

# State of Rhode Island



2012

## COMPREHENSIVE ANNUAL FINANCIAL REPORT FISCAL YEAR ENDED JUNE 30, 2012

Lincoln D. Chafee, Governor

Department of Administration - Richard A. Licht, Director of Administration

Office of Accounts and Control - Marc A. Leonetti, CPA, State Controller

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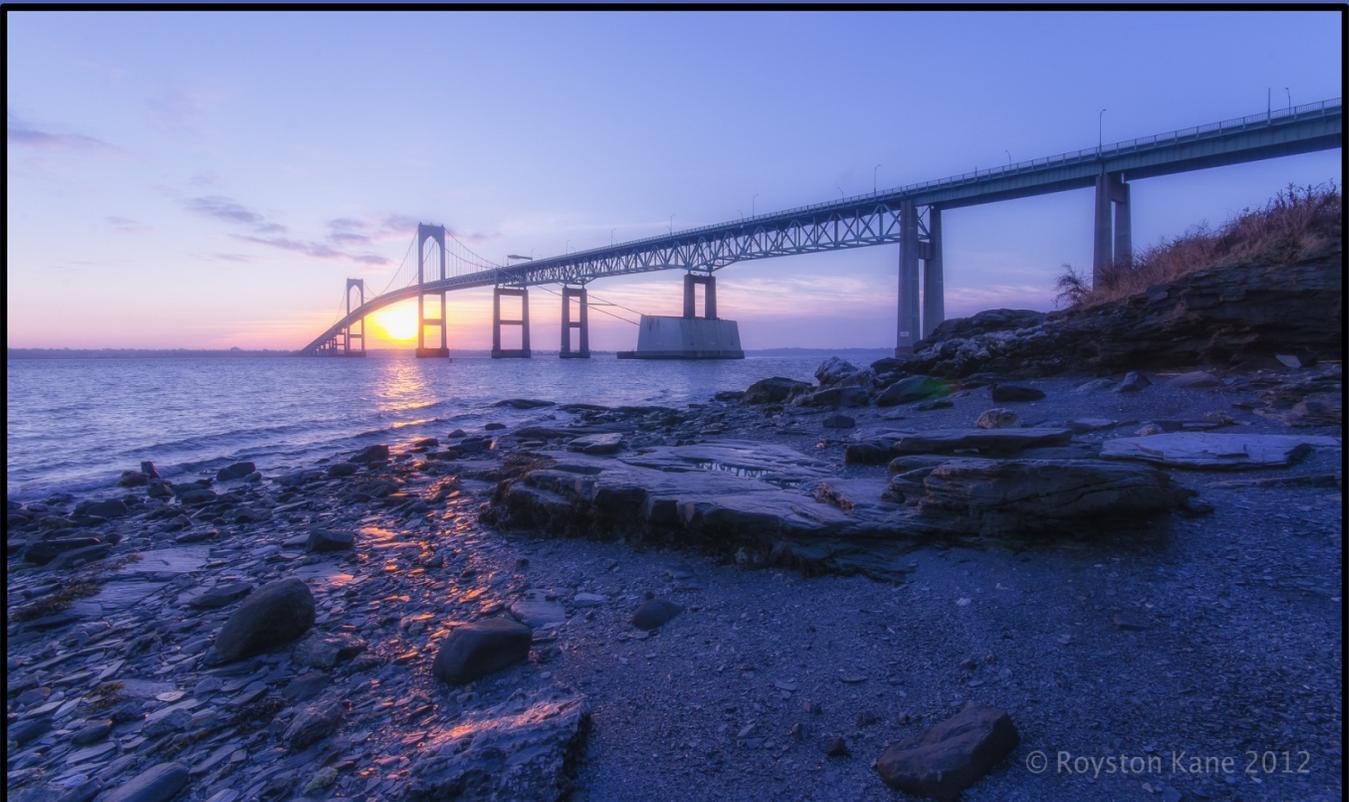
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# State of Rhode Island



2012

**INTRODUCTORY SECTION**  
**COMPREHENSIVE ANNUAL FINANCIAL REPORT**  
**FISCAL YEAR ENDED JUNE 30, 2012**



STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS  
**DEPARTMENT OF ADMINISTRATION**

**Richard A. Licht, Director**  
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December 20, 2012

To the Citizens, Governor and Members of the General Assembly of the State of Rhode Island:

In accordance with Section 35-6-1 of the General Laws, we are pleased to submit to you the Comprehensive Annual Financial Report (CAFR) of the State of Rhode Island and Providence Plantations for the fiscal year ended June 30, 2012.

## **INTRODUCTION TO REPORT**

*Responsibility:* This report was prepared by the State's Department of Administration - Office of Accounts and Control. Responsibility for the accuracy, completeness and fairness of the presentation rests with management. To the best of our knowledge and belief, the enclosed data accurately presents the State's financial position and results of operations in all material aspects in accordance with generally accepted accounting principles (GAAP) as promulgated by the Governmental Accounting Standards Board. Furthermore, we believe this report includes all disclosures necessary to enable the reader to gain an understanding of the State's financial activities.

*Independent Auditors:* The State's basic financial statements have been audited by the Office of the Auditor General as required by Section 35-7-10 of the General Laws. The Independent Auditor's Report is included in the Financial Section of this report.

*Internal Control Structure:* Management of the State is responsible for establishing and maintaining an internal control structure designed to provide reasonable, but not absolute, assurance that the assets of the State are protected from loss, theft, or misuse and that adequate accounting data is compiled to allow for preparation of financial statements in conformity with GAAP. The concept of reasonable assurance recognizes that the cost of a control should not exceed the benefits likely to be derived, and that the evaluation of costs and benefits requires estimates and judgments by management. Managers in all branches and components of government are required to maintain comprehensive internal control systems, to regularly evaluate the effectiveness and adequacy of these systems by internal reviews, and to submit an annual report on these internal controls to the Governor in accordance with the 1986 Financial Integrity and Accountability Act.

*Financial Reporting Entity:* The funds and component units included in the CAFR are those for which the State is accountable, based on criteria for defining the reporting entity as prescribed by GAAP. The criteria include appointing a voting majority of an organization's governing body and (1) the ability of the State to impose its will on the organization or (2) the potential for the organization to provide specific financial benefits or impose specific financial burdens on the State. More information about the State reporting entity can be found in Note 1 to the basic financial statements.

*Management's Discussion and Analysis (MD&A):* The MD&A immediately follows the independent auditor's report and provides a narrative introduction, overview, and analysis of the basic financial statements. The MD&A also includes information on a number of important factors that are expected to affect future operations of our State. This letter of transmittal is intended to complement the MD&A and should be read in conjunction with it.

## PROFILE OF THE GOVERNMENT

*Government Structure:* As shown in the organizational chart that follows this transmittal letter, State government is divided into three separate branches: legislative, executive and judicial. The duties of each branch are outlined in the State's Constitution, which can be amended only by a majority vote of the State's citizens and in the Rhode Island General Laws, which can be amended only by the General Assembly. State government services provided to citizens include building and maintaining roads; providing public safety, health and environmental protection services to protect the general welfare of the State's citizens; helping adults, children and families through difficult times resulting from abuse, neglect, illness or unemployment; promoting an attractive business climate to encourage economic development; and protecting natural resources for conservation and recreational activities. The State also provides significant support to its three institutions of higher education and to the public schools within the State.

*Budgetary Information - Annual and Long-term:* Preparation and submission of the budget is governed by both the State's Constitution and Rhode Island General Laws. The budget, as enacted by the General Assembly, contains a complete plan of appropriations supported by estimated revenues. Estimated general revenues are determined by a consensus of the Revenue Estimating Conference, which is made up of the State Budget Officer, House Fiscal Advisor, and the Senate Fiscal Advisor. The Conference was established to provide a stable and accurate method of financial planning and budgeting to facilitate the adoption of a balanced budget wherein appropriations and expenditures do not exceed anticipated revenues, as is required by the statutes and Constitution of Rhode Island. Appropriations for restricted and dedicated revenue sources are supported by estimates submitted by the agencies.

In addition, a State Budget Reserve Account (Budget Reserve) is maintained within the General Fund. In FY 2012, according to the State's Constitution, general revenue appropriations in the General Fund could not exceed 97.2% of available general revenue sources, which consist of the current fiscal year's general revenue plus the General Fund undesignated fund balance from the prior fiscal year. Available revenue in excess of the spending cap is transferred to the Budget Reserve. If the balance in the Budget Reserve exceeds 4.6% of the total general revenues and opening surplus, the excess is transferred to the RI Capital Plan Fund to be used for capital projects. Incremental changes in the percentage allocations will continue until FY 2013, when the spending cap will be 97% of the total general revenue sources, and the Budget Reserve will be five percent of the total general revenues and opening surplus. The Budget Reserve, or any portion thereof, may be appropriated in the event of an emergency involving the health, safety or welfare of the citizens of the State or in the event of an unanticipated deficit in any given fiscal year, such appropriations to be approved by a majority of each chamber of the General Assembly.

A five-year financial projection is prepared annually as part of the Governor's budget submission pursuant to Section 35-3-1 of the Rhode Island General Laws. The five-year financial projection includes tables that present anticipated revenues and expenditures for the ensuing five fiscal years. Also included are tables that provide detail on the planning values used in these projections. The planning values reflect policy assumptions, as well as economic and demographic forecasts.

The purpose of the five-year forecast is to provide a baseline fiscal outlook for the State. Although the forecast may be utilized as a benchmark in assessing the affordability and desirability of alternative policy options, caution should be exercised in the interpretation of the forecast.

*Economic Conditions and Outlook:* Rhode Island's preliminary seasonally adjusted unemployment rate in October 2012 was 10.4 percent, a decrease from October 2011's rate of 11.2 percent. The State's unemployment rate continues to lag the U.S. unemployment rate of 7.9 percent. Though Rhode Island's unemployment rate continues to decline, the rate of decline is far slower than that of the U.S., resulting in an increase in the gap between the U.S. unemployment rate and the Rhode Island unemployment rate. In October 2012, Rhode Island's unemployment rate was 131.6 percent greater than that of the U.S., with the comparable number in October 2011 being 125.8 percent. In their November 2012 forecast, Moody's Economy.com noted that public sector employment has been the primary drag in 2012, while retail, leisure and hospitality employment have been the largest source of job growth in the State. Additionally, the Rhode Island Department of Labor and Training testified at the November 2012 Revenue Estimating Conference that the U.S. Bureau of Labor Statistics official job numbers for June 2012 would likely be

revised upward by an estimated 5,700 jobs. Moody's Economy.com November 2012 forecast projects that Rhode Island's non-farm employment will surpass pre-recession peak levels in calendar year 2017, a full year later than Moody's Economy.com forecast in May 2012.

In their November 2012 forecast, Moody's Economy.com noted that policy uncertainty has not helped the economic recovery and until businesses see a clear picture of what the future holds with respect to expiring tax cuts, healthcare policy, and the debt ceiling, hiring should remain at the current pace. With respect to the Rhode Island economy, the State's economic recovery is being slowed by significant macroeconomic headwinds and uncertainty. In particular, goods-producing industries are seeing little to no growth, while service-based industries are experiencing enough modest gains to offset the contraction of public sector employment. On a positive note, Moody's Economy.com forecasts that the housing market in Rhode Island will turn the corner in the second half of 2013. The primary factors for the beginning of a housing recovery are a reduction in excess inventory and foreclosure sales. Delinquency rates, however, are still high and could stall any momentum by placing more foreclosed homes on the market. As a result, new construction would be suppressed and construction employment would remain relatively weak.

## **MAJOR INITIATIVES**

The FY 2013 Enacted Budget included a number of initiatives and/or structural changes to state government. These include:

- The creation of the Office of Management and Budget (OMB) within the Department of Administration to oversee the functions of the Budget Office, the Performance Management unit, the Office of Regulatory Reform and a new Federal Grants Management unit. The Performance Management unit will work closely with the Bureau of Audits regarding audit recommendations and development of management solutions. The Federal Grants Management unit will be responsible for working with all state agencies that seek and/or receive federal funds to coordinate applications and reporting on federal grants. The Office of Regulatory Reform, transferred to the OMB from the Economic Development Corporation, is responsible for working with state agencies and municipalities to streamline their regulatory environment to help improve the business climate.
- The creation of a new Office of Digital Excellence to manage all new technology infrastructure projects and upgrades for state agencies, expand and improve the quality of state technology services, to promote greater access to government, and improve Rhode Island web sites to provide timely information to online users.
- An initiative to conduct an analysis of the State's personnel system with the goal of making recommendations for alternatives to the State's current merit system.
- The formation of the Rhode Island Board of Education, effective January 1, 2013, to assume the responsibilities and the authority of both the Board of Governors for Higher Education and the Board of Regents for Elementary and Secondary Education, thereby eliminating both boards.

The FY 2013 Enacted Budget also included a number of items to promote capital investment in Rhode Island. These include:

- Referenda for consideration by the voters of the State for the construction of a new Veterans' Home, renovations to buildings and infrastructure at Rhode Island College, as well as funding for affordable housing, clean water projects and open space. All of these referenda were approved by voters in November 2012.
- Authorization for the new I-195 Commission to issue up to \$42.0 million in debt to acquire land made available from the relocation of Interstate Route 195 in downtown Providence; the land would then be made available for development after it is acquired from the RI Department of Transportation.
- Authorization for the Rhode Island Airport Corporation to issue up to \$174.0 million in debt for various projects, including extension of the main runway at T. F. Green State Airport.

In addition, the FY 2013 Enacted Budget included investments in information technology, such as:

- Investment of \$9.0 million into an Information Technology Investment Fund.
- Authorization of \$25.0 million for an integrated tax system in the Division of Taxation, replacing various disparate and antiquated systems.
- Authorization of \$20.0 million for improvements in the technology infrastructure of local education agencies.

The FY 2013 Enacted Budget included a number of initiatives to help Rhode Island's struggling communities. These include:

- Full funding in year two of the new education funding formula at a cost of \$22.1 million and accelerating additional aid for underfunded districts and charter schools at a cost of \$11.0 million.
- Accelerated aid payments to distressed communities, foundation level school support payments, and school housing aid payments to alleviate cash flow pressures on municipalities and school districts.
- New funding and staff to the Office of Municipal Finance to support overall municipal oversight efforts.

## **AWARDS AND ACKNOWLEDGMENTS**

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the State of Rhode Island and Providence Plantations for its comprehensive annual financial report for the fiscal year ended June 30, 2011. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current comprehensive annual financial report continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

We wish to express our sincere appreciation to the many individuals who assisted and contributed to the timely preparation of this report. It could not have been accomplished without the professionalism and dedication demonstrated by the entire staff of the Office of Accounts and Control, the Office of the Auditor General, and numerous other State agencies. We also want to thank the Governor and members of the General Assembly for their interest and support in planning and conducting the financial operations of the State in a responsible and progressive manner.

