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**RHODE ISLAND INDUSTRIAL-RECREATIONAL  
BUILDING AUTHORITY  
(A COMPONENT UNIT OF THE STATE OF RHODE ISLAND)**

**FINANCIAL STATEMENTS**

**JUNE 30, 2017 AND 2016**

**RHODE ISLAND INDUSTRIAL-RECREATIONAL BUILDING AUTHORITY**  
**(A COMPONENT UNIT OF THE STATE OF RHODE ISLAND)**  
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**JUNE 30, 2017 AND 2016**

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## Independent Auditors' Report

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

### Report on the Financial Statements

We have audited the accompanying financial statements of the Rhode Island Industrial-Recreational Building Authority, a component unit of the State of Rhode Island, as of and for the years ended June 30, 2017 and 2016, and the related notes to the financial statements, which collectively comprise the Rhode Island Industrial-Recreational Building Authority's financial statements as listed in the table of contents.

#### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

#### ***Auditors' Responsibility***

Our responsibility is to express opinions on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## ***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Rhode Island Industrial-Recreational Building Authority as of June 30, 2017 and 2016, and the changes in its financial position and cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

## ***Emphasis of Matter***

As discussed in Note 5 to the financial statements, the Authority has a net deficit as of June 30, 2017 relating to the insured commitments payable for a bond issued by the Rhode Island Industrial Facilities Corporation on behalf of a private-sector entity that is in default on its payments to the bondholder. As the insurer of the bond, the Authority is responsible for making the debt payments. These payments will be made by first exhausting the Authority's available financial resources. The Authority must then request appropriations of the Rhode Island General Assembly for any loss in excess of the insured amount. The Authority has estimated the insured commitments payable to be \$2,000,000 as of June 30, 2017. Our opinion is not modified with respect to this matter.

## ***Other Matters***

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 4 through 6 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 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.

### *Other Information*

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Rhode Island Industrial-Recreational Building Authority's basic financial statements. The accompanying supplementary information on pages 15 through 18 is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The accompanying supplementary 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. Such 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 accompanying supplementary information is fairly stated in all material respects in relation to the basic financial statements as a whole.

### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated September 29, 2017 on our consideration of the Rhode Island Industrial-Recreational Building Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Rhode Island Industrial-Recreational Building Authority's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Rhode Island Industrial-Recreational Building Authority's internal control over financial reporting and compliance.

*Blum, Shapiro & Company, P.C.*

Cranston, Rhode Island  
September 29, 2017

**RHODE ISLAND INDUSTRIAL-RECREATIONAL BUILDING AUTHORITY  
(A COMPONENT UNIT OF THE STATE OF RHODE ISLAND)  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2017 AND 2016**

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As management of the Rhode Island Industrial-Recreational Building Authority (the Authority), a component unit of the State of Rhode Island (the State), we offer readers of the Authority's financial statements this narrative overview and analysis of the financial activities of the Authority for the years ended June 30, 2017 and 2016. The Authority's financial statements, accompanying notes, and supplementary information should be read in conjunction with the following discussion.

**Introduction**

The Authority was created by the Rhode Island General Assembly under Chapter 34 of Title 42 of the General Laws of Rhode Island. The Authority constitutes a body corporate and politic and a public instrumentality of the State having a distinct legal existence from the State.

The Authority is authorized to insure contractual principal and interest payments required under first mortgages and first security agreements issued to private sector entities by financial institutions and the Rhode Island Industrial Facilities Corporation (RIIFC), a component unit of the State, on industrial or recreational projects in the State up to a maximum of \$60,000,000 of outstanding principal balances under such insured mortgages and security agreements.

**Overview of the Financial Statements**

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

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

The statement of net position presents detail on the Authority's assets and deferred outflows of resources, and liabilities and deferred inflows of resources, with the difference between the two reported as net position. Changes in the Authority's net position serve as a useful indicator of whether the Authority's net position is improving or deteriorating. Readers should also consider other non-financial factors when evaluating the Authority's net position. The statement of revenues, expenses, and changes in net position presents information on how the Authority's net position changed during the year.

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

**2017 Financial Highlights**

Total liabilities exceeded total assets by \$833,053 (net position) at June 30, 2017 due to the release of funds held by Rhode Island Industrial Facilities Corporation (RIIFC) to Commerce RI related to a guarantee on a revenue bond issued for a private-sector entity depleting existing reserves.

