaled approximately \$135,000 and \$142,000 as of June 30, 2012 and 2011, respectively.

Note 4. Capital Assets

Capital asset activity for the years ended June 30, 2012 and 2011 is as follows:

	<u>2012</u>			
	<u>Beginning Balance</u>	<u>Increases/ Transfers</u>	<u>Decreases/ Transfers</u>	<u>Ending Balance</u>
Capital assets, not being depreciated/amortized:				
Land	\$ 39,122,390	\$ -	\$ -	\$ 39,122,390
Construction in progress	6,155,252	19,446,482	(19,416,291)	6,185,443
Total capital assets, not being depreciated/amortized	<u>45,277,642</u>	<u>19,446,482</u>	<u>(19,416,291)</u>	<u>45,307,833</u>
Capital assets, being depreciated/amortized:				
Assets leased from the State	30,608,849	-	-	30,608,849
Leasehold improvements	630,526,056	14,163,945	-	644,690,001
Machinery and equipment	42,838,691	4,013,130	(28,214)	46,823,607
Vehicles	1,836,906	-	-	1,836,906
Total capital assets being depreciated/amortized	<u>705,810,502</u>	<u>18,177,075</u>	<u>(28,214)</u>	<u>723,959,363</u>
Less accumulated depreciation/amortization for:				
Assets leased from the State	(23,586,010)	(1,019,896)	-	(24,605,906)
Leasehold improvements	(169,873,356)	(20,353,200)	-	(190,226,556)
Machinery and equipment	(22,937,258)	(2,987,432)	27,576	(25,897,114)
Vehicles	(1,673,067)	(82,086)	-	(1,755,153)
Total accumulated depreciation and amortization	<u>(218,069,691)</u>	<u>(24,442,614)</u>	<u>27,576</u>	<u>(242,484,729)</u>
Total capital assets, being depreciated/amortized, net	<u>487,740,811</u>	<u>(6,265,539)</u>	<u>(638)</u>	<u>481,474,634</u>
Total capital assets, net	<u>\$ 533,018,453</u>	<u>\$ 13,180,943</u>	<u>\$ (19,416,929)</u>	<u>\$ 526,782,467</u>

RHODE ISLAND AIRPORT CORPORATION

NOTES TO FINANCIAL STATEMENTS, Continued
June 30, 2012

	2011			
	Beginning Balance	Increases/ Transfers	Decreases/ Transfers	Ending Balance
Capital assets, not being depreciated/amortized:				
Land	\$ 37,773,355	\$ 1,349,035	\$ -	\$ 39,122,390
Construction in progress	144,387,080	22,522,877	(160,754,705)	6,155,252
Total capital assets, not being depreciated/amortized	182,160,435	23,871,912	(160,754,705)	45,277,642
Capital assets, being depreciated/amortized:				
Assets leased from the State	30,608,849	-	-	30,608,849
Leasehold improvements	485,355,436	145,170,620	-	630,526,056
Machinery and equipment	27,092,104	15,823,731	(77,144)	42,838,691
Vehicles	1,836,906	-	-	1,836,906
Total capital assets being depreciated/amortized	544,893,295	160,994,351	(77,144)	705,810,502
Less accumulated depreciation/amortization for:				
Assets leased from the State	(29,304,225)	(1,019,901)	6,738,116	(23,586,010)
Leasehold improvements	(146,822,452)	(17,851,893)	(5,199,011)	(169,873,356)
Machinery and equipment	(18,331,047)	(3,143,967)	(1,462,244)	(22,937,258)
Vehicles	(1,572,230)	(100,837)	-	(1,673,067)
Total accumulated depreciation and amortization	(196,029,954)	(22,116,598)	76,861	(218,069,691)
Total capital assets, being depreciated/amortized, net	348,863,341	138,877,753	(283)	487,740,811
Total capital assets, net	<u>\$ 531,023,776</u>	<u>\$ 162,749,665</u>	<u>\$ (160,754,988)</u>	<u>\$ 533,018,453</u>

Capitalized interest included in capital asset additions for the years ended June 30, 2012 and 2011 is as follows:

	2012	2011
Interest expense capitalized	\$ 221,842	\$ 1,130,969
Less: interest income	-	118
Total capitalized interest, net	<u>\$ 221,842</u>	<u>\$ 1,130,851</u>

As of June 30, 2012 and 2011, RIAC was obligated for the completion of certain airport improvements under commitments of approximately \$3,485,000 and \$6,836,000, respectively, which are expected to be funded from current available resources and future operations. As of June 30, 2012 and 2011, RIAC was also obligated for the completion of certain projects related to the InterLink of approximately \$7,270,000 and \$20,853,000, respectively.