Respectfully submitted,



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Richard A. Licht  
Director



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Marc A. Leonetti, CPA  
State Controller

# Certificate of Achievement for Excellence in Financial Reporting

Presented to

State of Rhode Island  
and Providence Plantations

For its Comprehensive Annual  
Financial Report  
for the Fiscal Year Ended  
June 30, 2011

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



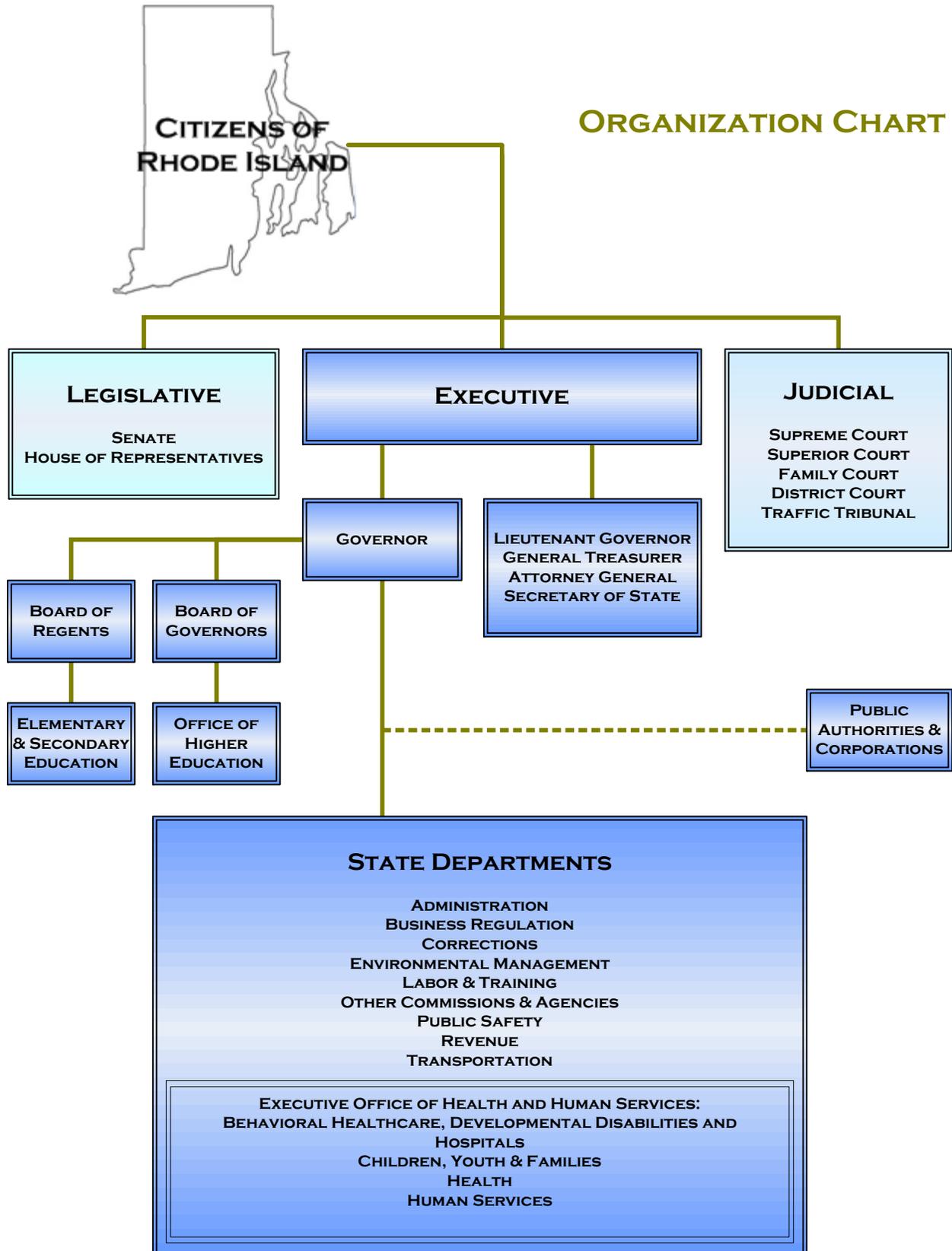
*Christopher P. Morrell*

President

*Jeffrey R. Emer*

Executive Director

# STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS



**STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS**

**OFFICIALS OF STATE GOVERNMENT**

**EXECUTIVE BRANCH**

**Governor**

Lincoln D. Chafee

**Lieutenant Governor**

Elizabeth H. Roberts

**Secretary of State**

A. Ralph Mollis

**General Treasurer**

Gina M. Raimondo

**Attorney General**

Peter F. Kilmartin

**LEGISLATIVE BRANCH**

**Senate**

**President of the Senate**

M. Teresa Paiva Weed

**House of Representatives**

**Speaker of the House**

Gordon D. Fox

**JUDICIAL BRANCH**

**Chief Justice of the Supreme Court**

Paul A. Suttell

# State of Rhode Island



2012

**FINANCIAL SECTION**  
**COMPREHENSIVE ANNUAL FINANCIAL REPORT**  
**FISCAL YEAR ENDED JUNE 30, 2012**



# Office of the Auditor General

State of Rhode Island and Providence Plantations - General Assembly

**Dennis E. Hoyle, CPA - Auditor General**

[oag.ri.gov](http://oag.ri.gov)

86 Weybosset Street • Providence, RI • 02903-2800  
tel: 401.222.2435 • fax: 401.222.2111

## INDEPENDENT AUDITOR'S REPORT

Finance Committee of the House of Representatives  
Joint Committee on Legislative Services, General Assembly,  
State of Rhode Island and Providence Plantations:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of Rhode Island and Providence Plantations (the State), as of and for the year ended June 30, 2012, which collectively comprise the State's basic financial statements as listed in the Table of Contents. These financial statements are the responsibility of the State's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of:

- a component unit which represents 1% of the assets and 1% of the revenues of the governmental activities and 1% of the assets and 4% of the revenues of the aggregate remaining fund information;
- the Convention Center Authority, a major fund, which also represents 64% of the assets and 2% of the revenues of the business-type activities;
- the external investment trust – Ocean State Investment Pool which represents less than 1% of the assets and revenues of the aggregate remaining fund information; and
- component units which represent 100% of the assets and 100% of the revenues of the aggregate discretely presented component units.

Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinions, insofar as they relate to the amounts included for these funds and component units, are based on the reports of the other auditors.

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 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 and the reports of other auditors provide a reasonable basis for our opinions.

Finance Committee of the House of Representatives  
Joint Committee on Legislative Services

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to previously present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State, as of June 30, 2012, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As disclosed in Note 6(J), the State has borrowed \$225 million from the federal Unemployment Insurance Trust Fund to fund benefits paid from the Employment Security Fund, a major fund, to eligible unemployed individuals. The Employment Security Fund had a deficit net asset balance of \$152 million at June 30, 2012.

As disclosed in Note 12, various lawsuits have been filed challenging pension reforms legislatively enacted in 2009 and 2010 as well as the more recent pension reforms enacted on November 18, 2011. An adverse judgment to the State resulting from these challenges could significantly increase both the unfunded liability of the plans included within the pension trust funds and the State's actuarially determined annual required contribution.

In accordance with *Government Auditing Standards*, we will issue our report dated December 20, 2012 on our consideration of the State's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

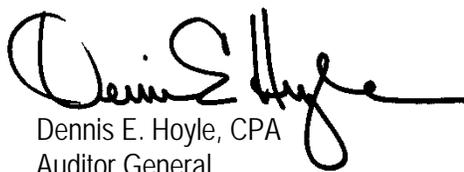
Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 13 through 31, the budgetary comparison schedules on pages 114 through 117, and the Schedules of Funding Progress on pages 118 through 119 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the State's basic financial statements. The introductory section on pages 3 through 9, the combining and individual nonmajor fund and component unit financial statements on pages 126 through 151 which includes the budgetary comparison schedule for the Temporary Disability Insurance (TDI) Fund on page 130, and the statistical section on pages 153 through 172, 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 combining and individual nonmajor fund and component

Finance Committee of the House of Representatives  
Joint Committee on Legislative Services

unit financial statements and the budgetary comparison schedule for the TDI Fund have 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 by us and the other auditors. In our opinion, based on our audit, the procedures performed as described previously, and the reports of the other auditors, the combining and individual nonmajor fund and component unit financial statements and the budgetary comparison schedule for the TDI Fund are fairly stated in all material respects in relation to the basic financial statements as a whole.

The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly we do not express an opinion or provide any assurance on them.



Dennis E. Hoyle, CPA  
Auditor General

December 20, 2012

State of Rhode Island  
Fiscal Year Ended June 30, 2012

# Management's Discussion and Analysis



Management's discussion and analysis (MD&A) provides a narrative overview and analysis of the financial activities of the State of Rhode Island (State) for the fiscal year ended June 30, 2012. The MD&A is intended to serve as an introduction to the State's basic financial statements, which have the following components: (1) government-wide financial statements, (2) fund financial statements, and (3) notes to the financial statements. The MD&A is designed to (a) assist the reader in focusing on significant financial matters, (b) provide an overview of the State's financial activities, (c) identify any material changes from the original budget, and (d) highlight individual fund matters. The following presentation is by necessity highly summarized, and in order to gain a thorough understanding of the State's financial condition, the following financial statements, notes and required supplementary information should be reviewed in their entirety.

## Financial Highlights – Primary Government

### Government-wide Financial Statements

- **Net Assets:** The total assets of the State exceeded total liabilities on June 30, 2012 by \$1,205.9 million. This amount is presented as "net assets" on the Statement of Net Assets for the Total Primary Government. Of this amount, (\$1,523.9) million was reported as unrestricted net assets (deficit), \$562.2 million as restricted net assets, and \$2,167.6 million as invested in capital assets, net of related debt.
- **Changes in Net Assets:** In the Statement of Activities, the State's total net assets increased by \$279.0 million in fiscal year 2012. Net assets of governmental activities increased by \$280.1 million, primarily because of significant increases in tax revenue due to the gradually improving economy and careful management of expenditures. In addition, operating grants and contributions declined significantly. This is primarily attributable to a decline in Federal funding resulting from the winding down of funding from the American Recovery and Reinvestment Act. Net assets of the business-type activities decreased by \$1.1 million due primarily to the operating losses of the R.I. Convention Center and the Employment Security Fund. The latter fund continues to be adversely impacted by the higher than normal unemployment rate in the State.

### Fund Financial Statements

#### Governmental Funds

- The State's governmental funds reported a combined ending fund balance of \$966.9 million, an increase of \$170.9 million in comparison with the previous fiscal year. This is primarily a result of the increase in the fund balance of the General Fund which is attributable to better than expected revenue and careful management of expenditures. In addition, the fund balance of the Bond Capital Fund increased due to a new bond issue and the fund balance of the R.I. Capital Fund increased as a result of constitutionally mandated transfers to this fund.
- As of June 30, 2012, the State's General Fund reported an ending fund balance of \$373.2 million, an increase of \$102.3 million as compared to the prior year. This change resulted from increases in general revenue, primarily taxes, in fiscal year 2012 and the implementation of a number of measures to further enhance controls over expenditures which resulted in general revenue expenditures being less than appropriations by \$29.0 million.
- As of June 30, 2012, the State's Intermodal Surface Transportation Fund reported an ending fund balance of \$108.7 million, a decrease of \$23.1 million as compared to the prior year. The decrease was primarily due to expenditures of bond proceeds recorded in prior years as well as a slight decline in gasoline tax revenue.

## Proprietary Funds

- The Rhode Island State Lottery transferred \$377.7 million to the General Fund in support of general revenue expenditures during the fiscal year, an increase of \$22.8 million in comparison with the previous fiscal year. This was primarily due to an increase in revenue from video lottery games.
- The Employment Security Fund ended the fiscal year with a fund deficit of (\$151.5) million, as compared with a fund deficit of (\$153.1) million at the end of fiscal year 2011. This change was primarily attributable to the level of unemployment benefits paid as a result of the continuing high unemployment rate in the State.
- The R.I. Convention Center Authority ended the fiscal year with a net asset deficiency of (\$54.2) million, a deficit increase of \$3.3 million compared with the prior year. The Authority has historically had a net asset deficiency as the amount of debt related to capital assets has exceeded the net book value of the capital assets because the repayment term for the debt generally is longer than the depreciable life of the assets.

## Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the State's basic financial statements. The State's basic financial statements include three components:

1. Government-wide financial statements
2. Fund financial statements
3. Notes to the financial statements

This report also contains other supplementary information in addition to the basic financial statements.

### Government-wide Financial Statements

The government-wide financial statements provide a broad view of the State's finances. The statements provide both short-term and long-term information about the State's financial position, which assist in assessing the State's financial condition at the end of the year. These financial statements are prepared using the accrual basis of accounting, which recognizes all revenues and grants when earned, and expenses at the time the related liabilities are incurred.

- The **Statement of Net Assets** presents all of the government's assets and liabilities, with the difference between the two reported as "net assets". Over time, increases and decreases in the government's net assets may serve as a useful indicator of whether the financial position of the State is improving or deteriorating.
- The **Statement of Activities** presents information showing how the government's net assets changed during the fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Therefore, revenues and expenses are reported in this statement for some items that will not result in cash flows until future fiscal periods; for example, uncollected taxes and earned but unused vacation leave. This statement also presents a comparison between direct expenses and program revenues for each function of the government.

Both of the government-wide financial statements have separate sections for three different types of activities:

- **Governmental Activities:** The activities in this section represent most of the State's basic services and are generally supported by taxes, grants and intergovernmental revenues. The governmental activities of the State include general government, human services, education,

public safety, natural resources, and transportation. The net assets and change in net assets of the internal service funds are also included in this column.

- **Business-type Activities:** These activities are normally intended to recover all or a significant portion of their costs through user fees and charges to external users of goods and services. These business-type activities of the State include the operations of the Rhode Island Lottery, Rhode Island Convention Center Authority and the Employment Security Trust Fund.
- **Discretely Presented Component Units:** Component units are entities that are legally separate from the State, but for which the State is financially accountable. These entities are listed in Note 1. The financial information for these entities is presented separately from the financial information presented for the primary government.

## Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The State uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The fund financial statements focus on the individual parts of State government and report the State's operations in more detail than the government-wide financial statements. The State's funds are divided into three categories: governmental, proprietary and fiduciary.

- **Governmental funds:** Most of the State's basic services are financed through governmental funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, the governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on spendable resources available at the end of the fiscal year. Such information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the State's programs.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the State's near-term financial decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and the governmental activities.

Governmental funds include the general fund, special revenue, capital projects and permanent funds. The State has several governmental funds, of which GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments* defines the general fund as a major fund. The criteria for determining if any of the other governmental funds are major funds are detailed in Note 1(C). Each of the major funds is presented in a separate column in the governmental funds balance sheet and statement of revenues, expenditures and changes in fund balances. The remaining governmental funds are combined in a single aggregated column on these financial statements. Individual fund data for each of these nonmajor governmental funds can be found in the supplementary information section of the State's Comprehensive Annual Financial Report (CAFR).

- **Proprietary funds:** Services for which the State charges customers a fee are generally reported in proprietary funds. The State maintains two different types of proprietary funds; enterprise funds and internal service funds. Enterprise funds report activities that provide supplies and services to the general public. Internal service funds report activities that provide supplies and services for the State's other programs and activities. Similar to the government-wide statements, proprietary funds use the accrual basis of accounting. The State has three

enterprise funds, the Lottery Fund, Convention Center Authority (RICCA) and the Employment Security Fund. These funds are each presented in separate columns on the basic proprietary fund financial statements. The State's internal service funds are reported as governmental activities on the government-wide statements, because the services they provide predominantly benefit governmental activities. The State's internal service funds are reported on the basic proprietary fund financial statements in a single combined column. Individual fund data for these funds is provided in the form of combining statements and can be found in the supplementary information section of the State's CAFR.

- **Fiduciary funds:** These funds are used to account for resources held for the benefit of parties outside the State government. Fiduciary funds are not included in the government-wide financial statements because the resources of these funds are not available to support the State's programs. These funds, which include the pension and other post-employment benefits trusts, an external investment trust, a private-purpose trust and agency funds, are reported using accrual accounting. Individual fund data for fiduciary funds can be found in the supplementary information section of the State's CAFR.