**RHODE ISLAND INDUSTRIAL-RECREATIONAL BUILDING AUTHORITY**  
**(A COMPONENT UNIT OF THE STATE OF RHODE ISLAND)**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**JUNE 30, 2017 AND 2016**

Operating loss for 2017 was \$595,109, \$145,450 less than 2016's operating loss. Net position decreased by \$584,175 in 2017.

**2016 Financial Highlights**

Total liabilities exceeded total assets by \$248,878 (net position) at June 30, 2016 due to the release of funds held by Rhode Island Industrial Facilities Corporation (RIIFC) to Commerce RI related to a guarantee on a revenue bond issued for a private-sector entity.

Operating loss was \$449,659, and net position decreased by \$442,615 in 2016.

**Condensed Comparative Information**

The following table reflects a summary of changes in certain balances in the statements of net position, and revenues, expenses and changes in net position (in thousands):

	<b>Statements of Net Position</b>				
	<b>June 30,</b>			<b>Increase (decrease)</b>	
	<b>2017</b>	<b>2016</b>	<b>2015</b>	<b>2016 v 2015</b>	<b>2015 v 2014</b>
Net position:					
Current assets	\$ 1,267	\$ 1,757	\$ 3,271	\$ (490)	\$ (1,514)
Current liabilities	800	554	1,460	246	(906)
Noncurrent liabilities	1,300	1,452	1,617	(152)	(165)
Total liabilities	2,100	2,006	3,077	94	(1,071)
Net position, unrestricted	\$ (833)	\$ (249)	\$ 194	\$ (584)	\$ (443)

	<b>Statements of Revenues, Expenses, and Changes in Net Position</b>				
	<b>Year ended June 30,</b>			<b>Increase (decrease)</b>	
	<b>2017</b>	<b>2016</b>	<b>2015</b>	<b>2016 v 2015</b>	<b>2015 v 2014</b>
Changes in net position:					
Operating revenues	\$ 80	\$ 94	\$ 349	\$ (14)	\$ (255)
Operating expenses	675	544	405	131	139
Operating loss	(595)	(450)	(56)	(145)	(394)
Nonoperating revenues	11	7	3	4	4
Change in net position	\$ (584)	\$ (443)	\$ (53)	\$ (141)	\$ (390)

**RHODE ISLAND INDUSTRIAL-RECREATIONAL BUILDING AUTHORITY  
(A COMPONENT UNIT OF THE STATE OF RHODE ISLAND)  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2017 AND 2016**

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**2017 Financial Analysis**

Total assets of the Authority decreased by \$490,562 in 2017 due to release of funds related to a guarantee on a revenue bond issued for a private-sector entity.

Due to the extended mediation period on an uninsured commitment payable in FY 2017, the reserve for loan loss increased and total liabilities of the Authority increased by \$93,613.

**2017 Operating Activity**

Operating revenues of the Authority decreased by \$14,936 compared to 2016 due to a prior year mortgage payoff.

Due to the extended mediation period on an insured commitment payable in FY 2017, the reserve for loan loss and related expenses increased by \$130,514.

The Authority's net position decreased \$584,175 in 2017 compared to \$442,614 in 2016.

**2016 Financial Analysis**

Total assets of the Authority decreased by \$1,513,799 in 2016 due to a decrease in the due from Rhode Island Industrial Facilities Corporation (RIIFC), a component unit of the State.

Total liabilities of the Authority decreased by approximately \$1,071,185 in 2016, principally due to decrease in escrow deposit for Commerce RI through Rhode Island Industrial Facilities Corporation (RIIFC).

**2016 Operating Activity**

Operating revenues of the Authority decreased by \$254,870 compared to 2015 due prior year mortgage payoff.

Total operating expenses decreased by approximately \$139,000 due principally to a decrease in estimated losses on insured commitments, offset by an increase in legal expenses.

The Authority's net position decreased \$442,614 in 2016 compared to \$53,030 in 2015.

**Requests for Information**

This financial report is designed as a general overview of the Authority's financial picture for external and internal stakeholders. Questions concerning any of the information provided in this report or public requests for information should be addressed to the Manager, Rhode Island Industrial-Recreational Building Authority, 315 Iron Horse Way, Suite 101, Providence, Rhode Island 02908.



