

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

**FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017**

**RHODE ISLAND INDUSTRIAL-RECREATIONAL BUILDING AUTHORITY
(A COMPONENT UNIT OF THE STATE OF RHODE ISLAND)
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JUNE 30, 2018 AND 2017**

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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, 2018 and 2017, 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, 2018 and 2017, 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 4 to the financial statements, the Rhode Island Industrial-Recreational Building Authority has a net deficit as of June 30, 2018 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 Rhode Island Industrial-Recreational Building Authority is responsible for making the debt payments. These payments will be made by first exhausting the Authority's available financial resources. The Rhode Island Industrial-Recreational Building Authority must then request appropriations of the Rhode Island General Assembly for any loss in excess of the insured amount. The Rhode Island Industrial-Recreational Building Authority has estimated the insured commitments payable to be \$2,214,493 as of June 30, 2018. 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.

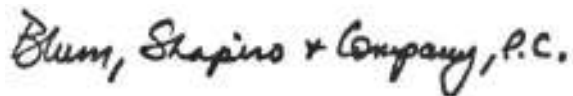
Other Information

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 14 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 November 5, 2018 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.

Handwritten signature in cursive script: Blum, Shapiro & Company, P.C.

Cranston, Rhode Island
November 5, 2018

**RHODE ISLAND INDUSTRIAL-RECREATIONAL BUILDING AUTHORITY
(A COMPONENT UNIT OF THE STATE OF RHODE ISLAND)
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2018 AND 2017**

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, 2018 and 2017. 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.

2018 Financial Highlights

Total liabilities exceeded total assets by \$1,646,474 (net position) at June 30, 2018 due to a guarantee on a revenue bond issued for a private-sector entity depleting existing reserves and an adjustment increasing the related loss on insured commitments. Operating loss for 2018 was \$825,510, \$230,401 more than 2017's operating loss. Net position decreased by \$813,421 in 2018.

**RHODE ISLAND INDUSTRIAL-RECREATIONAL BUILDING AUTHORITY
(A COMPONENT UNIT OF THE STATE OF RHODE ISLAND)
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2018 AND 2017**

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.

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

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):

	Statements of Net Position				
	June 30,			Increase (decrease)	
	2018	2017	2016	2018 v 2017	2017 v 2016
Net position:					
Current assets	\$ 818	\$ 1,267	\$ 1,757	\$ (449)	\$ (490)
Current liabilities	702	799	554	(97)	245
Noncurrent liabilities	1,762	1,300	1,452	462	(152)
Total liabilities	<u>2,464</u>	<u>2,099</u>	<u>2,006</u>	<u>365</u>	<u>93</u>
Net position, unrestricted	<u>\$ (1,646)</u>	<u>\$ (832)</u>	<u>\$ (249)</u>	<u>\$ (814)</u>	<u>\$ (583)</u>

	Statements of Revenues, Expenses, and Changes in Net Position				
	Year ended June 30,			Increase (decrease)	
	2018	2017	2016	2018 v 2017	2017 v 2016
Changes in net position:					
Operating revenues	\$ 92	\$ 79	\$ 94	\$ 13	\$ (15)
Operating expenses	<u>918</u>	<u>675</u>	<u>544</u>	<u>243</u>	<u>131</u>
Operating loss	(826)	(596)	(450)	(230)	(146)
Nonoperating revenues	<u>12</u>	<u>11</u>	<u>7</u>	<u>1</u>	<u>4</u>
Change in net position	<u>\$ (814)</u>	<u>\$ (585)</u>	<u>\$ (443)</u>	<u>\$ (229)</u>	<u>\$ (142)</u>

**RHODE ISLAND INDUSTRIAL-RECREATIONAL BUILDING AUTHORITY
(A COMPONENT UNIT OF THE STATE OF RHODE ISLAND)
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2018 AND 2017**

2018 Financial Analysis

Total assets of the Authority decreased by \$448,708 in 2018 due to release of funds related to a guarantee on a revenue bond issued for a private-sector entity.

Total liabilities of the Authority increased by \$364,713 in 2018, due to an increase in insured commitments payable and amounts owed to Rhode Island Industrial Facilities Corporation (RIIFC).

2018 Operating Activity

Operating revenues of the Authority increased by \$13,072 compared to 2017 due to a new insured commitment in 2018.

Total operating expenses increased by \$243,473 due to an increase in the estimate of loss on insured commitment associated with an on-going dispute.

The Authority's net position decreased \$813,421 in 2018 compared to \$584,175 in 2017.

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 prior year mortgage payoff.

Due to the extended mediation period on an uninsured 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.