### Discretely Presented Component Units

Discretely presented component units are legally separate from the primary government. They are financially accountable to the primary government, or have relationships with the primary government such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. These discretely presented component units serve or benefit those outside of the primary government. The State distinguishes between major and nonmajor component units. The criteria for distinguishing between major and nonmajor component units are detailed in Note 1 (B).

### Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found immediately following the fiduciary funds financial statements.

### Required Supplementary Information

The basic financial statements and accompanying notes are followed by a section of required supplementary information, including information concerning the State's progress in funding its obligation to provide pension and other post-employment benefits to its employees. This section also includes a budgetary comparison schedule for each of the State's major governmental funds that have a legally enacted budget.

### Other Supplementary Information

Other supplementary information, which follows the required supplementary information in the State's CAFR, includes the combining financial statements for nonmajor governmental funds, internal service funds and fiduciary funds.

## Government-Wide Financial Analysis

### Net Assets

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. The State's combined net assets (governmental and business-type activities) totaled \$1,205.9 million at the end of fiscal year 2012, compared to \$926.9 million at the end of the prior fiscal year. Governmental activities reported unrestricted net assets (deficit) of (\$1,366.5) million.

A portion of the State's net assets reflects its investment in capital assets such as land, buildings, equipment and infrastructure (roads, bridges, and other immovable assets), less any related debt outstanding that was needed to acquire or construct the assets. The State uses these capital assets to provide services to its citizens; consequently, these assets are not available for future spending. Although the State's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources.

An additional portion of the State's net assets represent resources that are subject to external restrictions on how they may be used.

State of Rhode Island's Net Assets as of June 30, 2012  
(Expressed in Thousands)

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2012	2011	2012	2011	2012	2011
Current and other assets	\$ 1,831,030	\$ 1,608,885	\$ 126,097	\$ 116,487	\$ 1,957,127	\$ 1,725,372
Capital assets	3,254,026	3,130,020	177,461	187,120	3,431,487	3,317,140
Total assets	5,085,056	4,738,905	303,558	303,607	5,388,614	5,042,512
Long-term liabilities outstanding	2,671,882	2,683,490	464,090	470,452	3,135,972	3,153,942
Other liabilities	994,679	916,985	52,048	44,663	1,046,727	961,648
Total liabilities	3,666,561	3,600,475	516,138	515,115	4,182,699	4,115,590
Net assets:						
Invested in capital assets, net of related debt	2,232,121	2,115,001	(64,492)	(63,156)	2,167,629	2,051,845
Restricted	552,863	462,751	9,308	11,036	562,171	473,787
Unrestricted	(1,366,489)	(1,439,322)	(157,396)	(159,388)	(1,523,885)	(1,598,710)
Total net assets	\$ 1,418,495	\$ 1,138,430	\$ (212,580)	\$ (211,508)	\$ 1,205,915	\$ 926,922

As indicated above, the State reported a balance in unrestricted net assets (deficit) of (\$1,523.9) million as of June 30, 2012 in the Statement of Net Assets. This deficit results in part from the State's use of general obligation bond proceeds (which are reported as debt of the primary government) for other than the primary government's direct capital purposes. In these instances, proceeds are transferred to municipalities, discretely presented component units, and non-profit organizations within the State to fund specific projects. As of June 30, 2012 approximately \$599.0 million of general obligation bonds related to such projects were outstanding.

Examples of these uses of general obligation bond proceeds include, but are not limited to, the following:

- Certain transportation projects funded with bond proceeds that do not meet the State's criteria for capitalization as infrastructure;
- Construction of facilities at the State's university and colleges, which are reflected in the financial statements as discretely presented component units;
- Water resources projects including the acquisition of sites for future water supply resources, various water resources planning initiatives, and funding to upgrade local water treatment facilities;
- Environmental programs to acquire, develop, and rehabilitate local recreational facilities and ensure that open space is preserved;
- Historical preservation initiatives designed to protect and preserve historical buildings as well as to provide funding for cultural facilities.

Other debt that is not for the State's acquisition of capital assets is as follows:

- Tobacco Settlement Asset-Backed Bonds and Accreted Interest - The Tobacco Settlement Financing Corporation (TSFC), a blended component unit, has issued \$882.4 million of Tobacco Asset-Backed Bonds that were used to purchase the State's future rights in the Tobacco Settlement Revenues under the Master Settlement Agreement and the Consent Decree and Final Judgment. The bonds are secured solely by and are payable solely from the tobacco receipts sold to the TSFC and other monies of the TSFC and do not constitute a general, legal, or moral obligation of the State or any political subdivision thereof, and the State has no obligation to satisfy any deficiency or default of any payment of the bonds. As of June 30, 2012 approximately \$779.0 million of principal and \$67.0 million of accreted interest are included in the State's debt.
- Historic Tax Credit Bonds - In fiscal year 2009 the R.I. Economic Development Corporation (RIEDC), on behalf of the State, issued \$150.0 million of revenue bonds under the Historic Structures Tax Credit Financing Program. The bonds do not constitute a debt, liability, or obligation of the State or any political subdivision thereof. The State is obligated under a Payment Agreement to make payments to the trustee. This obligation is subject to annual appropriation by the General Assembly. The proceeds of the bonds are being used to provide funds for redemption of Historic Structures Tax Credits. As of June 30, 2012, approximately \$106.0 million is outstanding.
- The State has entered into certain capital lease agreements, Certificates of Participation (COPS), the proceeds of which are to be used by the State's university and colleges for energy conservation projects or by local school districts to increase electronic communication on a state-wide basis. Obligation of the State to make payments under lease agreements is subject to and dependent upon annual appropriations being made by the General Assembly. As of June 30, 2012, approximately \$32.0 million is outstanding relating to these projects.

In the above instances, the primary government records a liability for the outstanding debt but no related capitalized asset is recorded. A cumulative deficit in unrestricted net assets results from financing these types of projects through the years.

### Changes in Net Assets

The State's net assets increased by \$279.0 million during the current fiscal year. Total revenues of \$7,212.5 million were more than expenses of \$6,933.6 million. Approximately 39.2% of the State's total revenue came from taxes, while 37.2% resulted from grants and contributions (including federal financial aid). Charges for various goods and services provided 21.7% of the total revenues. The State's expenses covered a range of services. The largest expenses were for human services, 42.8%, and education, 19.2%. In fiscal year 2012, governmental activity expenses exceeded program revenues by \$3,011.5 million, with excess expenses being funded through general revenues. Net program revenues from business-type activities in fiscal year 2012 exceeded expenses by \$326.7 million.

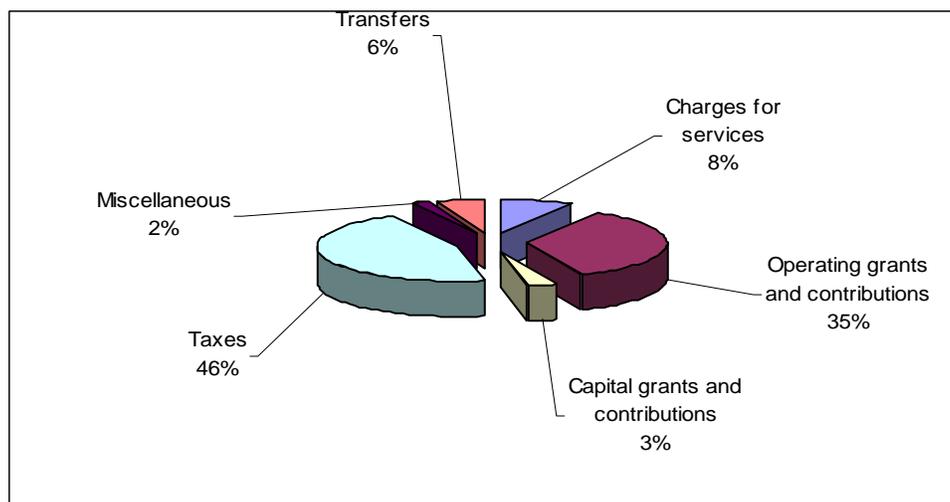
State of Rhode Island's Changes in Net Assets  
For the Fiscal Year Ended June 30, 2012  
(Expressed in Thousands)

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2012	2011	2012	2011 *	2012	2011 *
<b>Revenues:</b>						
<b>Program revenues:</b>						
Charges for services	\$ 508,140	\$ 482,652	\$ 1,056,285	\$ 985,556	\$ 1,564,425	\$ 1,468,208
Operating grants and contributions	2,194,892	2,387,540	278,671	358,932	2,473,563	2,746,472
Capital grants and contributions	210,720	162,032			210,720	162,032
<b>General revenues:</b>						
Taxes	2,824,368	2,665,169			2,824,368	2,665,169
Interest and investment earnings	4,304	5,561	94	79	4,398	5,640
Miscellaneous	118,506	102,478	16,564	25,439	135,070	127,917
<b>Total revenues</b>	<b>5,860,930</b>	<b>5,805,432</b>	<b>1,351,614</b>	<b>1,370,006</b>	<b>7,212,544</b>	<b>7,175,438</b>
<b>Program expenses:</b>						
General government	653,003	644,194			653,003	644,194
Human services	2,970,269	3,013,081			2,970,269	3,013,081
Education	1,334,355	1,332,453			1,334,355	1,332,453
Public safety	468,098	436,940			468,098	436,940
Natural resources	85,039	80,360			85,039	80,360
Transportation	268,523	300,366			268,523	300,366
Interest	145,964	148,850			145,964	148,850
Lottery			399,421	368,870	399,421	368,870
Convention Center			49,439	48,780	49,439	48,780
Employment insurance			559,440	661,078	559,440	661,078
<b>Total expenses</b>	<b>5,925,251</b>	<b>5,956,244</b>	<b>1,008,300</b>	<b>1,078,728</b>	<b>6,933,551</b>	<b>7,034,972</b>
Excess (deficiency) before transfers	(64,321)	(150,812)	343,314	291,278	278,993	140,466
Transfers	344,386	331,186	(344,386)	(331,186)		
Change in net assets	280,065	180,374	(1,072)	(39,908)	278,993	140,466
Net assets - Beginning	1,138,430	972,714	(211,508)	(171,600)	926,922	801,114
Cumulative effect of prior period adjustments		(14,658)				(14,658)
Net assets - Beginning, as restated	1,138,430	958,056	(211,508)	(171,600)	926,922	786,456
Net assets - Ending	\$ 1,418,495	\$ 1,138,430	\$ (212,580)	\$ (211,508)	\$ 1,205,915	\$ 926,922

\* Certain fiscal year 2011 amounts have been reclassified to conform to the current year presentation.

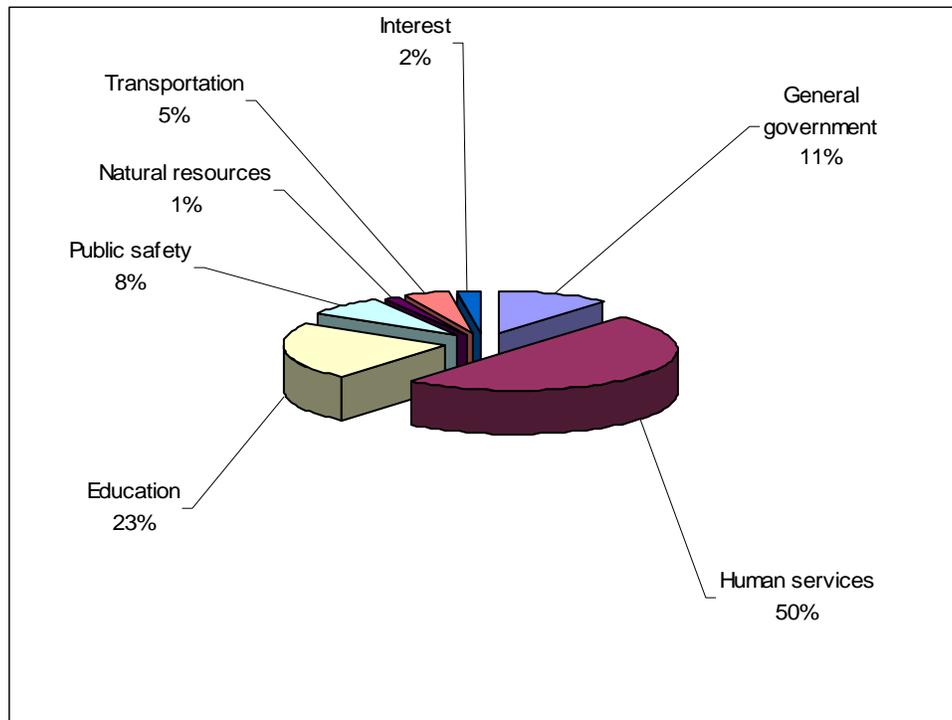
Chart 1 depicts the State's sources of revenues from Governmental Activities for the fiscal year ended June 30, 2012.

Chart 1 - Revenues and Transfers - Governmental Activities



**Chart 2** depicts the purposes that program expenses related to Governmental Activities were expended for during the fiscal year ended June 30, 2012.

**Chart 2 - Program Expenses - Governmental Activities**



## Financial Analysis of the State's Funds

As noted earlier, the State uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

### Governmental Funds

The focus of the State's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the State's financing requirements. At the end of the current fiscal year, the State's governmental funds reported a combined ending fund balance of \$966.9 million, an increase of \$170.9 million from June 30, 2011. A breakdown of the components follows (expressed in thousands):

	2012	2011	Change	Percent
Governmental Funds				
Nonspendable	\$ 174	\$ 53,527	\$ (53,353)	-99.67%
Restricted	828,623	726,136	102,487	14.11%
Unrestricted				
Committed	24,535	7,404	17,131	231.37%
Assigned	97,957	8,709	89,248	1024.78%
Unassigned	15,657	238	15,419	6478.57%
Total	\$ 966,946	\$ 796,014	\$ 170,932	21.47%

In the fund financial statements, governmental funds report fund balance as nonspendable, restricted, committed, assigned or unassigned primarily based on the extent to which the State is bound to honor constraints on how specific amounts can be spent. More information about each category is presented below:

- Nonspendable fund balance – amounts that cannot be spent because they are either (a) not spendable in form or (b) legally or contractually required to be maintained intact.
- Restricted fund balance – amounts with constraints placed on their use that are either (a) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments; or (b) imposed by constitutional provisions, as is the case for the Budget Reserve and Cash Stabilization Account, or by law through enabling legislation enacted by the General Assembly.
- Committed fund balance – amounts that can only be used for specific purposes determined by the enactment of legislation by the General Assembly, and that remain binding unless removed in the same manner. The underlying action that imposed the limitation must occur no later than the close of the fiscal year and must be binding unless repealed by the General Assembly.
- Assigned fund balance – amounts that are constrained by the State's intent to be used for specific purposes. The intent is generally established by legislation enacted by the General Assembly and is implemented at the direction of the Governor. This is also the classification for residual funds in the State's special revenue funds.
- Unassigned fund balance – the residual classification for the State's General Fund that includes amounts not contained in the other classifications. In other funds, the unassigned classification is used only if expenditures incurred for specific purposes exceed the amounts restricted, committed, or assigned to those purposes.

Significant changes in fund balance are discussed below:

- The reduction in the nonspendable fund balance resulted from improved management of the timing of payment of certain prepaid expenses in fiscal year 2012.
- The increase in restricted fund balance is primarily a result of new debt issues in fiscal year 2012 reflected in certain capital projects funds.
- The increase in the assigned portion of the unrestricted fund balance is primarily attributable to the general fund surplus that has been earmarked as a resource in the fiscal year 2013 budget.