**RHODE ISLAND INDUSTRIAL-RECREATIONAL BUILDING AUTHORITY**  
**(A COMPONENT UNIT OF THE STATE OF RHODE ISLAND)**  
**STATEMENTS OF NET POSITION**  
**JUNE 30, 2017 AND 2016**

	<u>2017</u>	<u>2016</u>
Assets:		
Current assets:		
Cash and cash equivalents	\$ 1,257,866	\$ 1,753,335
Mortgage insurance premiums receivable, net of allowance for doubtful accounts of \$220,537 and \$184,642, respectively	3,416	1,140
Prepaid expenses	<u>5,263</u>	<u>2,632</u>
Total assets	<u>1,266,545</u>	<u>1,757,107</u>
Liabilities:		
Current liabilities:		
Accounts payable		9,000
Due to Rhode Island Industrial Facilities Corporation	84,615	82,276
Due to Rhode Island Commerce Corporation	14,983	9,877
Insured commitments payable	<u>699,850</u>	<u>452,553</u>
Total current liabilities	<u>799,448</u>	<u>553,706</u>
Noncurrent liabilities:		
Insured commitments payable	<u>1,300,150</u>	<u>1,452,279</u>
Total liabilities	<u>2,099,598</u>	<u>2,005,985</u>
Net Position, Unrestricted	<u>\$ (833,053)</u>	<u>\$ (248,878)</u>

The accompanying notes are an integral part of the financial statements

**RHODE ISLAND INDUSTRIAL-RECREATIONAL BUILDING AUTHORITY**  
**(A COMPONENT UNIT OF THE STATE OF RHODE ISLAND)**  
**STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION**  
**FOR THE YEARS ENDED JUNE 30, 2017 AND 2016**

	<u>2017</u>	<u>2016</u>
Operating Revenues, Charges for Services:		
Mortgage insurance premiums	\$ 59,281	\$ 94,319
Commitment fee	20,113	11
Total operating revenues, charges for services	<u>79,394</u>	<u>94,330</u>
Operating Expenses:		
Contractual services	80,558	175,837
Administrative	17,274	26,305
Insurance	28,950	31,599
Loss on insured commitments (Note 5)	547,721	310,248
Total operating expenses	<u>674,503</u>	<u>543,989</u>
Operating Loss	(595,109)	(449,659)
Nonoperating Revenues, Interest and Dividend Income	<u>10,934</u>	<u>7,044</u>
Change in Net Position	(584,175)	(442,615)
Net Position, Beginning of Year	<u>(248,878)</u>	<u>193,737</u>
Net Position, End of Year	<u>\$ (833,053)</u>	<u>\$ (248,878)</u>

The accompanying notes are an integral part of the financial statements

**RHODE ISLAND INDUSTRIAL-RECREATIONAL BUILDING AUTHORITY**  
**(A COMPONENT UNIT OF THE STATE OF RHODE ISLAND)**  
**STATEMENTS OF CASH FLOWS**  
**FOR THE YEARS ENDED JUNE 30, 2017 AND 2016**

	<u>2017</u>	<u>2016</u>
Cash Flows from Operating Activities:		
Cash received for services	\$ 57,005	\$ 101,819
Cash payments to suppliers for goods and services	(583,521)	(918,597)
Cash received from other sources	<u>20,113</u>	<u>11</u>
Net cash used in operating activities	(506,403)	(816,767)
Cash Provided by Investing Activities, Interest on Investments	<u>10,934</u>	<u>14,123</u>
Net Decrease in Cash and Cash equivalents	(495,469)	(802,644)
Cash and Cash Equivalents, Beginning of Year	<u>1,753,335</u>	<u>2,555,979</u>
Cash and Cash Equivalents, End of Year	\$ <u><u>1,257,866</u></u>	\$ <u><u>1,753,335</u></u>
Reconciliation of Operating Loss to Net Cash Used in Operating Activities:		
Operating loss	\$ (595,109)	\$ (449,659)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Provision for losses on mortgage insurance premiums receivable	61,379	(41,101)
Provision for losses on insured commitments	547,721	310,248
Changes in assets and liabilities:		
Mortgage insurance premiums receivable	(63,655)	48,601
Prepaid expenses	(2,631)	20
Accounts payable	(9,000)	6,000
Unearned revenue		(32,500)
Due to RIIFC	(450,214)	(665,672)
Due to Commerce RI	<u>5,106</u>	<u>7,296</u>
Net Cash Used in Operating Activities	\$ <u><u>(506,403)</u></u>	\$ <u><u>(816,767)</u></u>

The accompanying notes are an integral part of the financial statements

**RHODE ISLAND INDUSTRIAL-RECREATIONAL BUILDING AUTHORITY  
(A COMPONENT UNIT OF THE STATE OF RHODE ISLAND)  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2017 AND 2016**

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**1. DESCRIPTION OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Description of Business**

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

The Authority is authorized to insure contractual principal and interest payments required under first mortgages and first security agreements issued to private-sector entities by financial institutions and the Rhode Island Industrial Facilities Corporation (RIIFC), a component unit of the State, on industrial or recreational projects in the State up to a maximum of \$60,000,000 of outstanding principal balances under such insured mortgages and security agreements.