RHODE ISLAND AIRPORT CORPORATION

NOTES TO FINANCIAL STATEMENTS, Continued
June 30, 2012

Note 5. Long-Term Obligations

Long-term obligations activity for the years ended June 30, 2012 and 2011 is as follows:

	2012				
	Beginning Balance	Increases	Decreases	Ending Balance	Due Within One Year
Revenue and special facility bonds payable	\$ 309,710,000	\$ -	\$ (8,925,000)	\$ 300,785,000	\$ 10,830,000
Unamortized amounts:					
Original issue discounts	(189,568)	-	11,151	(178,417)	-
Original issue premiums	7,536,030	-	(616,671)	6,919,359	-
Deferred amount on refundings	(7,151,807)	-	662,180	(6,489,627)	-
Total bonds payable	309,904,655	-	(8,868,340)	301,036,315	10,830,000
Other liabilities:					
State of Rhode Island payable	6,790,000	-	(1,565,000)	5,225,000	-
Obligations under capital leases	377,673	-	(314,276)	63,397	63,397
Note payable	443,680	-	(93,468)	350,212	97,422
TIFIA loan	23,837,950	16,220,825	-	40,058,775	-
	\$ 341,353,958	\$ 16,220,825	\$ (10,841,084)	\$ 346,733,699	\$ 10,990,819

	2011				
	Beginning Balance	Increases	Decreases	Ending Balance	Due Within One Year
Revenue and special facility bonds payable	\$ 319,675,000	\$ -	\$ (9,965,000)	\$ 309,710,000	\$ 8,925,000
Unamortized amounts:					
Original issue discounts	(200,719)	-	11,151	(189,568)	-
Original issue premiums	8,152,701	-	(616,671)	7,536,030	-
Deferred amount on refundings	(7,813,987)	-	662,180	(7,151,807)	-
Total bonds payable	319,812,995	-	(9,908,340)	309,904,655	8,925,000
Other liabilities:					
State of Rhode Island payable	8,260,000	-	(1,470,000)	6,790,000	-
Obligations under capital leases	882,455	-	(504,782)	377,673	314,000
Note payable	533,355	-	(89,675)	443,680	93,468
TIFIA loan	5,108,685	18,729,265	-	23,837,950	-
	\$ 334,597,490	\$ 18,729,265	\$ (11,972,797)	\$ 341,353,958	\$ 9,332,468

RHODE ISLAND AIRPORT CORPORATION

NOTES TO FINANCIAL STATEMENTS, Continued June 30, 2012

Revenue and special facility bonds payable

Revenue and special facility bonds payable consist of the following as of June 30, 2012 and 2011:

Description	Date of Maturity	Interest Rate	2012	2011
1994 Series A bonds	07/01/2014	5.25%-7.0%	\$ 3,345,000	\$ 4,315,000
1998 Series A and B bonds	07/01/2028	4.2%-5.25%	32,060,000	32,060,000
2003 Series A bonds	07/01/2015	3.5%-5.0%	11,570,000	14,190,000
2004 Series A bonds	07/01/2024	2.0%-5.0%	48,900,000	48,985,000
2005 Series A, B and C bonds	07/01/2030	3.0%-5.0%	109,890,000	112,210,000
2008 Series A, B and C bonds	07/01/2038	3.5%-5.25%	46,825,000	49,185,000
Total revenue bonds payable			252,590,000	260,945,000
2006 First Lien Special Facility Bonds	07/01/2036	4.0%-5.0%	48,195,000	48,765,000
Total revenue and special facility bonds payable			\$ 300,785,000	\$ 309,710,000

Aggregate scheduled principal and interest payments due on RIAC's long-term obligations through maturity, excluding obligations under capital leases and the TIFIA loan, are as follows:

Year Ending June 30:	Principal	Interest	Total
2013	\$ 10,927,422	\$ 14,699,390	\$ 25,626,812
2014	13,267,790	14,462,837	27,730,627
2015	13,480,000	13,817,991	27,297,991
2016	14,070,000	13,140,411	27,210,411
2017	13,355,000	12,528,550	25,883,550
2018-2022	80,775,000	51,703,696	132,478,696
2023-2027	80,920,000	30,822,230	111,742,230
2028-2032	49,695,000	13,173,506	62,868,506
2033-2037	25,780,000	4,245,113	30,025,113
2038-2042	4,090,000	420,050	4,510,050
	\$ 306,360,212	\$ 169,013,774	\$ 475,373,986

Revenue bonds are issued by EDC on behalf of RIAC. The proceeds from these bonds are used to finance construction and related costs of certain capital improvements. These bonds, except for the 2006 First Lien Special Facility Bonds, are secured by the net revenues derived from the operation of the airports. The 2006 First Lien Special Facility Bonds are secured solely by the net revenues derived from the InterLink.

RHODE ISLAND AIRPORT CORPORATION

NOTES TO FINANCIAL STATEMENTS, Continued June 30, 2012

Pledged revenues

Per its Master Indenture of Trust and Supplemental Indentures, RIAC has pledged Net Revenues derived from the operation by RIAC of the Airport and Certain General Aviation Airports to repay \$252,590,000 in airport revenue bonds. Proceeds from the bonds were used for various airport improvement projects. Amounts Available to Pay Debt Service per the Master Indenture, including pledged Passenger Facility Charges, were approximately \$38,098,000 and \$38,157,000 for the years ended June 30, 2012 and June 30, 2011, respectively. Principal and interest payments for the years ended June 30, 2012 and June 30, 2011 were approximately \$22,528,000 and \$22,476,000, respectively.