The major governmental funds of the primary government are:

*General Fund*

The General Fund is the chief operating fund of the State. The fund balance of the General Fund consisted of the following (expressed in thousands):

	2012	2011	Change	Percent
Nonspendable	\$	\$ 53,353	\$ (53,353)	-100.00%
Restricted	232,348	197,885	34,463	17.42%
Unrestricted				
Committed	22,793	5,956	16,837	282.69%
Assigned	97,639	8,425	89,214	1058.92%
Unassigned	20,374	5,281	15,093	285.80%
Total	<u>\$ 373,154</u>	<u>\$ 270,900</u>	<u>\$ 102,254</u>	37.75%

Revenues and transfers of the General Fund totaled \$5,650.5 million in fiscal year 2012, an increase of \$12.5 million or 0.22%, from the previous year. The revenues from various sources and the change from the previous year are shown in the following tabulation (expressed in thousands):

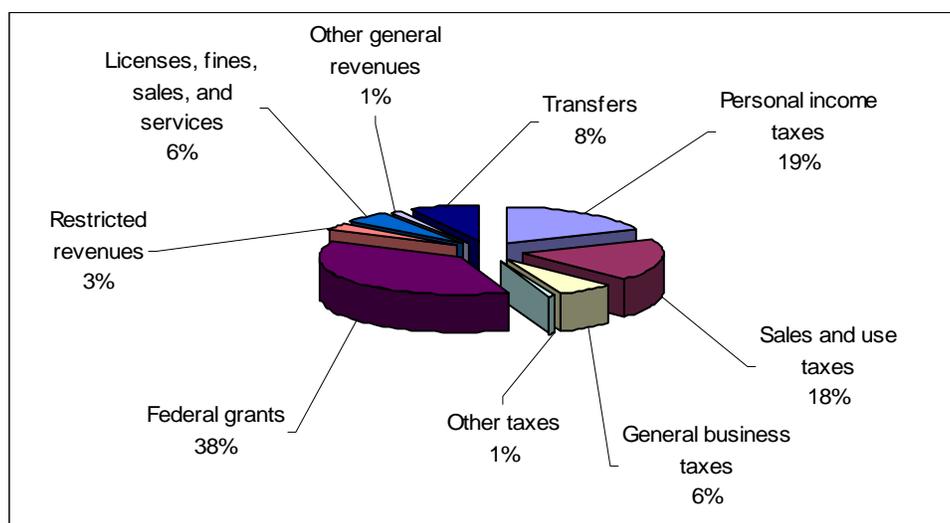
	2012	2011 *	Increase (decrease) from 2011	
			Amount	Percent
<b>Taxes:</b>				
Personal income	\$ 1,059,119	\$ 1,014,617	\$ 44,502	4.39%
Sales and use	1,043,141	1,007,460	35,681	3.54%
General business	355,457	286,564	68,893	24.04%
Other	54,174	54,551	(377)	-0.69%
Subtotal	<u>2,511,891</u>	<u>2,363,192</u>	<u>148,699</u>	<u>6.29%</u>
Federal grants	2,119,476	2,314,100	(194,624)	-8.41%
Restricted revenues	192,642	174,192	18,450	10.59%
Licenses, fines, sales, and services	313,455	309,687	3,768	1.22%
Other general revenues	71,059	52,113	18,946	36.36%
Subtotal	<u>2,696,632</u>	<u>2,850,092</u>	<u>(153,460)</u>	<u>-5.38%</u>
Total revenues	<u>5,208,523</u>	<u>5,213,284</u>	<u>(4,761)</u>	<u>-0.09%</u>
Transfers	<u>441,953</u>	<u>424,654</u>	<u>17,299</u>	<u>4.07%</u>
Total revenue and transfers	<u>\$ 5,650,476</u>	<u>\$ 5,637,938</u>	<u>\$ 12,538</u>	<u>0.22%</u>

\* Certain fiscal year 2011 amounts have been reclassified to conform to the current year presentation.

Personal income taxes increased robustly between fiscal year 2011 and fiscal year 2012 due to a sharp increase in estimated payments of 12.0 percent and increased withholding tax payments of 4.5 percent. These increases were offset by an increase in refunds paid of 2.6 percent and a modest decrease in final payments received of 4.3 percent. The increase in refunds paid and the decrease in final payments received are likely attributable in part to the fact that the 2010 General Assembly enacted an overhaul of the State's personal income tax system effective January 1, 2011. The increase in refunds paid and the decrease in final payments were due in part to the change in the withholding tables issued by the Division of Taxation effective on January 1, 2011 which resulted in lower and moderate income taxpayers having more withheld from their wages and salaries than their final tax liabilities warranted. The increase in withholding tax payments in fiscal year 2012 compared to fiscal year 2011 is due to the State's improving economy which saw a decline in the State's unemployment rate from 11.4 percent to 11.1 percent.

Chart 3 depicts the General Fund's revenues and other sources for the fiscal year ended June 30, 2012.

**Chart 3 – Revenues and Other Sources – General Fund**



Expenditures and other uses totaled \$5,548.2 million in fiscal year 2012, a decrease of \$4.3 million, or -0.08%, from the previous year. Changes in expenditures and other uses by function from the previous year are shown in the following tabulation (expressed in thousands):

	2012	2011	Increase (decrease) from 2011	
			Amount	Percent
General government	\$ 474,135	\$ 458,222	\$ 15,913	3.47%
Human services	2,969,166	3,009,097	(39,931)	-1.33%
Education	1,281,879	1,287,549	(5,670)	-0.44%
Public safety	459,114	428,687	30,427	7.10%
Natural resources	75,141	71,812	3,329	4.64%
Debt Service:				
Principal	111,711	106,961	4,750	4.44%
Interest	73,249	75,634	(2,385)	-3.15%
Total expenditures	5,444,395	5,437,962	6,433	0.12%
Other uses	103,827	114,526	(10,699)	-9.34%
Total expenditures and other uses	\$ 5,548,222	\$ 5,552,488	\$ (4,266)	-0.08%

The increase from the prior year in the General Government function is attributable to three main items. First, there was an increase of approximately \$10.8 million in the transfer from Unclaimed Property to the General Fund. Second, there was a net increase in state aid to municipalities of approximately \$8.8 million, \$5.5 million for the Payment in Lieu of Taxes program and \$2.8 million associated with the bankruptcy in the City of Central Falls. These increases were offset by the transfer of the Sheriffs program from the Department of Administration to the Department of Public Safety accounting for a decrease in the General Government function of approximately \$16.5 million.

The decrease in the Human Services function expenditures is primarily attributable to the loss of federal funds under the American Recovery and Reinvestment Act (ARRA) in the Departments of Children, Youth and Families and Behavioral Healthcare, Developmental Disabilities and Hospitals. The Department of Human Services saw a significant decrease in federal funds under the Medicaid program due to the end

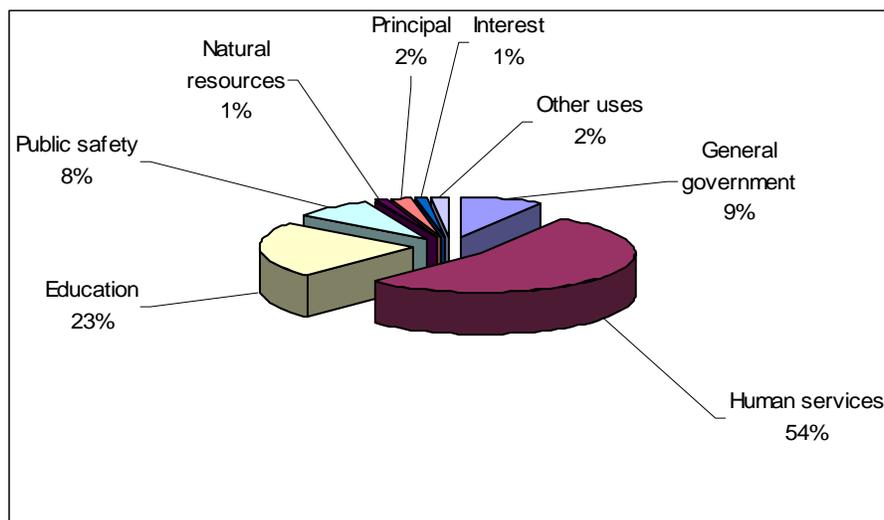
of the enhanced matching rate authorized under the ARRA legislation. However, most of this loss of federal funds was offset by a commensurate increase in general revenue funds to continue funding the Medicaid programs.

The decrease in the Education function expenditures was also attributable to the loss of ARRA funds (\$50.6 million), offset by increases in state aid to education (\$9.3 million), the State share of Teachers' Retirement costs (\$10.1 million), Race to the Top federal funds (\$16.0 million), and additional State support for Higher Education (\$3.3 million).

The increase in the Public Safety function is primarily attributable to the transfer of the Sheriffs (\$16.5 million) from the Department of Administration, as referenced above under the General Government function. Other increases include additional payroll costs at the Department of Corrections due to prior year contract negotiations with the Rhode Island Brotherhood of Correctional Officers and in the Department of Public Safety for State Police Troopers' compensation.

**Chart 4** depicts the General Fund's Expenditures and Other Uses for the fiscal year ended June 30, 2012.

**Chart 4 – Expenditures and Other Uses – General Fund**



*Intermodal Surface Transportation Fund*

The Intermodal Surface Transportation Fund (IST) is a special revenue fund that accounts for the collection of gasoline tax, federal grants, and bond proceeds that are used in maintenance, upgrading, and construction of the State's highway system. It also accounts for the proceeds of the Grant Anticipation Revenue Vehicle (GARVEE) and the RI Motor Fuel Tax (RIMFT) revenue bonds and related expenditures. The components of fund balance of the IST fund are as follows (expressed in thousands):

	2012	2011	Change	Percent
Restricted	\$ 111,537	\$ 135,310	\$ (23,773)	-17.57%
Unrestricted				
Committed	1,742	1,448	294	20.30%
Assigned	117	85	32	37.65%
Unassigned (deficit)	(4,717)	(5,043)	326	6.46%
<b>Total</b>	<b>\$ 108,679</b>	<b>\$ 131,800</b>	<b>\$ (23,121)</b>	<b>-17.54%</b>

## General Fund Budgetary Highlights – General Revenue Sources

Prior to fiscal year 2009, according to the State's Constitution, general revenue appropriations in the general fund could not exceed 98% of available general revenue sources. These sources consist of the current fiscal year's budgeted general revenue plus the general fund undesignated fund balance from the prior fiscal year. Excess revenue was transferred to the State Budget Reserve Account. If the balance in the Reserve exceeded three percent of the total general revenues and opening surplus, the excess was transferred to the R.I. Capital Plan Fund to be used for capital projects. In fiscal year 2009, the spending cap decreased by .2% and Reserve limitation increased by .4%. For fiscal year 2011 and subsequent years the spending cap decreases by .2% and the reserve limitation increases by .4% each year until fiscal year 2013, when the spending cap will be 97% of the total general revenues and opening surplus, and the Reserve will be five percent of the total general revenues and opening surplus. The budgets for the components of the current fiscal year's general revenue estimates are established by the State's revenue estimating conference. If actual general revenue is less than the projection, appropriations have to be reduced or additional revenue sources must be identified. Certain agencies have federal programs that are entitlements, which continue to require State funds to match the federal funds. Agencies may get additional appropriations provided a need is established.

The RI General Laws require that all general revenues received in the fiscal year (net of the transfer to the State budget reserve and cash stabilization account) in excess of the amount in the final enacted budget should be paid to State Employees' Retirement System upon issuance of the audited financial statements. The amount of the revenue excess is \$12.9 million based on the audited fiscal year 2012 financial statements and it is expected to be transferred in fiscal year 2013.

Adjustments to general revenue receipt estimates resulted in an increase of \$81.4 million between the original budget and the final budget. General revenue appropriations decreased from the original budget by \$3.2 million. Some significant changes between the preliminary and final estimated general revenues and the enacted and final general revenue appropriations (expressed in thousands) are listed below.

	Original Budget	Final Budget	Actual	Final Budget vs. Actual Variance
Revenues and sources:				
Taxes:				
Personal income	\$ 1,010,021	\$ 1,046,200	\$ 1,060,482	\$ 14,282
General business	367,052	365,100	360,654	(4,446)
Sales and use	1,044,813	1,040,300	1,043,140	2,840
Other taxes	37,000	52,000	54,172	2,172
Departmental revenue	343,543	344,500	339,895	(4,605)
Other sources:				
Miscellaneous	6,325	16,800	20,110	3,310
Lottery transfer	361,042	378,500	377,706	(794)
Unclaimed property	6,200	14,000	14,556	556
Total revenues and other sources	<u>3,175,996</u>	<u>3,257,400</u>	<u>3,270,715</u>	<u>13,315</u>
Expenditures and other uses:				
General government	411,139	420,266	411,578	8,688
Human services	1,258,451	1,238,360	1,224,516	13,844
Education	1,040,454	1,041,276	1,037,221	4,055
Public safety	394,837	401,559	398,985	2,574
Natural resources	37,620	37,825	37,942	(117)
Total expenditures and other uses	<u>3,142,501</u>	<u>3,139,286</u>	<u>3,110,242</u>	<u>29,044</u>
Excess of revenues and other sources over expenditures and other uses	<u>\$ 33,495</u>	<u>\$ 118,114</u>	<u>\$ 160,473</u>	<u>\$ 42,359</u>

The positive variance from the fiscal year 2012 Original and Final Budgets to the fiscal year 2012 Actual for Personal Income Taxes is due to income tax refunds paid coming in 5.0 percent below the fiscal year 2012 Final Budget estimate and an increase in withholding tax payments received of 2.9 percent above the fiscal year 2012 Original Budget amount. The downward trend in refunds paid was based on actual collections in fiscal year 2011 which were nearly \$50.0 million less than the fiscal year 2011 Original Budget and \$6.7 million less than the fiscal year 2011 Final Budget. The increase in withholding tax payments received was due to the improved State and regional economies between June 2011 and June 2012 and the fact that two winning Powerball jackpot tickets were sold in Rhode Island in the spring of 2012 resulting in nearly \$15.0 million of unexpected withholding tax payments. The increase in Sales and Use Taxes between the fiscal year 2012 Actual and Final Budget is primarily due to the expansion of the sales tax base that took effect on October 1, 2011. Particularly strong sales of software downloaded electronically, which includes applications used on mobile devices, helped drive sales and use tax revenues in the late spring period.

The positive variance in the General Government function of approximately \$8.7 million for expenditures was primarily in two agencies, Administration and the Legislature. Within Administration, the majority of the positive variance was in the Facilities Management program due to lower electricity and natural gas rates and/or usage, as well as lower costs for sewer and water charges. In the Legislature's budget, the positive variance was primarily in the grants category. The entire surplus for the Legislature is re-appropriated to fiscal year 2013.

The positive variance in the Human Services function of approximately \$13.8 million for expenditures was due to a positive variance in the Department of Human Services (DHS) of \$16.7 million, offset by negative variances in the Department of Children, Youth and Families (DCYF) of \$2.4 million and the Department of Behavioral Healthcare, Developmental Disabilities and Hospitals (BHDDH) of \$3.8 million. The DHS positive variance was primarily in the Medicaid program due to final caseloads being lower than estimated by the Caseload Estimating Conference in May 2012. The DCYF negative variance was primarily attributable to lower federal reimbursement for certain services. The BHDDH negative variance was primarily in the Developmental Disabilities program and is mainly attributable to additional overtime resulting from higher than expected staff vacancy rates.