The Authority is exempt from federal and state income taxes.

**Financial Statement Presentation, Measurement Focus and Basis of Accounting**

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

The Authority uses the economic resources measurement focus and accrual basis of accounting.

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

**Use of Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**Revenue Recognition and Concentrations**

Mortgage insurance premiums are based on a percentage of the principal amount outstanding under mortgages insured by the Authority, determined at specified measurement dates, and are recognized when earned. Mortgage insurance premiums paid in advance are reported as unearned revenue and recognized as revenue when earned. Other revenue is recognized when received.

For the year ended June 30, 2017, mortgage insurance premiums from two entities represent 100% of the Authority's mortgage insurance premiums. For the year ended June 30, 2016, mortgage insurance premiums from three entities represent 89% of the Authority's mortgage insurance premiums.

**RHODE ISLAND INDUSTRIAL-RECREATIONAL BUILDING AUTHORITY  
(A COMPONENT UNIT OF THE STATE OF RHODE ISLAND)  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2017 AND 2016**

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Upon the early repayment of conduit debt obligations insured by the Authority, prepayment penalties are due from the obligor and recognized as revenue by the Authority. For the year ended June 30, 2017 and 2016, \$-0- and \$22,500 of prepayment penalties are included in mortgage insurance premiums revenue in the accompanying financial statements, respectively.

Commitment fees are amounts paid by prospective obligors of conduit debt that has been approved but not yet issued. Such fees are recorded as a liability when received and recognized as revenue by the Authority either when the commitment to lend is exercised or when the commitment expires.

**Cash and Cash Equivalents**

The Authority considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

**Losses on Mortgage Insurance Agreements**

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

**Reclassifications**

Certain amounts in the 2016 financial statements have been reclassified to conform with the 2017 presentation.

**2. CASH AND CASH EQUIVALENTS**

The Authority has cash and cash equivalents that are held by the State’s General Treasurer as follows:

	<u>2017</u>	<u>2016</u>
Cash (1)	\$ 31,154	\$ 37,557
Cash equivalents - Ocean State Investment Pool Trust (OSIP)	<u>1,226,712</u>	<u>1,715,778</u>
	<u>\$ 1,257,866</u>	<u>\$ 1,753,335</u>

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

At June 30, 2017 and 2016, the Authority’s cash equivalents consisted of amounts invested in OSIP, an investment pool established by the General Treasurer of the State of Rhode Island under the Rhode Island Local Government Investment Pool Act Ch. 35-10.2 of the Rhode Island General Laws as amended, as a voluntary investment vehicle for funds of, and funds under custody of, agencies, authorities, commissions, boards, municipalities, political subdivisions and other public units of the State of Rhode Island. OSIP is an external investment pool as defined by GASB and has elected to measure for financial reporting purposes all of its investments at amortized cost. OSIP has met the criteria outlined in GASB Statement No. 79, *Certain External Investment Pools and Pool Participants*, regarding portfolio maturity, quality, diversification and liquidity requirements and shadow pricing

**RHODE ISLAND INDUSTRIAL-RECREATIONAL BUILDING AUTHORITY  
(A COMPONENT UNIT OF THE STATE OF RHODE ISLAND)  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2017 AND 2016**

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requirements, which are required for such election. The OSIP is not rated and the weighted average maturity held in the pool, by policy, is not to exceed 60 days. OSIP issues a publicly available financial report that can be obtained by writing to the Office of the General Treasurer, Finance Department, 50 Service Avenue - 2<sup>nd</sup> Floor, Warwick, Rhode Island 02886.

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

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

Interest rate risk 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 value interest rates. Although it has no established policy, the Authority manages its exposure to declines in fair values by limiting the term of liquid investments to less than 60 days.