State of Rhode Island payable

The Lease Agreement with the State requires RIAC to make annual payments to the State in an amount equal to the principal and interest payments due to bondholders under certain airport-related General Obligation Bonds issued on behalf of RIAC. Although the original airport-related General Obligation Bonds were defeased in June 2002, the terms of the Lease Agreement require RIAC to continue to remit payments to the State based upon the amortization schedule of original airport-related General Obligation Bonds through June 2023 (see Note 8). As of June 30, 2012 and 2011, the amounts owed were approximately \$5,225,000 and \$6,790,000, respectively.

Note payable

RIAC has financed the acquisition of a parcel of land with seller-provided financing. The note requires monthly payments of principal and interest of \$9,176, including interest at 4.15% through November 2015. As of June 30, 2012 and 2011 the amounts owed were approximately \$350,000 and \$444,000, respectively.

Obligations under capital leases

RIAC has financed the acquisition of certain equipment through lease-purchase agreements. The agreements provide for monthly, quarterly, or semi-annual lease payments, which range from \$114,000 to \$159,000. The interest rates associated with these agreements range from 3.67% to 4.11%.

A summary of assets acquired with capital leases is as follows as of June 30, 2012 and 2011:

	<u>2012</u>	<u>2011</u>
Machinery and equipment	\$ 6,949,450	\$ 6,949,450
Less: accumulated amortization	6,345,675	5,980,600
	<u>\$ 603,775</u>	<u>\$ 968,850</u>

Amortization expense relative to leased property under capital leases totaled approximately \$365,000 and \$525,000 for the years ended June 30, 2012 and 2011, respectively and is included in depreciation and amortization expense disclosed in Note 4.

RHODE ISLAND AIRPORT CORPORATION

NOTES TO FINANCIAL STATEMENTS, Continued June 30, 2012

The future minimum lease payments and the net present value of these minimum lease payments as of June 30, 2012 are as follows:

Year Ending June 30:	
2013	\$ 64,700
Total minimum lease payments	64,700
Less: amount representing interest	1,303
Present value of minimum lease payments	<u>\$ 63,397</u>

TIFIA loan

In June 2006, RIAC, the EDC and the Rhode Island Department of Transportation (“RIDOT”) executed a Secured Loan Agreement (“Agreement”), agreement number TIFIA – No. 2006-1001, which provides for borrowings of up to \$42,000,000 with the United States Department of Transportation (“US DOT”) under the Transportation Infrastructure Finance and Innovation Act of 1998 (TIFIA). The purpose of the Agreement is to reimburse the EDC and RIDOT and to provide funding to RIAC for a portion of eligible project costs related to the InterLink. RIAC was permitted under the agreement to make requisitions of funds for eligible project costs through fiscal year 2013. RIAC began making payments of interest in fiscal year 2012, with interest at a rate of 5.26%. Payments are made on behalf of the EDC (the borrower per the Agreement), and debt service payments commenced in fiscal year 2012 with a final maturity in fiscal year 2042. Such repayments are payable solely from the net revenues derived from the InterLink. As of June 30, 2012, RIAC had approximately \$40,059,000 in borrowings under this agreement.

Note 6. Net Assets

Restricted net assets consist of the following as of June 30, 2012 and 2011:

	<u>2012</u>	<u>2011</u>
Restricted:		
Capital acquisition and construction	\$ 22,808,568	\$ 24,098,345
Passenger Facility Charges	10,655,594	7,716,785
InterLink	13,186,997	9,592,709
Operating and maintenance reserve - Airports	4,423,383	3,423,533
Operating and maintenance reserve - InterLink	641,500	701,500
Emergency renewal and replacement reserve - InterLink	2,000,000	2,000,000
Repair and rehabilitation reserve	500,000	500,000
	<u>\$ 54,216,042</u>	<u>\$ 48,032,872</u>

Under the Master Indenture of Trust adopted in 1993, RIAC agreed to create and maintain two reserves. The operating and maintenance reserve is to be equal to two months operating and maintenance expenses and is to be used only if RIAC does not have sufficient funds in its current operating accounts to pay these expenses on a timely basis. The repair and rehabilitation reserve is to be equal to at least \$500,000 and can be used solely for emergency repairs and rehabilitation to airport facilities. Both reserves have been funded as required and neither has been used to date. The InterLink has assets that are restricted per the First Supplemental Indenture of Trust dated June 1, 2006. The operating and

RHODE ISLAND AIRPORT CORPORATION

NOTES TO FINANCIAL STATEMENTS, Continued June 30, 2012

maintenance reserve is to be equal to one-half of the amount set forth in the annual budget. The emergency renewal and replacement reserve is to be equal to \$2,000,000.