The positive variance in the Education function of approximately \$4.1 million is almost entirely in the Department of Elementary and Secondary Education and is attributable to lower than projected state share for the teachers' retirement contribution.

## Capital Assets and Debt Administration

### Capital Assets

The State's investment in capital assets for its governmental and business-type activities as of June 30, 2012, amounts to \$3,431.5 million, net of accumulated depreciation of \$2,171.6 million. This investment in capital assets includes land, buildings, improvements, equipment, infrastructure, and construction in progress. The total increase in the State's investment in capital assets for the current fiscal year was approximately 3.4% of net book value. This increase is primarily caused by the construction and rehabilitation of highways and other infrastructure as well as a number of significant building projects, as discussed in the second paragraph below.

Actual expenditures to purchase or construct capital assets were \$256.5 million for the year. Of this amount, \$202.6 million was used to construct or reconstruct highways. Depreciation charges for the year totaled \$153.2 million.

State of Rhode Island's Capital Assets as of June 30, 2012  
(Expressed in Thousands)

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2012	2011	2012	2011	2012	2011
Capital assets not being depreciated or amortized						
Land	\$ 358,968	\$ 351,873	\$ 45,558	\$ 45,558	\$ 404,526	\$ 397,431
Works of Art	1,414	1,283			1,414	1,283
Intangibles	159,093	155,206			159,093	155,206
Construction in progress	446,720	427,459	24	154	446,744	427,613
Total capital assets not being depreciated or amortized	966,195	935,821	45,582	45,712	1,011,777	981,533
Capital assets being depreciated or amortized						
Land improvements	3,700	3,700			3,700	3,700
Buildings	684,233	644,386	234,384	234,130	918,617	878,516
Building improvements	268,975	260,066			268,975	260,066
Equipment	244,977	242,348	25,647	24,956	270,624	267,304
Intangibles	14,049	14,049			14,049	14,049
Infrastructure	3,115,389	2,949,715			3,115,389	2,949,715
	4,331,323	4,114,264	260,031	259,086	4,591,354	4,373,350
Less: Accumulated depreciation or amortization	2,043,492	1,920,065	128,152	117,678	2,171,644	2,037,743
Total capital assets being depreciated or amortized	2,287,831	2,194,199	131,879	141,408	2,419,710	2,335,607
Total capital assets (net)	\$ 3,254,026	\$ 3,130,020	\$ 177,461	\$ 187,120	\$ 3,431,487	\$ 3,317,140

In fiscal year 2012, the State completed a number of significant capital projects, including the Wickford Commuter Rail Station and a new pavilion at East Matunuck State Beach. Also, the State is investing in new technology to significantly enhance the operations of the Division of Motor Vehicles. In addition, a number of significant highway and bridge improvement projects were ongoing in fiscal year 2012, including construction of a new Sakonnet River Bridge in Tiverton (opened in early fiscal year 2013) and a new Blackstone River Bridge on Route I-95 in Pawtucket, a portion of which was opened in fiscal year 2012. Finally, the State has made a significant investment in commuter rail service by expanding service from Warwick's T.F. Green Airport to the new Wickford Station in Washington County.

Additional information on the State's capital assets can be found in Note 5 to the financial statements of this report.

## Debt Administration

Under the State's Constitution, the General Assembly has no power to incur State debts in excess of \$50,000 without the consent of the people (voters), except in the case of war, insurrection or invasion, or to pledge the faith of the State to the payment of obligations of others without such consent. At the end of the current fiscal year, the State's governmental activities had total bonded debt outstanding of \$2,409.1 million, of which \$1,110.6 million is general obligation debt, \$519.1 million is special obligation debt and \$779.4 million is debt of the blended component units. Additionally, accreted interest of \$15.2 million has been recognized for debt of one blended component unit, which will not be paid until 2052. On an overall basis the State's total bonded debt decreased by \$2.7 million during fiscal year 2012. This decrease consists of a \$61.2 million increase in general obligation debt, a decrease of \$48.1 million in special obligation debt, and a decrease of \$15.8 million in the blended component units' debt. The general obligation debt is supported by the full faith and credit of the State. Other obligations subject to annual appropriation by the R.I. General Assembly totaled \$418.3 million and are discussed in Note 6.

The State's assigned general obligation bond ratings at June 30, 2012 were as follows: AA by Standard & Poor's Ratings Services (S&P), Aa2 (with a negative outlook) by Moody's Investor Service, Inc. and AA by Fitch Ratings. The State does not have any debt limitation.

Bonds authorized by the voters that remain unissued as of the end of the current fiscal year amounted to \$117.0 million; other obligations that are authorized but unissued totaled \$396.2 million and are described in Note 6. Additional information on the State's long-term debt can be found in the notes to the financial statements of this report.

## Conditions Expected to Affect Future Operations

### **Fiscal Year 2013 Budget**

The first quarter report for fiscal year 2013 prepared by the State Budget Office contains estimates of annual expenditures based upon analysis of expenditures through the first quarter of fiscal year 2013, as well as caseload and medical assistance expenditure estimates and revenue estimates adopted at the November 2012 Caseload and Revenue Estimating Conferences. The fiscal year 2013 balance, based upon these assumptions, is estimated to reflect a \$48.2 million surplus in the General Fund.

The Budget Office continues to review department and agency fiscal year 2013 expenditure plans in conjunction with the fiscal year 2014 budget process. Any changes recommended by the Governor to the fiscal year 2013 enacted appropriations, or adopted revenues, will be incorporated in the supplemental appropriations bill, which under current law must be submitted to the General Assembly in January 2013.

The November Revenue Estimating Conference's estimates reflect recent revenue trends and expected collections based upon the current economic forecast. On the revenue side, general revenue receipts are expected to be \$7.5 million more than enacted for fiscal year 2013. Taxes are expected to exceed enacted estimates by \$5.2 million, while departmental revenues and other sources, including lottery revenues, are also expected to exceed enacted estimates by \$2.3 million. The November Revenue Estimating Conference estimates that revenues will be \$3,328.4 million as compared with the enacted estimate of \$3,320.9 million for fiscal year 2013.

### **Lottery Revenue**

The General Fund derives more than 11% of general revenue from the Rhode Island Lottery.

Competition among gaming venues has increased, resulting in more promotional allowances, player reward incentives being offered and increased marketing efforts. The Lottery's video lottery operations currently compete with casinos in nearby Connecticut. In addition, Massachusetts in November 2011 enacted legislation to allow three casinos and one slot parlor in that state. It is anticipated that there could be an adverse effect on the amount of revenue derived from video lottery facilities in Rhode Island. The Lottery and the State continually monitor the risk to gaming operations resulting from competition in nearby states.

A statewide ballot referendum was approved in November 2012 to allow the expansion of gaming at the Twin River facility located in Lincoln, RI. The expansion allows the facility to offer casino style gaming (i.e., table games) to the public subject to the operational control by the Lottery and/or Department of Business Regulation. It is expected that the expanded gaming will go into operation by July 2013.

### **Pension Benefits**

During fiscal year 2012, the General Treasurer and Governor undertook a comprehensive pension reform initiative with the goal of improving the funded status of the plans within the Employees' Retirement System, reducing required employer contributions, and ensuring the long-term viability of the System. The General Assembly convened a special legislative session to address pension reform measures which were enacted on November 18, 2011.

The pension reform measures make significant changes to member benefit provisions including retirement eligibility age and service credit accrual factors. Additionally, cost of living allowances are generally suspended until the funded status of the plans improves and is now linked to performance of the System's investments. A defined contribution plan has been implemented for most active employees to supplement the reduced benefits provided through the defined benefit plans. The restated unfunded liability of the plans is being reamortized over a 25 year period.

See Note 12 for information about litigation that has been filed relating to these reforms.

### **Other Postemployment Benefits (OPEB)**

Pursuant to legislation enacted by the General Assembly, the State established a trust in fiscal year 2011 to accumulate assets and pay benefits and other costs associated with its OPEB plans. In addition, effective in fiscal year 2011, all participating employers are required by law to fully fund the actuarially determined annual required contribution.

In accordance with GASB Statement No. 45, the State began accounting for retiree health care benefits on an actuarial basis in fiscal year 2008. The most recent actuarial study completed as of June 30, 2011 has determined the State's unfunded actuarial liability for all six plans included in the Rhode Island State Employees' and Electing Teachers OPEB System to be \$916.8 million. Based on a discount rate of 5.0%, the State and other participating employers' annual required contribution was \$56.8 million. For fiscal year 2012, the State funded the retiree health care program in accordance with law by contributing the actuarially determined contribution.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trends. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. Future changes in healthcare costs, as well as investment returns and other assumptions, could significantly affect the level of contributions required of the State.

### **Federal Debt Limit and Potential Federal Spending Cuts**

On August 2, 2011, the President signed a bill into law raising the national debt limit and providing for substantial reductions in federal spending over the next decade, if no agreement on deficit reduction could be reached with Congress by January 1, 2013. According to a report issued by the federal Office of Management and Budget, if this "sequestration" process goes into effect on January 2, 2013, non-exempt non-defense discretionary programs will be reduced by 8.2 percent and non-exempt defense discretionary programs will be reduced by 9.4 percent. The sequestration will also impose reductions of 2.0 percent to Medicare, 7.6 percent to other non-exempt non-defense mandatory programs and 10.0 percent to non-exempt defense mandatory programs. Certain mandatory programs, such as Medicaid, TANF, foster care and adoption assistance, are exempt from the sequester and thus will not have any reductions imposed.

The sequester reduction for federal fiscal year 2013 would be taken against the annual appropriation authorized for the respective grants in place as of January 2, 2013. However, since the sequester will be implemented one-quarter into the federal fiscal year, it will claim a larger percentage share of funds remaining for the balance of the fiscal year, to account for the fact that some funds have already been awarded and spent.

The Rhode Island programs that receive the most federal funds are those that are exempt from the sequester (i.e. Medicaid). However, the state does receive significant federal resources under discretionary grant programs that will be impacted by the planned reductions. Total federal funding included in the fiscal year 2013 enacted budget under the programs expected to be impacted by the sequester is \$374.5 million. If this entire sum were reduced by 8.2 percent, the state would lose a total of \$30.7 million in federal funding as of January 2013. The impact of such reductions on the various state

and federal programs has not been determined, but could be significant. The State has not made any provisions in its fiscal year 2013 enacted budget to offset lost federal funds with State resources. However, the budget and financial health of the State could be adversely affected by any material disruption or change in the flow of anticipated federal assistance.

### **Transportation Funding Initiatives**

The Blue Ribbon Panel for Transportation Funding released its report in December 2008. The Blue Ribbon Panel projected that the State would need to spend approximately \$639 million per year during the next 10 years to maintain the State's highway system in a state of good operation and repair, but that state and federal funding only provides approximately \$338.9 million in fiscal year 2012. The Blue Ribbon panel suggested various funding strategies that could possibly be implemented to meet, in whole or in part, the \$285 million funding gap each year. Such recommended funding strategies included levying a \$3 toll on all cars and \$6 on all trucks entering the State, imposing tolls on all bridges between Aquidneck Island and the mainland, raising passenger-vehicle registration fees, raising the State gasoline tax by as much as 15 cents per gallon, creation of a petroleum product gross receipts tax and a vehicle miles traveled fee. The various revenue strategies outlined would require legislation for implementation. Despite the temporary relief provided through America Recovery and Reinvestment Act (ARRA) funding, transportation infrastructure funding will continue to present challenges and the Blue Ribbon Panel funding strategies may be revisited.

### **Unemployment Insurance Program**

The State has borrowed from the Federal Unemployment Trust Fund to continue to pay benefits to unemployed individuals. Outstanding borrowings through June 30, 2012 totaled \$224.7 million and the State anticipates needing to continue borrowing in fiscal 2013 in order to fund unemployment benefit payments. The General Assembly passed legislation effective in fiscal years 2012 and 2013 increasing the taxable wage base for employers and reducing the maximum weekly benefit amounts to unemployed individuals. The Department of Labor and Training currently estimates that the combination of benefit adjustments and increased federal and state taxes could enable the State to repay its federal loans from the Federal Unemployment Trust Fund as soon as 2015. This estimate is based on the department's projections of employment and unemployment levels assuming a gradual economic recovery and therefore is uncertain and subject to change.

### **Local Government Financial Matters**

A number of local governments in the State continue to experience financial difficulties involving cumulative deficits, budgetary imbalances, unfunded pension and OPEB obligations, and rating agency downgrades. Most notably, the City of Central Falls was under the control of a State appointed receiver at June 30, 2011 and subsequently filed for federal bankruptcy protection in August 2011. The Fourth Amended Plan of Debt Adjustment became effective on October 25, 2012 and allowed the City of Central Falls to emerge from bankruptcy. Under the plan, the City will have court-ordered balanced budgets for Fiscal Years 2013, 2014, 2015, 2016 and 2017 and will impose a 4 percent property tax increase in each of the next five years. Also, as a result of the agreement with the retirees, the City's five-year budget plan contains affordable pay as you go pension and retiree health insurance costs based upon the restructured plans.

The State has certain oversight responsibilities with respect to municipalities which are outlined in the General Laws and carried out by the Department of Revenue – Division of Municipal Finance and the Office of the Auditor General. The General Laws give the State, acting through the Department of Revenue, the power to effect three levels of oversight and control: fiscal overseer, budget commission, and state receiver. A State fiscal overseer was appointed for the City of East Providence in November 2011. Subsequently, a budget commission was appointed in December 2011. In addition, a budget commission was appointed for the City of Woonsocket in May 2012.

Many of the locally-administered pension plans are poorly funded with a collective unfunded liability of more than \$2 billion and funded ratio of approximately 40%. Additionally, locally-administered OPEB

plans have a collective unfunded liability of \$3.5 billion and funded ratio of just 1%. Efforts to improve the funded status of those plans, while recognizing the inherent resource limitations of the sponsoring municipalities, are underway.

The State is continually monitoring the financial status of all municipalities to forestall the need for more intensive intervention.

## Requests for Information

This report is designed to provide a general overview of the State's finances and accountability for all of the State's citizens, taxpayers, customers, investors and creditors. Questions concerning any of the information provided in this report or requests for additional information should be sent to [Peter.Keenan@doa.ri.gov](mailto:Peter.Keenan@doa.ri.gov). The State's Comprehensive Annual Financial Report may be found on the State Controller's home page, <http://controller.admin.ri.gov/index.php>. Requests for additional information related to component units should be addressed to the entities as listed in Note 1 of the financial statements.