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

In accordance with State of Rhode Island General Laws, Chapter 35-10.1, depository institutions holding deposits of the State, its agencies or governmental subdivisions of the State, are required, at a minimum, to insure or pledge eligible collateral equal to 100% of time deposits with maturities greater than 60 days. Any of these institutions, which do not meet minimum capital standards prescribed by federal regulators are required to insure or pledge eligible collateral equal to 100% of deposits, regardless of maturity. The Authority does not have a separate deposit policy for custodial credit risk.

### **3. DUE FROM RIIFC AND ESCROW DEPOSIT**

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

During the fiscal year ended June 30, 2015, the underlying revenue bond was paid off by the private-sector entity and funds were released for payment during fiscal year ended June 30, 2016.

**RHODE ISLAND INDUSTRIAL-RECREATIONAL BUILDING AUTHORITY  
(A COMPONENT UNIT OF THE STATE OF RHODE ISLAND)  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2017 AND 2016**

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**4. DUE TO RIIFC**

Due to RIIFC represented amounts paid by RIIFC on behalf of the Authority. The payments pertain to the Authority's guarantee of defaulted revenue bonds issued to a private-sector entity. The underlying revenue bond was paid off in fiscal year 2015 and the funds were released for payment during fiscal year ended June 30, 2016.

**5. INSURED COMMITMENTS PAYABLE AND CONTINGENCY**

At June 30, 2017 and 2016, the Authority has insured contractual principal and interest payments required under first mortgages and first security agreements principally for land and buildings of manufacturing and distribution entities located throughout Rhode Island. Principal balances outstanding under first mortgages and first security agreements insured by the Authority at June 30, 2017 and 2016, total approximately \$12,984,073 and \$9,333,608, respectively.

In October 2014, the Authority was authorized to insure up to \$5,000,000 of taxable industrial revenue bonds to finance the purchase and development of real property for a brewery. In July 2015, the authorized amount was amended by the Board of Directors to be \$4,000,000. In November 2015, the Board of Directors amended the authorized amount to \$4,022,500.

The Authority insures a bond issued by RIIFC on behalf of a private-sector entity. During the year ended June 30, 2012, the private-sector entity was in default on its payments to the bondholder and the Authority has assumed responsibility for making the debt payments. These payments will be made by first exhausting the Authority's available financial resources. The Authority must then request appropriations of the Rhode Island General Assembly for any loss in excess of the insured amount. At June 30, 2017 and 2016, the Authority has determined that it is likely that it will incur a loss under the insured commitment. At June 30, 2017, the Authority has estimated the range of potential loss to be between approximately \$2,000,000 and \$5,000,000 and has determined the best estimate within this range to be \$2,000,000. At June 30, 2016, the recorded estimated loss, based on the available information, was \$1,904,832. The current portion of the insured commitment payable was calculated by estimating the monthly payments due within one year on this bond.

**RHODE ISLAND INDUSTRIAL-RECREATIONAL BUILDING AUTHORITY  
(A COMPONENT UNIT OF THE STATE OF RHODE ISLAND)  
SCHEDULES OF UNCOMMITTED MORTGAGE INSURANCE AVAILABILITY  
FOR THE YEARS ENDED JUNE 30, 2017 AND 2016**

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	<u>2017</u>	<u>2016</u>
Maximum contractual principal payments the Authority is authorized to insure	\$ <u>60,000,000</u>	\$ <u>60,000,000</u>
Principal balances outstanding under first mortgages and first security agreements at year-end	12,984,073	9,333,608
Approved resolutions at year-end	<u>4,022,500</u> <u>17,006,573</u>	<u>4,022,500</u> <u>13,356,108</u>
Uncommitted Mortgage Insurance Availability	\$ <u><u>42,993,427</u></u>	\$ <u><u>46,643,892</u></u>

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



**RHODE ISLAND INDUSTRIAL-RECREATIONAL BUILDING AUTHORITY  
(A COMPONENT UNIT OF THE STATE OF RHODE ISLAND)  
STATE OF RHODE ISLAND REQUIRED FORMAT  
STATEMENT OF NET POSITION  
JUNE 30, 2017**

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**Attachment B**

**Assets**

Current assets:

Cash and cash equivalents	\$	1,257,866
Investments		
Receivables (net)		3,416
Restricted assets:		
Cash and cash equivalents		
Investments		
Receivables (net)		
Other assets		
Due from primary government		
Due from other component units		
Due from other governments		
Inventories		
Other assets		5,263
Total current assets		<u>1,266,545</u>

Noncurrent assets:

Investments		
Receivables		
(Receivable allowance)		
Restricted assets:		
Cash and cash equivalents		
Investments		
Other assets		
Due from other component units		
Capital assets - nondepreciable		
Capital assets - depreciable (net)		
Other assets, net of amortization		
Total noncurrent assets		<u>-</u>
 Total assets		 <u>1,266,545</u>

(Continued on next page)

**RHODE ISLAND INDUSTRIAL-RECREATIONAL BUILDING AUTHORITY  
(A COMPONENT UNIT OF THE STATE OF RHODE ISLAND)  
STATE OF RHODE ISLAND REQUIRED FORMAT  
STATEMENT OF NET POSITION (CONTINUED)  
JUNE 30, 2017**

**Attachment B**

**Liabilities**

Current liabilities:

Cash overdraft	
Accounts payable	\$
Due to primary government	
Due to other component units	99,598
Due to other governments	
Unearned revenue	
Other liabilities	699,850
Current portion of long-term debt	
Total current liabilities	<u>799,448</u>

Noncurrent liabilities:

Due to primary government	
Due to other governments	
Due to other component units	
Unearned revenue	
Notes payable	
Loans payable	
Obligations under capital leases	
Other liabilities	1,300,150
Compensated absences	
Bonds payable	
Total noncurrent liabilities	<u>1,300,150</u>

Total liabilities	<u>2,099,598</u>
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Net position, unrestricted	\$ <u><u>(833,053)</u></u>
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**RHODE ISLAND INDUSTRIAL-RECREATIONAL BUILDING AUTHORITY  
(A COMPONENT UNIT OF THE STATE OF RHODE ISLAND)  
STATE OF RHODE ISLAND REQUIRED FORMAT  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2017**

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	<u>Attachment C</u>
<b>Expenses</b>	\$ <u>674,503</u>
<b>Program revenues:</b>	
Charges for services	79,394
Operating grants and contributions	
Capital grants and contributions	
Total program revenues	<u>79,394</u>
Net (expenses) revenues	<u>(595,109)</u>
<b>General revenues:</b>	
Interest and investment earnings	10,934
Miscellaneous revenue	
Total general revenues	<u>10,934</u>
Loss before contributions, transfers, and special and extraordinary items	<u>(584,175)</u>
Transfers to State, bond proceeds	
Special items	
Extraordinary items	
Total contributions and transfers	<u>-</u>
Change in net position	(584,175)
Total net position - beginning	<u>(248,878)</u>
Total net position - ending	\$ <u><u>(833,053)</u></u>

**RHODE ISLAND INDUSTRIAL-RECREATIONAL BUILDING AUTHORITY  
(A COMPONENT UNIT OF THE STATE OF RHODE ISLAND)  
STATE OF RHODE ISLAND REQUIRED FORMAT  
SCHEDULE OF CHANGES IN LONG-TERM DEBT  
FOR THE YEAR ENDED JUNE 30, 2017**

	<u>Attachment E</u>					
	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Amounts Due Within One Year</u>	<u>Amounts Due Thereafter</u>
Bonds payable	\$	\$	\$	\$	\$	\$
Net unamortized premium/discount						
Deferred amount on refunding						
Bonds payable						
Due to primary government						
Due to other governments						
Due to other component units	92,153	7,445		99,598	99,598	
Notes payable						
Obligations under capital leases						
Net OPEB obligation						
Compensated absences						
Unearned revenue						
Other liabilities, insured commitments	<u>1,904,832</u>	<u>581,518</u>	<u>(486,350)</u>	<u>2,000,000</u>	<u>699,850</u>	<u>1,300,150</u>
	<u>\$ 1,996,985</u>	<u>\$ 588,963</u>	<u>\$ (486,350)</u>	<u>\$ 2,099,598</u>	<u>\$ 799,448</u>	<u>\$ 1,300,150</u>

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## **Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards***

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

We have audited, 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, the financial statements of the Rhode Island Industrial-Recreational Building Authority, a component unit of the State of Rhode Island, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Authority's financial statements, and have issued our report thereon dated September 29, 2017.

### **Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Rhode Island Industrial-Recreational Building Authority's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

## **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Rhode Island Industrial-Recreational Building Authority's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

## **Purpose of This Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Rhode Island Industrial-Recreational Building Authority's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Rhode Island Industrial-Recreational Building Authority's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Blum, Shapiro & Company, P.C.*

Cranston, Rhode Island  
September 29, 2017