Unrestricted net assets consist of the following as of June 30, 2012 and 2011:

	<u>2012</u>	<u>2011</u>
Unrestricted net assets designated for capital acquisition, construction and operating costs	\$ 5,100,000	\$ 5,100,000
Unrestricted undesignated net assets	<u>40,887,202</u>	<u>34,980,953</u>
	<u>\$ 45,987,202</u>	<u>\$ 40,080,953</u>

Note 7. Operating Leases As Lessor

Future minimum contractual rental payments to be received under non-cancelable leases are as follows:

Year Ending June 30:	
2013	\$ 3,527,283
2014	3,029,847
2015	3,022,643
2016	3,071,392
2017	3,204,480
2018-2021	<u>7,838,645</u>
	<u>\$ 23,694,290</u>

In the event of tenant default, RIAC has the right to reclaim its leased property together with any improvements thereon.

Note 8. Related Party Transactions

The Lease Agreement between RIAC and the State is for a 30-year term (see Note 1) under which the State has agreed to lease various assets to RIAC for \$1 per year. In addition, the Lease Agreement requires RIAC to make annual payments to the State through June 2023 in amounts equal to the principal and interest payments due bondholders under certain airport-related General Obligation Bonds issued by the State on behalf of RIAC (see Note 5). In the event RIAC does not have sufficient funds to make the required payments when due, the amount is payable in the next succeeding fiscal year and remains an obligation of RIAC until paid in full. The State has no right to terminate the Lease Agreement so long as there are bonds and subordinate indebtedness outstanding.

Amounts due from the Rhode Island Economic Development Corporation totaled \$49,702 and \$28,256 as of June 30, 2012 and June 30, 2011, respectively, and are included in accounts receivable in the accompanying statement of net assets.

Note 9. InterLink Facility

The InterLink Facility includes consolidated facilities for Airport rental car operations; a train platform to provide access for commuter rail service south to Wickford, Rhode Island and north to both Providence

RHODE ISLAND AIRPORT CORPORATION

NOTES TO FINANCIAL STATEMENTS, Continued June 30, 2012

and Boston; and a parking garage for rental car operators and rail commuters. An elevated and enclosed skywalk system connects the InterLink Facility to the Airport.

Net Income for the InterLink is recorded as Nonoperating Revenue in RIAC's Statements of Revenues, Expenses and Changes in Net Assets. Facility Revenues for the InterLink include Customer Facility Charges (CFCs), Rental Car Rental Fees, and Net Commuter Parking Revenues. CFC revenues, including audit recoveries, were \$5,977,808 and \$5,051,874 for fiscal years 2012 and 2011, respectively. Operating Expenses include utilities, contracted maintenance, insurance and other costs associated with the InterLink. Depreciation related to the InterLink is reflected in this line item. Interest Expense includes the interest component of RIAC's debt service on the 2006 Series Special Facility Bonds and the U.S. Department of Transportation's (USDOT's) Transportation Infrastructure Finance and Innovation Act (TIFIA) loan. Interest Income on accounts associated with the InterLink is also included in this line item. A breakdown of Net Income from the InterLink Facility is as follows:

	<u>2012</u>	<u>2011</u>
Facility revenues	\$ 7,636,442	\$ 6,084,995
Operating and maintenance expense	<u>1,123,089</u>	<u>608,126</u>
InterLink net income	6,513,353	5,476,869
Depreciation and amortization expense	<u>4,357,423</u>	2,860,908
Net income after depreciation and amortization	2,155,930	2,615,961
Interest expense	(4,399,988)	(2,445,190)
Interest income	<u>9,959</u>	<u>53,405</u>
Net (loss) income InterLink Facility	\$ (2,234,099)	\$ 224,176

Pledged revenues

RIAC has pledged Facility Revenues related to the InterLink, net of specified operating expenses, to repay \$48,195,000 in First Lien Special Facility Bonds. Proceeds from the bonds are being used for the construction of the InterLink. Facility Revenues, including interest income, were \$7,646,000 and \$6,138,000 for the years ended June 30, 2012 and June 30, 2011, respectively. Principal and interest payments for the year ended June 30, 2012 was approximately \$2,977,000. Principal payments commenced on July 1, 2011. Interest paid for the year ended June 30, 2011 was approximately \$2,418,000.

Note 10. Pension Plans

Employees' Retirement System of the State of Rhode Island

Plan Description:

All employees who transferred from the State's payroll to RIAC's employment on July 1, 1993 participate in a cost-sharing multiple-employer defined benefit pension plan administered by the State of Rhode Island Employees' Retirement System (ERS). The plan provides retirement and disability benefits, annual cost-of-living adjustments (COLAs), and death benefits to plan members and beneficiaries. The

RHODE ISLAND AIRPORT CORPORATION

NOTES TO FINANCIAL STATEMENTS, Continued June 30, 2012

level of benefits provided to state employees is established by Chapter 36-10 of the General Laws, which is subject to amendment by the General Assembly. The ERS issues a publicly available financial report that includes financial statements and required supplementary information for plans administered by the system. The report may be obtained by writing to the Employees' Retirement System of Rhode Island, 50 Service Avenue, Warwick, RI 02886.