State of Rhode Island  
Fiscal Year Ended June 30, 2012

# Basic Financial Statements



**State of Rhode Island and Providence Plantations**  
**Statement of Net Assets**  
**June 30, 2012**  
**(Expressed in Thousands)**

	<b>Primary Government</b>			<b>Component Units</b>
	<b>Governmental Activities</b>	<b>Business - Type Activities</b>	<b>Totals</b>	
<b>Assets</b>				
Current assets:				
Cash and cash equivalents	\$ 733,975	\$ 26,073	\$ 760,048	\$ 319,706
Funds on deposit with fiscal agent	136,722	1,415	138,137	
Investments				27,481
Receivables (net)	569,447	79,216	648,663	164,814
Restricted assets:				
Cash and cash equivalents		9,309	9,309	483,262
Investments	69,668		69,668	188,038
Other assets				100,916
Due from primary government				17,024
Due from component units	1,915		1,915	47,033
Internal balances	(3,389)	3,389		
Due from other governments and agencies	213,402	1,858	215,260	3,732
Inventories	1,712	815	2,527	10,652
Other assets	27,988	378	28,366	40,216
<b>Total current assets</b>	<b>1,751,440</b>	<b>122,453</b>	<b>1,873,893</b>	<b>1,402,874</b>
Noncurrent assets:				
Investments				161,408
Receivables (net)	25,938		25,938	867,190
Due from other governments and agencies	2,680		2,680	
Restricted assets:				
Cash and cash equivalents				107,821
Investments				278,533
Other assets				2,677,857
Due from component units	32,155		32,155	2,636
Capital assets - nondepreciable	966,195	45,582	1,011,777	588,211
Capital assets - depreciable (net)	2,287,831	131,879	2,419,710	1,932,257
Other assets	18,817	3,644	22,461	190,672
<b>Total noncurrent assets</b>	<b>3,333,616</b>	<b>181,105</b>	<b>3,514,721</b>	<b>6,806,585</b>
<b>Total assets</b>	<b>5,085,056</b>	<b>303,558</b>	<b>5,388,614</b>	<b>8,209,459</b>
<b>Liabilities</b>				
Current Liabilities:				
Accounts payable	545,832	18,074	563,906	130,456
Due to primary government				1,915
Due to component units	17,024		17,024	47,033
Due to other governments and agencies		8,208	8,208	
Funds held for others				3,837
Accrued expenses		4,024	4,024	2,709
Deferred revenue	80,998	192	81,190	
Other current liabilities	105,925	2,866	108,791	300,749
Current portion of long-term debt	244,900	10,555	255,455	407,841
Obligation for unpaid prize awards		8,129	8,129	
<b>Total current liabilities</b>	<b>994,679</b>	<b>52,048</b>	<b>1,046,727</b>	<b>894,540</b>
Noncurrent Liabilities:				
Due to primary government				32,155
Due to other governments and agencies		224,646	224,646	267,464
Net OPEB obligation	13,385		13,385	40,114
Deferred revenue		7,020	7,020	18,912
Due to component units				2,636
Notes payable	6,675	231	6,906	10,043
Loans payable				361,916
Obligations under capital leases	214,629		214,629	9,005
Compensated absences	13,281	228	13,509	24,081
Bonds payable	2,380,633	231,965	2,612,598	3,466,141
Other liabilities	43,279		43,279	270,612
<b>Total noncurrent liabilities</b>	<b>2,671,882</b>	<b>464,090</b>	<b>3,135,972</b>	<b>4,503,079</b>
<b>Total liabilities</b>	<b>3,666,561</b>	<b>516,138</b>	<b>4,182,699</b>	<b>5,397,619</b>
<b>Net Assets</b>				
Invested in capital assets, net of related debt	2,232,121	(64,492)	2,167,629	1,382,718
Restricted for:				
Budget reserve	153,408		153,408	
Transportation	1,429		1,429	
Debt	86,491	9,308	95,799	366,145
Assistance to other entities	71,936		71,936	
Temporary disability insurance program	153,696		153,696	
Other	85,729		85,729	577,342
Nonexpendable	174		174	97,374
Unrestricted	(1,366,489)	(157,396)	(1,523,885)	388,261
<b>Total net assets</b>	<b>\$ 1,418,495</b>	<b>\$ (212,580)</b>	<b>\$ 1,205,915</b>	<b>\$ 2,811,840</b>

The notes to the financial statements are an integral part of this statement.

**State of Rhode Island and Providence Plantations**  
**Statement of Activities**  
**For the Fiscal Year Ended June 30, 2012**  
**(Expressed in Thousands)**

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Assets			Component Units
	Expenses	Charges for Services	Operating grants and contributions	Capital grants and contributions	Primary Government			
					Governmental activities	Business-type activities	Totals	
<b>Primary government:</b>								
Governmental activities:								
General government	\$ 653,003	\$ 212,750	\$ 116,732	\$ 472	\$ (323,049)	\$	\$ (323,049)	\$
Human services	2,970,269	204,287	1,691,575	596	(1,073,811)		(1,073,811)	
Education	1,334,355	26,044	238,374	939	(1,068,998)		(1,068,998)	
Public safety	468,098	37,339	43,322	2,239	(385,198)		(385,198)	
Natural resources	85,039	26,060	20,987	5,805	(32,187)		(32,187)	
Transportation	268,523	1,660	83,902	200,669	17,708		17,708	
Interest and other charges	145,964				(145,964)		(145,964)	
Total governmental activities	<u>5,925,251</u>	<u>508,140</u>	<u>2,194,892</u>	<u>210,720</u>	<u>(3,011,499)</u>		<u>(3,011,499)</u>	
Business-type activities:								
State lottery	399,421	776,806				377,385	377,385	
Convention center	49,439	23,035				(26,404)	(26,404)	
Employment security	559,440	256,444	278,671			(24,325)	(24,325)	
Total business-type activities	<u>1,008,300</u>	<u>1,056,285</u>	<u>278,671</u>			<u>326,656</u>	<u>326,656</u>	
Total primary government	<u>\$ 6,933,551</u>	<u>\$ 1,564,425</u>	<u>\$ 2,473,563</u>	<u>\$ 210,720</u>	<u>(3,011,499)</u>	<u>326,656</u>	<u>(2,684,843)</u>	
<b>Component units:</b>	<u>\$ 1,316,096</u>	<u>\$ 1,114,140</u>	<u>\$ 244,821</u>	<u>\$ 76,573</u>				119,438
<b>General Revenues:</b>								
Taxes:								
Personal income					1,060,605		1,060,605	
General business					361,769		361,769	
Sales and use					1,045,135		1,045,135	
Gasoline					136,646		136,646	
Other					220,213		220,213	
Interest and investment earnings					4,304	94	4,398	2,960
Miscellaneous revenue					118,506	16,564	135,070	28,465
Transfers (net)					344,386	(344,386)		
Total general revenues and transfers					<u>3,291,564</u>	<u>(327,728)</u>	<u>2,963,836</u>	<u>31,425</u>
Change in net assets					280,065	(1,072)	278,993	150,863
Net assets - beginning as restated					1,138,430	(211,508)	926,922	2,660,977
Net assets - ending					<u>\$ 1,418,495</u>	<u>\$ (212,580)</u>	<u>\$ 1,205,915</u>	<u>\$ 2,811,840</u>

The notes to the financial statements are an integral part of this statement.

## Major Funds

### Governmental

**General Fund** – is the operating fund of the State and is used to account for all financial transactions except those required to be accounted for in another fund.

**Special Revenue Funds** - account for the proceeds of specific revenue sources that are legally restricted.

**Intermodal Surface Transportation Fund** – accounts for the collection of the gasoline tax, federal grants, and bond proceeds that are used in maintenance, upgrading, and construction of the state's highway system. It also accounts for the proceeds of the Grant Anticipation Revenue Vehicle (GARVEE) and the RI Motor Fuel Tax (RIMFT) revenue bonds, and related expenditures.

### Proprietary

**Enterprise Funds** - account for operations where management has decided that periodic determination of revenues earned, expenses incurred (including depreciation), and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

**State Lottery Fund** - operates lottery games for the purpose of generating resources for the State's General Fund.

**Rhode Island Convention Center Authority** - created in 1987 to facilitate the construction and development of a convention center, parking garages and related facilities within the City of Providence. RICCA is responsible for the management and operations of the R.I. Convention Center, Dunkin' Donuts Center and the Veteran's Memorial Auditorium Arts and Cultural Center located in Providence.

**Employment Security Fund** – accounts for the State's unemployment compensation benefits. Revenues consist of taxes assessed on employers and federal grants to pay benefits to qualified unemployed persons.

**State of Rhode Island and Providence Plantations**  
**Balance Sheet**  
**Governmental Funds**  
**June 30, 2012**  
**(Expressed in Thousands)**

	<b>General</b>	<b>Intermodal Surface Transportation</b>	<b>Other Governmental Funds</b>	<b>Total Governmental Funds</b>
<b>Assets</b>				
Cash and cash equivalents	\$ 318,779	\$ 21,789	\$ 362,730	\$ 703,298
Funds on deposit with fiscal agent		85,886	50,836	136,722
Restricted investments			69,668	69,668
Receivables (net)	535,525	14,084	41,668	591,277
Due from other funds	4,479	956	259	5,694
Due from component units	107			107
Due from other governments and agencies	152,920	59,977		212,897
Loans to other funds	9,469			9,469
Other assets	22,162			22,162
<b>Total assets</b>	<b>\$ 1,043,441</b>	<b>\$ 182,692</b>	<b>\$ 525,161</b>	<b>\$ 1,751,294</b>
<b>Liabilities and Fund Balances</b>				
<b>Liabilities</b>				
Accounts payable	477,451	30,211	22,596	530,258
Due to other funds			7,650	7,650
Due to component units	5,460	9,362	2,201	17,023
Loans from other funds			6,809	6,809
Deferred revenue	106,760	20,337		127,097
Other liabilities	80,616	14,103	792	95,511
<b>Total liabilities</b>	<b>670,287</b>	<b>74,013</b>	<b>40,048</b>	<b>784,348</b>
<b>Fund Balances</b>				
Nonspendable			174	174
Restricted	232,348	111,537	484,738	828,623
Unrestricted				
Committed	22,793	1,742		24,535
Assigned	97,639	117	201	97,957
Unassigned	20,374	(4,717)		15,657
<b>Total fund balances</b>	<b>373,154</b>	<b>108,679</b>	<b>485,113</b>	<b>966,946</b>
<b>Total liabilities and fund balances</b>	<b>\$ 1,043,441</b>	<b>\$ 182,692</b>	<b>\$ 525,161</b>	<b>\$ 1,751,294</b>

The notes to the financial statements are an integral part of this statement.

**State of Rhode Island and Providence Plantations**  
**Reconciliation of the Balance Sheet of the Governmental Funds**  
**to the Statement of Net Assets**  
**June 30, 2012**  
**(Expressed in Thousands)**

Fund balance - total governmental funds \$ 966,946

Amounts reported for governmental activities in the Statement of Net Assets are different because:

Capital Assets used in the governmental activities are not financial resources and therefore are not reported in the funds.

Capital assets	5,291,123	
Accumulated depreciation	(2,039,565)	
		3,251,558

Bonds, notes, certificates of participation, accrued interest and other liabilities are not due and payable in the current period and therefore are not recorded in the governmental funds.

Compensated absences	(77,726)	
Bonds payable	(2,475,972)	
Net premium/discount	(59,870)	
Refunding costs	16,839	
Costs of issuance	11,642	
Obligations under capital leases	(233,800)	
Premium	(4,622)	
Refunding costs	958	
Costs of issuance	2,071	
Interest payable	(24,787)	
Other liabilities	(64,878)	
		(2,910,145)

Other long-term assets and deferred revenue are not available to pay for current-period expenditures and, therefore, are deferred in the funds.

Receivables	3,184	
Due from component units	33,963	
Other assets	5,104	
Deferred revenue	46,101	
		88,352

Internal service funds are used by management to charge the costs of certain activities to individual funds. The net assets of the internal service funds are reported with governmental activities.

21,784

Net assets - total governmental activities		\$ 1,418,495
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The notes to the financial statements are an integral part of this statement.

**State of Rhode Island and Providence Plantations**  
**Statement of Revenues, Expenditures, and Changes in Fund Balances**  
**Governmental Funds**  
**For the Fiscal Year Ended June 30, 2012**  
**(Expressed in Thousands)**

	<b>General</b>	<b>Intermodal Surface Transportation</b>	<b>Other Governmental Funds</b>	<b>Total Governmental Funds</b>
<b>Revenues:</b>				
Taxes	\$ 2,511,891	\$ 136,646	\$ 165,794	\$ 2,814,331
Licenses, fines, sales, and services	313,455		269	313,724
Departmental restricted revenue	192,642	1,637		194,279
Federal grants	2,119,476	291,786		2,411,262
Income from investments	101	527	3,652	4,280
Other revenues	70,958	1,213	49,031	121,202
<b>Total revenues</b>	<b>5,208,523</b>	<b>431,809</b>	<b>218,746</b>	<b>5,859,078</b>
<b>Expenditures:</b>				
Current:				
General government	474,135		161,419	635,554
Human services	2,969,166			2,969,166
Education	1,281,879		184	1,282,063
Public safety	459,114			459,114
Natural resources	75,141		15	75,156
Transportation		397,615	1,897	399,512
Capital outlays			111,044	111,044
Debt service:				
Principal	111,711	35,214	17,320	164,245
Interest and other charges	73,249	22,374	40,183	135,806
<b>Total expenditures</b>	<b>5,444,395</b>	<b>455,203</b>	<b>332,062</b>	<b>6,231,660</b>
Excess (deficiency) of revenues over (under) expenditures	(235,872)	(23,394)	(113,316)	(372,582)
<b>Other financing sources (uses):</b>				
Bonds and notes issued			145,035	145,035
Refunding bonds issued			146,730	146,730
Proceeds from the sale of Certificates of Participation			31,980	31,980
Premium and accrued interest			45,437	45,437
Transfers in	441,953	52,841	86,885	581,679
Payment to refunded bonds escrow agent			(172,094)	(172,094)
Transfers out	(103,827)	(52,568)	(78,858)	(235,253)
<b>Total other financing sources (uses)</b>	<b>338,126</b>	<b>273</b>	<b>205,115</b>	<b>543,514</b>
<b>Net change in fund balances</b>	<b>102,254</b>	<b>(23,121)</b>	<b>91,799</b>	<b>170,932</b>
Fund balances - beginning	270,900	131,800	393,314	796,014
<b>Fund balances - ending</b>	<b>\$ 373,154</b>	<b>\$ 108,679</b>	<b>\$ 485,113</b>	<b>\$ 966,946</b>

The notes to the financial statements are an integral part of this statement.

**State of Rhode Island and Providence Plantations**  
**Reconciliation of the Statement of Revenues, Expenditures, and**  
**Changes in Fund Balances of the Governmental Funds to the Statement of Activities**  
**For the Fiscal Year Ended June 30, 2012**  
**(Expressed in Thousands)**

Net change in fund balances - total governmental funds \$ 170,932

Amounts reported for governmental activities in the Statement of Activities are different because:

Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. Current year acquisitions are therefore deducted from expenses on the Statement of Activities, less current year depreciation expense and revenue resulting from current year disposals.

Capital outlay	264,770	
Depreciation expense	(142,229)	
		122,541

Bond, note, and certificate of participation proceeds provide current financial resources to governmental funds by issuing debt which increases long-term debt in the Statement of Net Assets. Repayments of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets.

Principal paid on debt	164,245	
Debt defeased in refunding	157,350	
Accrued interest and other charges	(15,608)	
Proceeds from sale of debt	(323,745)	
Deferral of premium/discount	(45,420)	
Amortization of premium/discount	8,214	
Deferral of issuance costs	2,584	
Amortization of issuance costs	(1,869)	
Deferral of refunding costs	11,455	
Amortization of refunding costs	(1,602)	
		(44,396)

Revenues (expenses) in the Statement of Activities that do not provide (use) current financial resources are not reported as revenues (expenditures) in the governmental funds.

Compensated absences	9,585	
Program expenses	29,831	
Program revenue	137	
Capital grant revenue	(5,650)	
General revenue - taxes	10,037	
General revenue-miscellaneous	(3,632)	
		40,308

Internal service funds are used by management to charge the costs of certain activities to individual funds.