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, 2018 AND 2017**

	<u>2018</u>	<u>2017</u>
Assets:		
Current assets:		
Cash and cash equivalents	\$ 809,321	\$ 1,257,866
Mortgage insurance premiums receivable, net of allowance for doubtful accounts of \$253,580 and \$220,537, respectively	3,253	3,416
Prepaid expenses	<u>5,263</u>	<u>5,263</u>
Total assets	<u>817,837</u>	<u>1,266,545</u>
Liabilities:		
Current liabilities:		
Due to Rhode Island Industrial Facilities Corporation	240,888	84,615
Due to Rhode Island Commerce Corporation	8,930	14,983
Insured commitments payable	<u>452,552</u>	<u>699,850</u>
Total current liabilities	<u>702,370</u>	<u>799,448</u>
Noncurrent liabilities:		
Insured commitments payable	<u>1,761,941</u>	<u>1,300,150</u>
Total liabilities	<u>2,464,311</u>	<u>2,099,598</u>
Net Position, Unrestricted	<u>\$ (1,646,474)</u>	<u>\$ (833,053)</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, 2018 AND 2017

	<u>2018</u>	<u>2017</u>
Operating Revenues, Charges for Services:		
Mortgage insurance premiums	\$ 92,466	\$ 59,281
Commitment fee		20,113
Total operating revenues, charges for services	<u>92,466</u>	<u>79,394</u>
Operating Expenses:		
Contractual services	192,602	80,558
Administrative	26,748	17,274
Insurance	31,580	28,950
Loss on insured commitments (Note 4)	667,046	547,721
Total operating expenses	<u>917,976</u>	<u>674,503</u>
Operating Loss	(825,510)	(595,109)
Nonoperating Revenues, Interest and Dividend Income	<u>12,089</u>	<u>10,934</u>
Change in Net Position	(813,421)	(584,175)
Net Position, Beginning of Year	<u>(833,053)</u>	<u>(248,878)</u>
Net Position, End of Year	<u>\$ (1,646,474)</u>	<u>\$ (833,053)</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, 2018 AND 2017

	<u>2018</u>	<u>2017</u>
Cash Flows from Operating Activities:		
Cash received for services	\$ 92,629	\$ 57,005
Cash payments to suppliers for goods and services	(553,263)	(583,521)
Cash received from other sources		20,113
Net cash used in operating activities	<u>(460,634)</u>	<u>(506,403)</u>
Cash Provided by Investing Activities, Interest on Investments	<u>12,089</u>	<u>10,934</u>
Net Decrease in Cash and Cash equivalents	(448,545)	(495,469)
Cash and Cash Equivalents, Beginning of Year	<u>1,257,866</u>	<u>1,753,335</u>
Cash and Cash Equivalents, End of Year	<u>\$ 809,321</u>	<u>\$ 1,257,866</u>
Reconciliation of Operating Loss to Net Cash Used in Operating Activities:		
Operating loss	\$ (825,510)	\$ (595,109)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Provision for losses on mortgage insurance premiums receivable	(61,379)	61,379
Provision for losses on insured commitments	667,046	547,721
Changes in assets and liabilities:		
Mortgage insurance premiums receivable	61,542	(63,655)
Prepaid expenses		(2,631)
Accounts payable		(9,000)
Due to RIIFC	(296,280)	(450,214)
Due to Commerce RI	<u>(6,053)</u>	<u>5,106</u>
Net Cash Used in Operating Activities	<u>\$ (460,634)</u>	<u>\$ (506,403)</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, 2018 AND 2017**

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 relating to 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, 2018, mortgage insurance premiums from three entities represent 100% of the Authority's mortgage insurance premiums. For the year ended June 30, 2017, mortgage insurance premiums from two entities represented 100% of the Authority's mortgage insurance premiums.

RHODE ISLAND INDUSTRIAL-RECREATIONAL BUILDING AUTHORITY
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JUNE 30, 2018 AND 2017

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, 2018 there were no prepayment penalties recognized.

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 2017 financial statements have been reclassified to conform with the 2018 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>2018</u>	<u>2017</u>
Cash (1)	\$ 70,521	\$ 31,154
Cash equivalents - Ocean State Investment Pool Trust (OSIP)	<u>738,800</u>	<u>1,226,712</u>
	<u>\$ 809,321</u>	<u>\$ 1,257,866</u>

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

At June 30, 2018 and 2017, 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 requirements, which are required for such election. OSIP transacts with its participants at a stable net asset value (NAV) per share. Investments reported at the NAV are not subject to leveling

**RHODE ISLAND INDUSTRIAL-RECREATIONAL BUILDING AUTHORITY
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NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017**

categorization. There are no participant withdrawal limitations. 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 - 2nd Floor, Warwick, RI 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 one hundred percent of time deposits with maturities greater than sixty days. Any of these institutions which do not meet minimum capital standards prescribed by federal regulators are required to insure or pledge eligible collateral equal to one hundred percent of deposits, regardless of maturity. The Authority does not have a separate deposit policy for custodial credit risk.