Funding Policy:

The funding policy, as set forth in the General Laws, Section 36-10-2, provides for actuarially determined periodic contributions to the plan. Participating RIAC employees are required to contribute 8.75% of their annual covered salary. RIAC is required to contribute at an actuarially determined rate; the rate was 22.98% of annual covered payroll for the fiscal year ended June 30, 2012. RIAC contributed \$182,393, \$174,735 and \$212,176 for the fiscal years ended June 30, 2012, 2011 and 2010, respectively, equal to 100% of the required contributions for each year.

Pension Reform Impacting Future Periods:

In November 2011, the Rhode Island General Assembly enacted comprehensive pension reform legislation which included implementing a supplemental defined contribution plan and other benefit and eligibility changes including suspending COLAs. The above changes and other provisions of the reform enacted are effective July 1, 2012.

Money Purchase Pension Plan

Employees hired by RIAC on or after July 1, 1993 are eligible to participate in the Money Purchase Pension Plan and Trust, a defined contribution plan administered by RIAC. The number of RIAC employees covered by this Plan throughout the year averaged 140 in 2012 and 144 in 2011. RIAC's total payroll for the year ended June 30, 2012 was approximately \$11,556,000, of which \$9,777,000 was covered under the Plan. RIAC's total payroll for the year ended June 30, 2011 was approximately \$11,927,000, of which \$9,892,000 was covered under the Plan.

In order to participate in the Plan, covered employees must contribute 6% of their base pay to the Plan. Participants are 100% vested in the amounts they contribute. Withdrawals of these contributed amounts are not permitted prior to termination of employment. RIAC matches 100% of participants' required contributions under a one-year vesting schedule. Total contributions for the year ended June 30, 2012 were approximately \$587,000 by the employer and \$600,000 by the employees, respectively. Total contributions for the year ended June 30, 2011 were approximately \$593,000 by the employer and \$610,000 by the employees, respectively.

The Board of Directors of RIAC has the authority to establish and/or amend the Plan's provisions and the Plan's contribution requirements.

Note 11. Other Post-Employment Benefits

Plan Description

RIAC contributes (for certain employees) to the State Employees' defined benefit post-employment health care plan, a cost sharing multiple employer plan administered through the Rhode Island State Employees' and Electing Teachers OPEB System (OPEB System). The State of Rhode Island OPEB Board (Board) was authorized, created and established under Chapter 36-12.1 of the RI General Laws. The Board was established to independently hold and administer, in trust, the funds of the OPEB system. The plan provides medical benefits to certain retired employees of participating employers including RIAC.

RHODE ISLAND AIRPORT CORPORATION

NOTES TO FINANCIAL STATEMENTS, Continued **June 30, 2012**

Pursuant to legislation enacted by the General Assembly, a trust has been established to accumulate assets and pay benefits and other costs associated with the system.

The OPEB system issues a stand-alone, publically available financial report that includes the financial statements and required supplementary information. A copy of the report can be obtained from the State Controller's Office, 1 Capitol Hill, Providence, RI 02903.

Funding Policy

RIGL Sections 36-12.1, 36-12-2.2, and 36-12-4 govern the provisions of the OPEB System. The contribution requirements of plan members, the State, and other participating employers are established and may be amended by the General Assembly. Active employees make no contribution to the OPEB plan. Employees who retired after October 1, 2008 must contribute 20% of the annual estimated benefit cost (working rate) or annual premium for Medicare supplemental coverage. Employees retiring before October 1, 2008 have varying co-pay percentages ranging from 0% to 50% based on age and years of service at retirement. Further information about the contributions of plan members can be found in the financial report of the OPEB System.

All participating employers are required by law to fund the actuarially determined annual required contribution (ARC), which for fiscal year 2012 was 6.86% of covered payroll. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. RIAC's contributions to the plan for the years ended June 30, 2012 and 2011 were \$53,360 and \$57,256, respectively, which represent 100% of the ARC.

Note 12. Risk Management

RIAC is self-insured for workers' unemployment. RIAC pays for unemployment claims as they are incurred. At June 30, 2012 and 2011 there are no material liabilities outstanding.

RIAC is exposed to various risks of loss related to torts, theft of, damage to, or destruction of assets; errors or omissions; injuries to employees or acts of God; catastrophic events for which RIAC carries commercial insurance. Neither RIAC nor its insurers have settled any claims which exceeded RIAC's insurance coverage in any of the last three fiscal years. There have been no significant reductions in any insurance coverage from amounts in the prior year.

Note 13. Major Customers

For the years ended June 30, 2012 and 2011, approximately 16% and 17%, respectively, of RIAC's income was derived from sales made to one customer. Accounts receivable from this customer were approximately 13% and 11%, respectively, of unrestricted accounts receivable.