The change in net assets of the internal service funds is reported with governmental activities. (9,320)

Change in net assets - total governmental activities \$ 280,065

The notes to the financial statements are an integral part of this statement.

**State of Rhode Island and Providence Plantations**  
**Statement of Net Assets**  
**Proprietary Funds**  
**June 30, 2012**  
**(Expressed in Thousands)**

	Business-type Activities-- Enterprise Funds			Totals	Governmental Activities
	R.I. State Lottery	R.I. Convention Center	Employment Security		Internal Service Funds
<b>Assets</b>					
Current assets:					
Cash and cash equivalents	\$ 21,027	\$ 3,468	\$ 1,578	\$ 26,073	\$ 30,677
Restricted cash and cash equivalents		9,309		9,309	
Funds on deposit with fiscal agent			1,415	1,415	
Receivables (net)	7,570	1,101	70,545	79,216	4,107
Due from other funds		314	5,950	6,264	393
Due from other governments and agencies			1,858	1,858	
Inventories	815			815	1,712
Other assets	4	374		378	5,825
Total current assets	<u>29,416</u>	<u>14,566</u>	<u>81,346</u>	<u>125,328</u>	<u>42,714</u>
Noncurrent assets:					
Capital assets - nondepreciable		45,582		45,582	
Capital assets - depreciable (net)	267	131,612		131,879	2,468
Other assets		3,644		3,644	
Total noncurrent assets	<u>267</u>	<u>180,838</u>		<u>181,105</u>	<u>2,468</u>
Total assets	<u>29,683</u>	<u>195,404</u>	<u>81,346</u>	<u>306,433</u>	<u>45,182</u>
<b>Liabilities</b>					
Current Liabilities:					
Accounts payable	14,063	4,011		18,074	15,576
Due to other funds	2,875			2,875	1,826
Due to other governments and agencies			8,208	8,208	
Loans from other funds					2,660
Accrued expenses	4,024			4,024	
Deferred revenue	192			192	
Other current liabilities	625	2,866		3,491	3,336
Notes payable		188		188	
Bonds payable		9,570		9,570	
Compensated absences	172			172	
Obligation for unpaid prize awards	8,129			8,129	
Total current liabilities	<u>30,080</u>	<u>16,635</u>	<u>8,208</u>	<u>54,923</u>	<u>23,398</u>
Noncurrent Liabilities:					
Due to other governments and agencies			224,646	224,646	
Deferred revenue	6,250	770		7,020	
Notes payable		231		231	
Bonds payable		231,965		231,965	
Compensated absences	228			228	
Total noncurrent liabilities	<u>6,478</u>	<u>232,966</u>	<u>224,646</u>	<u>464,090</u>	
Total liabilities	<u>36,558</u>	<u>249,601</u>	<u>232,854</u>	<u>519,013</u>	<u>23,398</u>
<b>Net Assets</b>					
Invested in capital assets, net of related debt	267	(64,759)		(64,492)	2,468
Restricted for:					
Debt		9,308		9,308	
Unrestricted	(7,142)	1,254	(151,508)	(157,396)	19,316
Total net assets	<u>\$ (6,875)</u>	<u>\$ (54,197)</u>	<u>\$ (151,508)</u>	<u>\$ (212,580)</u>	<u>\$ 21,784</u>

The notes to the financial statements are an integral part of this statement.

**State of Rhode Island and Providence Plantations**  
**Statement of Revenues, Expenses and Changes in Fund Net Assets**  
**Proprietary Funds**  
**For the Fiscal Year Ended June 30, 2012**  
**(Expressed in Thousands)**

	<b>Business-type Activities-- Enterprise Funds</b>			<b>Governmental Activities</b>	
	<b>R.I. State Lottery</b>	<b>R.I. Convention Center</b>	<b>Employment Security</b>	<b>Totals</b>	<b>Internal Service Funds</b>
Operating revenues:					
Charges for services	\$	\$ 22,623	\$ 256,444	\$ 279,067	\$ 273,848
Lottery sales	249,483			249,483	
Video lottery, net	527,323			527,323	
Federal grants			278,671	278,671	
Miscellaneous		412		412	
<b>Total operating revenues</b>	<b>776,806</b>	<b>23,035</b>	<b>535,115</b>	<b>1,334,956</b>	<b>273,848</b>
Operating expenses:					
Personal services	5,179	14,025		19,204	12,017
Supplies, materials, and services	241,533	9,773		251,306	268,930
Prize awards, net of prize recoveries	152,488			152,488	
Depreciation and amortization	221	10,469		10,690	220
Benefits paid			540,656	540,656	
<b>Total operating expenses</b>	<b>399,421</b>	<b>34,267</b>	<b>540,656</b>	<b>974,344</b>	<b>281,167</b>
Operating income (loss)	377,385	(11,232)	(5,541)	360,612	(7,319)
Nonoperating revenues (expenses):					
Interest revenue	92	2		94	25
Other nonoperating revenue	854		15,710	16,564	14
Interest expense		(15,172)	(8,238)	(23,410)	
Other nonoperating expenses			(10,546)	(10,546)	
<b>Total nonoperating revenue (expenses)</b>	<b>946</b>	<b>(15,170)</b>	<b>(3,074)</b>	<b>(17,298)</b>	<b>39</b>
Income (loss) before transfers	378,331	(26,402)	(8,615)	343,314	(7,280)
Transfers in		23,140	10,277	33,417	
Transfers out	(377,706)		(97)	(377,803)	(2,040)
Change in net assets	625	(3,262)	1,565	(1,072)	(9,320)
Total net assets - beginning	(7,500)	(50,935)	(153,073)	(211,508)	31,104
Total net assets - ending	<b>\$ (6,875)</b>	<b>\$ (54,197)</b>	<b>\$ (151,508)</b>	<b>\$ (212,580)</b>	<b>\$ 21,784</b>

The notes to the financial statements are an integral part of this statement.

**State of Rhode Island and Providence Plantations**  
**Statement of Cash Flows**  
**Proprietary Funds**  
**For the Fiscal Year Ended June 30, 2012**  
**(Expressed in Thousands)**

	Business-type Activities-- Enterprise Funds			Totals	Governmental Activities
	R.I. State Lottery	R.I. Convention Center	Employment Security		Internal Service Funds
<b>Cash flows from operating activities:</b>					
Cash received from customers	\$ 246,312	\$ 23,382	\$ 253,293	\$ 522,987	\$ 274,771
Cash received from video lottery operations, net	525,124			525,124	
Cash received from MUSL for grand prize winners	249,359			249,359	
Cash received from grants			278,671	278,671	
Cash payments to suppliers for goods and services	(4,592)	(9,484)		(14,076)	(270,927)
Cash payments to employees	(5,214)	(13,825)		(19,039)	(10,639)
Cash payments to prize winners	(398,677)			(398,677)	
Cash payments for commissions	(231,682)			(231,682)	
Cash payments for benefits			(540,656)	(540,656)	
Other operating revenue (expense)					14
Net cash provided by (used for) operating activities	<u>380,630</u>	<u>73</u>	<u>(8,692)</u>	<u>372,011</u>	<u>(6,781)</u>
<b>Cash flows from noncapital financing activities:</b>					
Loan from federal government			221,069	221,069	
Payment of interest on loan from federal government			(7,140)	(7,140)	
Loans from other funds					2,474
Loans to other funds					(394)
Repayment of loans to other funds					1,786
Repayment of loans from other funds					(2,986)
Transfers in		23,050	9,048	32,098	
Transfers out	(377,905)		(1,846)	(379,751)	(2,040)
Net transfers from (to) fiscal agent			(214,162)	(214,162)	
Net cash provided by (used for) noncapital financing activities	<u>(377,905)</u>	<u>23,050</u>	<u>6,969</u>	<u>(347,886)</u>	<u>(1,160)</u>
<b>Cash flows from capital and related financing activities:</b>					
Principal paid on capital obligations		(9,298)		(9,298)	
Interest paid on capital obligations		(14,101)		(14,101)	
Acquisition of capital assets	(18)	(1,015)		(1,033)	(123)
Net cash provided by (used for) capital and related financing activities	<u>(18)</u>	<u>(24,414)</u>		<u>(24,432)</u>	<u>(123)</u>
<b>Cash flows from investing activities:</b>					
Interest on investments	91	2		93	25
Net cash provided by investing activities	<u>91</u>	<u>2</u>		<u>93</u>	<u>25</u>
Net increase (decrease) in cash and cash equivalents	2,798	(1,289)	(1,723)	(214)	(8,039)
Cash and cash equivalents, July 1	18,229	14,066	3,301	35,596	38,716
Cash and cash equivalents, June 30	<u>\$ 21,027</u>	<u>\$ 12,777</u>	<u>\$ 1,578</u>	<u>\$ 35,382</u>	<u>\$ 30,677</u>
<b>Reconciliation of operating income (loss) to net cash provided by (used for) operating activities:</b>					
Operating income (loss)	377,385	(11,232)	(5,541)	360,612	(7,319)
<b>Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:</b>					
Depreciation and amortization	221	10,469		10,690	220
Other revenue (expense) and operating transfer in (out)	229			229	14
Net changes in assets and liabilities:					
Receivables, net	(3,444)	(496)	(3,151)	(7,091)	(249)
Inventory	177			177	7
Prepaid items		134		134	22
Other assets	47			47	
Due to / due from transactions	6			6	
Accounts and other payables	2,112	356		2,468	(856)
Accrued expenses	760			760	1,380
Deferred revenue	(34)	842		808	
Prize awards payable	3,171			3,171	
Total adjustments	<u>3,245</u>	<u>11,305</u>	<u>(3,151)</u>	<u>11,399</u>	<u>538</u>
Net cash provided by (used for) operating activities	<u>\$ 380,630</u>	<u>\$ 73</u>	<u>\$ (8,692)</u>	<u>\$ 372,011</u>	<u>\$ (6,781)</u>

The notes to the financial statements are an integral part of this statement.

## Fiduciary Funds

**Fiduciary Funds** – used to report assets held in a trustee or agency capacity for others and therefore cannot be used to support the State’s own programs.

**Pension and Other Postemployment Benefits Trusts** – used to report resources that are required to be held in trust for the members and beneficiaries of the State sponsored defined benefit pension plans and other postemployment benefit plans.

**External Investment Pool – Ocean State Investment Pool (OSIP)** – Accounts for the share of the Ocean State Investment Pool that is external to the reporting entity.

**Private-Purpose Trust** – used to report all other trust arrangements under which principal and income benefit individuals, private organizations, or other governments.

**Touro Jewish Synagogue** – accounts for the earnings on monies bequeathed to the State for the purpose of maintaining the Touro Jewish Synagogue.

**Agency Funds** – used to report resources held by the State in a purely custodial capacity (assets equal liabilities).

**State of Rhode Island and Providence Plantations**  
**Statement of Fiduciary Net Assets**  
**Fiduciary Funds**  
**June 30, 2012**  
**(Expressed in Thousands)**

	<b>Pension and Other Postemployment Benefits Trusts</b>	<b>External Investment Trust Ocean State Investment Pool</b>	<b>Private Purpose Touro Jewish Synagogue</b>	<b>Agency</b>
<b>Assets</b>				
Cash and cash equivalents	\$ 7,944	\$	\$	\$ 17,268
Deposits held as security for entities doing business in the State				86,273
Advance held by claims processing agent	1,171			
Receivables				
Contributions	41,433			
Due from state for teachers	16,350			
Miscellaneous	2,903			1,631
Total receivables	60,686			1,631
Investments, at fair value				
Equity in Pooled Trusts	7,266,169	2,280		
Other investments			2,102	
Total investments	7,266,169	2,280	2,102	
Property and equipment, at cost, net of accumulated depreciation	472			
Total assets	7,336,442	2,280	2,102	\$ 105,172
<b>Liabilities</b>				
Accounts payable	6,181			2,520
Incurred but not reported claims	2,859			
Deferred revenue	6,065			
Deposits held for others				102,652
Total liabilities	15,105			\$ 105,172
<b>Net assets</b>				
Held in trust for:				
Pension benefits	7,284,475			
Other postemployment benefits	36,862			
Other		2,280	2,102	
Total net assets	\$ 7,321,337	\$ 2,280	\$ 2,102	

The notes to the financial statements are an integral part of this statement.

**State of Rhode Island and Providence Plantations**  
**Statement of Changes in Fiduciary Net Assets**  
**Fiduciary Funds**  
**For the Fiscal Year Ended June 30, 2012**  
**(Expressed in Thousands)**

	<b>Pension and Other Postemployment Benefits Trusts</b>	<b>External Investment Trust Ocean State Investment Pool</b>	<b>Private Purpose Touro Jewish Synagogue</b>
<b>Additions</b>			
Contributions			
Member contributions	\$ 195,045	\$	\$
Employer contributions	382,479		
State contributions for teachers	80,386		
Interest on service credits purchased	974		
From participants		2,280	
Total contributions	<u>658,884</u>	<u>2,280</u>	
Other income	<u>1,958</u>		
Investment income			
Net appreciation in fair value of investments	24,381		42
Interest	79,661		
Dividends	1,290		41
Other investment income	25,221		
	<u>130,553</u>		<u>83</u>
Less investment expense	<u>12,712</u>		
Net income from investing activities	<u>117,841</u>		<u>83</u>
Total additions	<u>778,683</u>	<u>2,280</u>	<u>83</u>
<b>Deductions</b>			
Benefits			
Retirement benefits	655,847		
Cost of living adjustment	197,183		
SRA Plus Option	23,634		
Supplemental benefits	1,061		
Death benefits	3,411		
OPEB benefits	58,266		
Total benefits	<u>939,402</u>		
Refund of contributions	12,937		
Administrative expense	8,847		
Distribution			95
Total deductions	<u>961,186</u>		<u>95</u>
Change in net assets held in trust for:			
Pension benefits	(204,428)		
Other postemployment benefits	21,925		
Other		2,280	(12)
Net assets - beginning	7,503,840		2,114
Net assets - ending	<u>\$ 7,321,337</u>	<u>\$ 2,280</u>	<u>\$ 2,102</u>

The notes to the financial statements are an integral part of this statement.