3. 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.

4. INSURED COMMITMENTS PAYABLE AND CONTINGENCY

At June 30, 2018 and 2017, 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, 2018 and 2017, total approximately \$12,254,104 and \$12,984,073, 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.

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NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017**

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 assumed responsibility for making the debt payments. In July 2018, a mediation settlement in connection with a pending case in the Providence Superior Court was entered into, subject to the formal vote of approval by the board of the Authority. This settlement upon final approval will result in a payment of \$1,500,000 to the Rhode Island Industrial Recreational Authority replenishing existing available financial resources. Bond payments will continue to be made by first exhausting the Authority's available existing financial resources and if losses related to the default exceed available resources, the Authority will then request appropriations of the Rhode Island General Assembly for any loss in excess of the insured amount.

At June 30, 2018 and 2017, the Authority has determined that it is likely that it will incur a loss under the insured commitment. At June 30, 2018, the Authority has estimated the range of potential loss to be between approximately \$2,214,493 and \$3,175,778 and has determined the best estimate within this range to be \$2,214,493.

At June 30, 2017, the recorded estimated loss, based on the available information, was \$2,000,000. The current portion of the insured commitment payable was calculated by estimating the monthly payments due within one year on this bond.

5. SUBSEQUENT EVENTS

As discussed in paragraph three of Note 4 above; In July 2018, a mediation settlement in connection with a pending case in the Providence Superior Court was entered into, subject to the formal vote of approval by the board of the Authority. This settlement upon final approval will result in a payment of \$1,500,000 to the Authority by the private-sector entity that is in default.

**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, 2018 AND 2017**

	<u>2018</u>	<u>2017</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	12,254,104	12,984,073
Approved resolutions at year-end	<u>4,022,500</u> <u>16,276,604</u>	<u>4,022,500</u> <u>17,006,573</u>
Uncommitted Mortgage Insurance Availability	\$ <u><u>43,723,396</u></u>	\$ <u><u>42,993,427</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, 2018**

Attachment B

Assets

Current assets:

Cash and cash equivalents	\$ 809,321
Investments	
Receivables (net)	3,253
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>817,837</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>817,837</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, 2018**

Attachment B

Liabilities

Current liabilities:

Cash overdraft		
Accounts payable	\$	
Due to primary government		
Due to other component units		249,818
Due to other governments		
Unearned revenue		
Other liabilities		452,552
Current portion of long-term debt		
Total current liabilities		702,370

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		1,761,941
Compensated absences		
Bonds payable		
Total noncurrent liabilities		1,761,941

Total liabilities		2,464,311
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Net position, unrestricted	\$	(1,646,474)
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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, 2018**

	<u>Attachment C</u>
Expenses	\$ <u>917,976</u>
Program revenues:	
Charges for services	92,466
Operating grants and contributions	
Capital grants and contributions	
Total program revenues	<u>92,466</u>
Net (expenses) revenues	<u>(825,510)</u>
General revenues:	
Interest and investment earnings	12,089
Miscellaneous revenue	
Total general revenues	<u>12,089</u>
Loss before contributions, transfers, and special and extraordinary items	<u>(813,421)</u>
Transfers to State, bond proceeds	
Special items	
Extraordinary items	
Total contributions and transfers	<u>-</u>
Change in net position	(813,421)
Total net position - beginning	<u>(833,053)</u>
Total net position - ending	\$ <u><u>(1,646,474)</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, 2018**

	<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	99,598	156,273	(6,053)	249,818	249,818	
Notes payable						
Obligations under capital leases						
Net OPEB obligation						
Compensated absences						
Unearned revenue						
Other liabilities, insured commitments	<u>2,000,000</u>	<u>700,843</u>	<u>(486,350)</u>	<u>2,214,493</u>	<u>452,552</u>	<u>1,761,941</u>
	<u>\$ 2,099,598</u>	<u>\$ 857,116</u>	<u>\$ (492,403)</u>	<u>\$ 2,464,311</u>	<u>\$ 702,370</u>	<u>\$ 1,761,941</u>

**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, 2018, and the related notes to the financial statements, which collectively comprise the Authority's financial statements, and have issued our report thereon dated November 5, 2018.

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 Rhode Island Industrial-Recreational Building Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Rhode Island Industrial-Recreational Building 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
November 5, 2018