RIAC has entered into Airport Use & Lease Agreements (Airline Agreements) with the six Signatory Airlines (including cargo) as of July 1, 2010. The term of the Airline Agreements extend through June 30, 2015, and establish procedures for the annual adjustment of signatory airline terminal rental rates, apron rental rates and aircraft landing fees collected for the use and occupancy of terminal and airfield facilities.

The Signatory Agreement incorporates an Airline Net Revenue Sharing methodology for Signatory Passenger Airlines.

RHODE ISLAND AIRPORT CORPORATION

NOTES TO FINANCIAL STATEMENTS, Continued June 30, 2012

Note 14. Contingencies

RIAC participates in a number of programs that are fully or partially funded by grants received from other governmental units. Expenditures financed by grants are subject to audit by the appropriate grantor government. If expenditures are disallowed due to noncompliance with grant program regulations, RIAC may be required to reimburse the grantor government. As of June 30, 2012 and 2011, significant amounts of grant expenditures have not been audited by grantors, but RIAC believes that disallowed expenditures, if any, based on subsequent audits will not have a material adverse effect on the overall financial position of RIAC.

In addition, RIAC is also involved in certain other legal proceedings and claims that have arisen in the ordinary course of business. While the ultimate outcome of these legal proceedings cannot be predicted with certainty, management believes that their resolution will not have a material adverse effect on RIAC's financial statements.

In connection with these matters, RIAC has recorded estimated liabilities for claims, judgments and other settlements totaling \$276,500 and \$378,000 as of June 30, 2012 and 2011, respectively. Such amounts are included in liabilities for claims, judgments and other settlements in the accompanying statements of net assets.

Supplementary Information

RHODE ISLAND AIRPORT CORPORATION
STATE OF RHODE ISLAND PRESENTATION - STATEMENT OF NET ASSETS
June 30, 2012

ATTACHMENT A

	Entity
Assets	
Current Assets:	
Cash and cash equivalents	\$ 47,163,642
Investments	0
Receivables (net)	4,093,695
Restricted assets:	
Cash and cash equivalents	22,480,734
Investments	12,413,358
Receivables (net)	1,565,956
Other assets	107,578
Due from primary government	4,959,370
Due from other component units	0
Due from other governments	0
Inventories	0
Other assets	758,966
Total current assets	93,543,299
Noncurrent Assets:	
Investments	0
Receivables (net)	135,046
Restricted assets:	
Cash and cash equivalents	37,913,415
Investments	7,471,610
Receivables (net)	0
Other assets	0
Due from other component units	0
Capital assets - nondepreciable	45,307,833
Capital assets - depreciable (net)	481,474,634
Other assets, net of amortization	4,829,772
Total noncurrent assets	577,132,310
Total assets	670,675,609
Liabilities	
Current liabilities:	
Cash overdraft	0
Accounts payable	5,605,881
Due to primary government	0
Due to other component units	0
Due to other governments	0
Deferred revenue	144,221
Other liabilities	16,122,989
Current portion of long-term debt	10,990,819
Total current liabilities	32,863,910
Noncurrent liabilities:	
Due to primary government	5,225,000
Due to other governments	0
Due to other component units	0
Deferred revenue	0
Notes payable	252,790
Loans payable	40,058,775
Obligations under capital leases	0
Net OPEB obligation	0
Other liabilities	0
Compensated absences	0
Bonds payable	290,206,315
Total noncurrent liabilities	335,742,880
Total liabilities	368,606,790
Net assets	
Invested in capital assets, net of related debt	201,865,575
Restricted for:	
Debt	0
Other	54,216,042
Other nonexpendable	0
Unrestricted	45,987,202
Total net assets	\$ 302,068,819

RHODE ISLAND AIRPORT CORPORATION
STATE OF RHODE ISLAND PRESENTATION - STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2012

ATTACHMENT B

	<u>Entity</u>
Operating revenues:	
Charges for services	\$50,270,029
Interest income on loans	0
Investment income (net)	0
Other operating income	0
Total operating revenues	<u>50,270,029</u>
Operating expenses:	
Personal services	16,907,287
Supplies, materials, and services	5,549,336
Interest expense	0
Grants, scholarships and contract programs	0
Depreciation, depletion and amortization	19,872,690
Other operating expenses	5,777,888
Total operating expenses	<u>48,107,201</u>
Operating income (loss)	<u>2,162,828</u>
Nonoperating revenues (expenses):	
Interest revenue	0
Grants	(168,948)
Payments from primary government	0
Gain (loss) on sale of property	0
Interest expense	(13,131,729)
Investment income (net)	39,808
Other nonoperating revenue (expenses)	5,607,915
Total nonoperating revenue (expenses)	<u>(7,652,954)</u>
Income (loss) before contributions	(5,490,126)
Capital contributions	4,654,657
Special items	0
Extraordinary items	0
Change in net assets	<u>(835,469)</u>
Total net assets - beginning	<u>302,904,288</u>
Total net assets - ending	<u><u>\$302,068,819</u></u>

STATE OF RHODE ISLAND PRESENTATION - SCHEDULE OF MATURITIES - BONDS
For the Year Ended June 30, 2012

Fiscal Year Ending June 30	Principal	Interest
2013	\$ 10,830,000	\$ 14,686,695
2014	11,365,000	14,194,882
2015	11,925,000	13,655,667
2016	12,545,000	13,068,777
2017	13,250,000	12,505,088
2018-2022	80,430,000	51,658,906
2023-2027	80,875,000	30,819,736
2028-2032	49,695,000	13,173,506
2033-2037	25,780,000	4,245,113
2038-2042	4,090,000	420,050
	<u>\$ 300,785,000</u>	<u>\$ 168,428,420</u>

STATE OF RHODE ISLAND PRESENTATION - SCHEDULE OF MATURITIES - NOTE PAYABLE
For the Year Ended June 30, 2012

Fiscal Year Ending June 30	Principal	Interest
2013	\$ 97,422	\$ 12,694
2014	101,542	8,574
2015	105,838	4,279
2016	45,410	472
	<u>\$ 350,212</u>	<u>\$ 26,019</u>

STATE OF RHODE ISLAND PRESENTATION - SCHEDULE OF CHANGES IN LONG-TERM DEBT
For the Year Ended June 30, 2012

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year	Amounts Due Thereafter
Bonds payable	\$ 309,710,000	\$ -	\$ 8,925,000	\$ 300,785,000	\$ 10,830,000	\$ 289,955,000
Net unamortized premium/discount	7,346,462	-	605,520	6,740,942	-	6,740,942
Deferred amount on refunding	(7,151,807)	-	(662,180)	(6,489,627)	-	(6,489,627)
Bonds payable	309,904,655	-	8,868,340	301,036,315	10,830,000	290,206,315
Due to Primary Government	6,790,000	-	1,565,000	5,225,000	-	5,225,000
Notes Payable	443,680	-	93,468	350,212	97,422	252,790
Obligations under capital leases	377,673	-	314,276	63,397	63,397	-
Net OPEB obligation	-	-	-	-	-	-
Compensated absences	-	-	-	-	-	-
Included in other liabilities:						
Arbitrage rebate	-	-	-	-	-	-
Pollution remediation	-	-	-	-	-	-
Items not listed above	23,837,950	16,220,825	-	40,058,775	-	40,058,775
Other liabilities	23,837,950	16,220,825	-	40,058,775	-	40,058,775
	\$ 341,353,958	\$ 16,220,825	\$ 10,841,084	\$ 346,733,699	\$ 10,990,819	\$ 335,742,880

RHODE ISLAND AIRPORT CORPORATION
Schedule of Travel & Entertainment Expenses
For the year ended June 30, 2012

Employee	Purpose	Date	Place	
S Cahill	Transportation Security Clearinghouse Workshop & AAAE Access Control Conference	7/18/11 to 7/21/11	Washington D.C.	\$ 1,071
A Silveira	NEC AAAE 53rd Annual Conference	8/13/11 to 8/17/11	Atlantic City, NJ	947
S Traficante	NEC AAAE 53rd Annual Conference	8/13/11 to 8/17/11	Atlantic City, NJ	1,134
L Luciano	NEC AAAE 53rd Annual Conference	8/13/11 to 8/17/11	Atlantic City, NJ	385
K Dillon	NEC AAAE 53rd Annual Conference	8/13/11 to 8/17/11	Atlantic City, NJ	824
P Goldstein	Airline Visit	8/22/11 to 8/23/11	Tempe, AZ	525
K Dillon	Airline Visit	8/22/11 to 8/23/11	Tempe, AZ	716
R Lafond	Police Canine Training	8/24/11 to 8/27/11	Washington D.C.	673
Various	Airline Visit	8/25/11	New York City, NY	1,602
K Dillon	2011 International Aviation Summit	8/28/11 to 8/30/11	Albuquerque, NM	444
K Dillon	2011 National Airports Conference	9/17/11 to 9/19/11	Tuscon, AZ	1,034
L Messier	ALEAN Fall Conference	9/26/11 to 9/30/11	Las Vegas, NV	1,097
R Simoes	Crouse Hinds Airfield School	9/27/11 to 9/30/11	Windsor Locks, CT	371
Various	Aviation Expo	9/27/11	Warwick, RI	655
K Dillon	Airline Visit	10/11/11 to 10/12/11	Dallas, TX	1,223
P Goldstein	Airline Visit	10/11/11 to 10/12/11	Dallas, TX	650
D Betters	NBAA National Conference	10/11/11 to 10/13/11	Las Vegas, NV	986
P King	NBAA National Conference	10/11/11 to 10/13/11	Las Vegas, NV	582
P Walsh	NBAA National Conference	10/11/11 to 10/13/11	Las Vegas, NV	582
D Smith	NBAA National Conference	10/11/11 to 10/13/11	Las Vegas, NV	670
A Clark	5th Annual Air Scene Workshop	10/24/11 to 10/27/11	Las Vegas, NV	777
K Dillon	Diversion Forum	11/29/11 to 11/30/11	Washington D.C.	733
K Dillon	Airline Visit	1/16/12	Baltimore, MD	343
T Pimental	Airline Visit	1/16/12	Baltimore, MD	335
Various	Greater Providence Chamber of Commerce Legislative Luncheon	1/26/12	Providence, RI	750
Various	Rhode Island Aviation Hall of Fame Dinner	2/4/12	East Greenwich, RI	350
J Warcup	Bell Helicopter Training	2/26/12 to 2/29/12	Ft Worth, TX	1,197
A Shihadeh	ACC/AAAE Airport Planning Design & Construction Symposium	2/28/12 to 3/2/12	Denver, CO	1,021
L Messier	ALEAN Spring Conference	3/12/12 to 3/15/12	New Orleans, LA	1,261
P Goldstein	Network 2012 Conference	3/4/12 to 3/7/12	Tampa Bay, FL	813
T Pimental	Network 2012 Conference	3/4/12 to 3/7/12	Tampa Bay, FL	723
J Ottaviano	Omnicast Training	3/5/12 to 3/8/12	Montreal, QC	1,472
C Hall	VIP Protective Services	3/8/12 to 3/9/12	Orange, CT	330
D Shinsky	VIP Protective Services	3/8/12 to 3/9/12	Orange, CT	330
S Cahill	VIP Protective Services	3/8/12 to 3/9/12	Orange, CT	330
M Mefford	VIP Protective Services	3/8/12 to 3/9/12	Orange, CT	329
Various	Airline Visit	3/14/12	Providence, RI	484
R Stella	Aviation Snow Symposium	4/15/12 to 4/19/12	Buffalo, NY	749
R Rotondo	TSA Explosive Detection Canine Training	4/15/12 to 6/24/12	San Antonio, TX	3,456
E Seabury	35th Annual Airports Conference	4/2/12 to 4/4/12	Hershey, PA	727
Various	Providence Business News CFO Awards Dinner	4/5/12	Smithfield, RI	1,000
K Dillon	Airport Cities World Conference & Exhibition	4/24/12 to 4/27/12	Denver, CO	1,245
P Frazier	Airport Cities World Conference & Exhibition	4/25/12 to 4/28/12	Denver, CO	1,980
Various	Airport Emergency Plan Table Top Exercise	4/27/12	Warwick, RI	479
J Diniz	TSA Explosive Detection Canine Training	5/21/12 to 6/30/12	San Antonio, TX	239
G Brolin	ACI-NA Airport Deicing Management Conference	5/23/12 to 5/24/12	Washington D.C.	899
D Lucas	Business Aviation Professionals of New England Conference & Tournament	5/31/12 to 6/1/12	Nashua, NH	231
P King	NBAA Regional Conference	5/31/12 to 6/1/12	Nashua, NH	206
S Landry	NBAA Regional Conference	5/31/12 to 6/1/12	Nashua, NH	206
D Lucas	NBAA Regional Conference	5/31/12 to 6/1/12	Nashua, NH	349
P Goldstein	ACI Conference & Jumpstart	6/4/12 to 6/7/12	Sacramento, CA	641
T Pimental	ACI Conference & Jumpstart	6/4/12 to 6/7/12	Sacramento, CA	1,408
J Ottaviano	Airport Law Enforcement Training	6/5/12 to 6/8/12	Alexandria, VA	999
C Mitchell	ACE Operations Review Course	6/10/12 to 6/14/12	New York City, NY	1,184
Various	Various Employee Trips to Block Island	7/1/11 to 6/30/12	Block Island, RI	2,969
Various	Employee Meetings and Functions	7/1/11 to 6/30/12	Warwick, RI	3,986
Various	Mileage, Parking, Tolls, & Gas Reimbursement	7/1/11 to 6/30/12	Warwick, RI	4,332
Various	Snow Meals	7/1/11 to 6/30/12	Warwick, RI	2,440
Various	Various Meeting Expenses	7/1/11 to 6/30/12	Warwick, RI	1,857
Various	Miscellaneous Amounts under \$200	7/1/11 to 6/30/12	Warwick, RI	3,626
				<u>\$ 62,957</u>

Internal Control and Compliance Report



**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT
OF THE FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

To the Board of Directors of
Rhode Island Airport Corporation
Warwick, Rhode Island

We have audited the financial statements of the Rhode Island Airport Corporation ("RIAC") as of and for the year ended June 30, 2012, and have issued our report thereon dated September 27, 2012. 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.

Internal Control Over Financial Reporting: Management of RIAC is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered RIAC's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the basic financial statements, but not for the purpose of expressing an opinion on the effectiveness of RIAC's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of RIAC'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 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 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 the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting 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.

Compliance and Other Matters: As part of obtaining reasonable assurance about whether Rhode Island Airport Corporation'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 RIAC, the Board of Directors and management of the Rhode Island Economic Development Corporation, the Rhode Island Office of the Auditor General and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

McGladrey LLP

New Haven, Connecticut
September 28, 2012