**State of Rhode Island and Providence Plantations**  
**Combining Statement of Net Assets**  
**Component Units**  
**June 30, 2012**  
**(Expressed in Thousands)**

	<u>RIHMFC</u>	<u>RIEDC</u>	<u>RIRRC</u>	<u>RIPTA</u>
<b>Assets</b>				
Current Assets:				
Cash and cash equivalents	\$ 1,467	\$ 54,532	\$ 25,630	\$ 3,390
Investments				1,985
Receivables (net)	1,704	6,970	6,462	3,144
Restricted assets:				
Cash and cash equivalents	215,050	34,651		1,354
Investments	19,363	12,413		
Other assets	38,090	3,783		
Due from primary government		6,564		6,685
Due from other governments		2,926		
Due from other component units		131		
Inventories			3,509	2,984
Other assets	2,521	1,971	1,271	190
Total current assets	<u>278,195</u>	<u>123,941</u>	<u>36,872</u>	<u>19,732</u>
Noncurrent Assets:				
Investments				277
Receivables (net)	10,583	6,931		
Restricted assets:				
Cash and cash equivalents		44,045	822	
Investments	251,402	9,822	1,646	2,650
Other assets	1,557,105	29,268	83,608	
Capital assets - nondepreciable		124,557	11,490	8,422
Capital assets - depreciable (net)		557,375	32,853	139,244
Due from other component units		697		
Other assets, net of amortization	146,641	4,830	11,580	
Total noncurrent assets	<u>1,965,731</u>	<u>777,525</u>	<u>141,999</u>	<u>150,593</u>
Total assets	<u>2,243,926</u>	<u>901,466</u>	<u>178,871</u>	<u>170,325</u>
<b>Liabilities</b>				
Current liabilities:				
Accounts payable	203	18,345	11,763	6,456
Due to primary government				965
Due to other component units				
Accrued liabilities				
Funds held for others				
Other liabilities	164,746			5,861
Current portion of long-term debt	202,573	37,045	7,284	268
Total current liabilities	<u>367,522</u>	<u>55,390</u>	<u>19,047</u>	<u>13,550</u>
Noncurrent liabilities:				
Due to primary government		5,225		11,408
Due to other governments				
Due to other component units				
Deferred revenue	6,924	1,205		
Notes payable	6,791	1,820		
Loans payable		40,059		
Obligations under capital leases				
Net OPEB obligation	3,091	1,648	421	29,958
Other liabilities	168,462	3,096	70,036	8,073
Compensated absences	1,282			
Bonds payable	1,392,937	320,924	10,987	
Total noncurrent liabilities	<u>1,579,487</u>	<u>373,977</u>	<u>81,444</u>	<u>49,439</u>
Total liabilities	<u>1,947,009</u>	<u>429,367</u>	<u>100,491</u>	<u>62,989</u>
<b>Net assets</b>				
Invested in capital assets, net of related debt	8,624	354,989	39,890	135,293
Restricted for:				
Debt	233,738			
Other	2,141	54,216	12,424	
Other nonexpendable				
Unrestricted	52,414	62,894	26,066	(27,957)
Total net assets	<u>\$ 296,917</u>	<u>\$ 472,099</u>	<u>\$ 78,380</u>	<u>\$ 107,336</u>

(Continued)

**State of Rhode Island and Providence Plantations**  
**Combining Statement of Net Assets**  
**Component Units**  
**June 30, 2012**  
**(Expressed in Thousands)**

	URI	RIC	CCRI	Other Component Units	Totals
<b>Assets</b>					
Current Assets:					
Cash and cash equivalents	\$ 114,819	\$ 23,193	\$ 25,327	\$ 71,348	\$ 319,706
Investments				25,496	27,481
Receivables (net)	30,940	5,091	3,679	106,824	164,814
Restricted assets:					
Cash and cash equivalents				232,207	483,262
Investments				156,262	188,038
Other assets				59,043	100,916
Due from primary government		1,281		2,494	17,024
Due from other governments				806	3,732
Due from other component units				46,902	47,033
Inventories	2,817	574	670	98	10,652
Other assets	692		148	33,423	40,216
Total current assets	<u>149,268</u>	<u>30,139</u>	<u>29,824</u>	<u>734,903</u>	<u>1,402,874</u>
Noncurrent Assets:					
Investments	118,981	20,833	2,322	18,995	161,408
Receivables (net)	16,346	5,051	110	828,169	867,190
Restricted assets:					
Cash and cash equivalents	222	441	3,863	58,428	107,821
Investments				13,013	278,533
Other assets	40,215	2,310	784	964,567	2,677,857
Capital assets - nondepreciable	115,094	5,823	25,631	297,194	588,211
Capital assets - depreciable (net)	449,237	110,575	38,507	604,466	1,932,257
Due from other component units				1,939	2,636
Other assets, net of amortization	10,142	16		17,463	190,672
Total noncurrent assets	<u>750,237</u>	<u>145,049</u>	<u>71,217</u>	<u>2,804,234</u>	<u>6,806,585</u>
Total assets	<u>899,505</u>	<u>175,188</u>	<u>101,041</u>	<u>3,539,137</u>	<u>8,209,459</u>
<b>Liabilities</b>					
Current liabilities:					
Accounts payable	39,682	9,988	7,186	36,833	130,456
Due to primary government		843		107	1,915
Due to other component units				47,033	47,033
Accrued liabilities		620		2,089	2,709
Funds held for others	1,204	1,258	1,375		3,837
Other liabilities				130,142	300,749
Current portion of long-term debt	25,813	7,098	7,346	120,414	407,841
Total current liabilities	<u>66,699</u>	<u>19,807</u>	<u>15,907</u>	<u>336,618</u>	<u>894,540</u>
Noncurrent liabilities:					
Due to primary government		15,522			32,155
Due to other governments				267,464	267,464
Due to other component units				2,636	2,636
Deferred revenue				10,783	18,912
Notes payable		1,432			10,043
Loans payable	1,070			320,787	361,916
Obligations under capital leases	7,520		1,334	151	9,005
Net OPEB obligation				4,996	40,114
Other liabilities	12,719	3,834	23	4,369	270,612
Compensated absences	18,370	1,977	987	1,465	24,081
Bonds payable	238,143	18,954	7,359	1,476,837	3,466,141
Total noncurrent liabilities	<u>277,822</u>	<u>41,719</u>	<u>9,703</u>	<u>2,089,488</u>	<u>4,503,079</u>
Total liabilities	<u>344,521</u>	<u>61,526</u>	<u>25,610</u>	<u>2,426,106</u>	<u>5,397,619</u>
<b>Net assets</b>					
Invested in capital assets, net of related debt	349,092	78,906	51,911	364,013	1,382,718
Restricted for:					
Debt				132,407	366,145
Other	41,270	3,799	3,195	460,297	577,342
Other nonexpendable	81,650	15,724			97,374
Unrestricted	82,972	15,233	20,325	156,314	388,261
Total net assets	<u>\$ 554,984</u>	<u>\$ 113,662</u>	<u>\$ 75,431</u>	<u>\$ 1,113,031</u>	<u>\$ 2,811,840</u>

(Concluded)

**State of Rhode Island and Providence Plantations**  
**Combining Statement of Activities**  
**Component Units**  
**For the Fiscal Year Ended June 30, 2012**  
**(Expressed in Thousands)**

	<b>RIHMFC</b>	<b>RIEDC</b>	<b>RIRRC</b>	<b>RIPTA</b>	<b>URI</b>	<b>RIC</b>	<b>CCRI</b>	<b>Other Component Units</b>	<b>Totals</b>
<b>Expenses</b>	\$ 99,213	\$ 92,116	\$ 42,060	\$ 119,412	\$ 472,249	\$ 138,094	\$ 117,289	\$ 235,663	\$ 1,316,096
<b>Program revenues:</b>									
Charges for services	105,787	69,879	45,928	54,033	406,342	103,751	79,676	248,744	1,114,140
Operating grants and contributions		16,192		40,945	58,485	38,240	44,483	46,476	244,821
Capital grants and contributions		26,704		4,904	34,854	6,300	2,167	1,644	76,573
Total program revenues	105,787	112,775	45,928	99,882	499,681	148,291	126,326	296,864	1,435,534
Net (Expenses) Revenues	6,574	20,659	3,868	(19,530)	27,432	10,197	9,037	61,201	119,438
<b>General revenues:</b>									
Interest and investment earnings		2,970	870	33	(2,583)	125	85	1,460	2,960
Miscellaneous revenue			5,601	3,317	12,339	1,203	385	5,620	28,465
Total general revenue		2,970	6,471	3,350	9,756	1,328	470	7,080	31,425
Change in net assets	6,574	23,629	10,339	(16,180)	37,188	11,525	9,507	68,281	150,863
Total net assets - beginning as restated	290,343	448,470	68,041	123,516	517,796	102,137	65,924	1,044,750	2,660,977
Total net assets - ending	\$ 296,917	\$ 472,099	\$ 78,380	\$ 107,336	\$ 554,984	\$ 113,662	\$ 75,431	\$ 1,113,031	\$ 2,811,840

The notes to the financial statements are an integral part of this statement.

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## Note 1. Summary of Significant Accounting Policies

### A. Basis of Presentation

The accompanying basic financial statements of the State of Rhode Island and Providence Plantations (the State) and its component units have been prepared in conformance with generally accepted accounting principles (GAAP) for governments as prescribed by the Governmental Accounting Standards Board (GASB). GASB is the accepted standard setting body for establishing governmental accounting and financial reporting principles.

### B. Reporting Entity

The accompanying financial statements include all funds of the State and its component units. GASB Statement No. 14, *The Financial Reporting Entity*, as amended by GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units*, defines component units as a) legally separate entities for which a primary government (such as the State) is financially accountable, or b) legally separate entities for which a primary government is not financially accountable but whose exclusion from the State's financial statements would cause said statements to be misleading. GASB has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an entity's governing body and either a) the ability of the State to impose its will on that entity or b) the potential for the entity to provide specific financial benefits to, or to impose specific financial burdens on, the State. The State has considered all agencies, boards, commissions, public benefit authorities and corporations, the State university and colleges and the Central Falls School District to be potential component units. Audited financial statements of the individual component units can be obtained from their respective administrative offices. Those entities that were deemed to be component units were included as such because of the fact that the State appoints a voting majority of the entity's governing body or because of the entity's potential to provide specific financial benefits to, or to impose specific financial burdens on, the State.

#### Blended Component Units

These component units are entities which are legally separate from the State but are so intertwined with the State that they are, in substance, the same as the State. They provide services entirely, or almost entirely, to the primary government or otherwise exclusively, or almost exclusively, benefit the primary government. These component units are reported as part of the primary government in both the fund and government-wide financial statements.

##### *Rhode Island Convention Center Authority (RICCA)*

The RICCA was established by State law as a single purpose building authority to finance the development of convention and other event facilities in Providence, RI. RICCA is responsible for the management and operations of the R.I. Convention Center, Dunkin' Donuts Center and the Veteran's Memorial Auditorium Arts and Cultural Center located in Providence. For more detailed information, a copy of the financial statements can be obtained by writing to the R.I. Convention Center Authority, One LaSalle Square, Providence, RI 02903.

##### *Tobacco Settlement Financing Corporation (TSFC)*

This corporation was organized in June 2002 as a public corporation by the State. TSFC is legally separate but provides services exclusively to the State and therefore is reported as part of the primary government as a blended component unit. The purpose of the corporation is to purchase tobacco settlement revenues from the State. TSFC is authorized to issue bonds necessary to provide sufficient funds for carrying out its purpose. For more detailed information, a copy of the financial statements can be obtained by writing to the Tobacco Settlement Financing Corporation, One Capitol Hill, Providence, RI 02908.

##### *Rhode Island Public Rail Corporation (RIPRC)*

This corporation was created and established for the purpose of enhancing and preserving the viability of commuter rail operations in the State. Currently its primary purpose, as outlined in the State's General Laws, is to provide indemnity for rail service operating within the State. The State is fully responsible for reimbursing the RIPRC for all costs associated with the purchase of such coverage. Separately issued financial statements are not available for the RIPRC.

## Discretely Presented Component Units

Discretely presented component units are reported in a separate column in the government-wide financial statements to emphasize that they are legally separate from the primary government. They are financially accountable to the primary government, or have relationships with the primary government such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. For each discretely presented component unit the potential exists for a financial burden or benefit to be imposed on the State as a result of the existence of the component unit. For the discretely presented component units (DPCU's) included in the State's CAFR, the State, generally acting through the Governor, appoints a voting majority of the component units' governing boards. These discretely presented component units primarily serve or benefit those outside of the primary government.

The State distinguishes between major and nonmajor component units based upon several quantitative and qualitative factors including the total assets, net assets and revenues of each component unit as well as the significance of transactions between the component unit and the primary government. Discretely presented component units, grouped by major and nonmajor categories, are as follows:

### **Major Component Units**

#### *University and Colleges*

The Board of Governors for Higher Education has oversight responsibility for the University of Rhode Island, Rhode Island College and the Community College of Rhode Island. The university and colleges are funded through State appropriations, tuition, federal grants, private donations and grants. For more detailed information, a copy of the financial statements can be obtained by writing to Office of the Controller, University of Rhode Island, 75 Lower College Road, Kingston, RI 02881; Office of the Controller, Rhode Island College, 600 Mount Pleasant Avenue, Providence, RI 02908; and Office of the Controller, Community College of Rhode Island, 400 East Avenue, Warwick, RI 02886-1805. The financial statements can also be viewed at [www.ribghe.org](http://www.ribghe.org).

#### *Rhode Island Housing and Mortgage Finance Corporation (RIHMFC)*

This corporation, established in 1973, was created in order to expand the supply of housing available to persons of low and moderate income and to stimulate the construction and rehabilitation of housing and health care facilities in the State. It has the power to issue notes and bonds to achieve its corporate purpose. For more detailed information, a copy of the financial statements can be obtained by writing to the Chief Financial Officer, R.I. Housing and Mortgage Finance Corporation, 44 Washington Street, Providence, RI 02903-1721, or at [www.rhodeislandhousing.org](http://www.rhodeislandhousing.org).

#### *Rhode Island Public Transit Authority (RIPTA)*

This authority was established in 1964 to acquire any mass motor bus transportation system that has filed a petition to discontinue its service, provided that the Authority has determined it to be in the public interest to continue such service. Revenues of RIPTA include passenger revenue and operating assistance grants from the State and federal governments. For more detailed information, a copy of the financial statements can be obtained by writing to the Finance Department, R.I. Public Transit Authority, 265 Melrose Street, Providence, RI 02907, or at [www.ripta.com](http://www.ripta.com).

#### *Rhode Island Economic Development Corporation (RIEDC)*

This corporation was created in 1995, and its purpose is to promote and encourage the preservation, expansion, and sound development of new and existing industry, business, commerce, agriculture, tourism, and recreational facilities in the State, so as to promote economic development. It has the power to issue tax-exempt bonds to accomplish its corporate purpose. The RIEDC has four subsidiary corporations. The R.I. Airport Corporation manages the State's six airports. The Quonset Development Corporation oversees the Quonset Point/Davisville Industrial Park. In addition, the RIEDC operates the Small Business Loan Fund Corporation which was created for the purpose of granting secured and unsecured loans to Rhode Island's small business and the I-195 Commission which was created for the purpose of redeveloping the land reclaimed from the I-195 relocation project and the Washington Bridge project. For more detailed

information, a copy of the financial statements can be obtained by writing to the Director of Finance and Administration, R.I. Economic Development Corporation, 315 Iron Horse Way, Suite 101, Providence, RI 02903, or at [www.riedc.com](http://www.riedc.com).

*Rhode Island Resource Recovery Corporation (RIRRC)*

This corporation was established in 1974 in order to provide and/or coordinate solid waste management services to municipalities and persons within the State. RIRRC has the power to issue negotiable bonds and notes to achieve its corporate purpose. For more detailed information, a copy of the financial statements can be obtained by writing to the R.I. Resource Recovery Corporation, 65 Shun Pike, Johnston, RI 02919, or at [www.rirrc.org](http://www.rirrc.org).

**Nonmajor Component Units**

*Rhode Island Student Loan Authority (RISLA)*

This authority, established in 1981, was created in order to provide a statewide student loan program through the acquisition of student loans. It has the power to issue bonds and notes, payable solely from its revenues. For more detailed information, a copy of the financial statements can be obtained by writing to the R.I. Student Loan Authority, 560 Jefferson Boulevard, Warwick, RI 02886, or at [www.risla.com](http://www.risla.com).

*Rhode Island Turnpike and Bridge Authority (RITBA)*

This authority was created by the General Assembly as a body corporate and politic, with powers to construct, acquire, maintain and operate bridge projects as defined by law. For more detailed information, a copy of the financial statements can be obtained by writing to the Executive Director, R.I. Turnpike and Bridge Authority, P.O. Box 437, Jamestown, RI 02835-0437, or at [www.ritba.org](http://www.ritba.org).

*Narragansett Bay Commission (NBC)*

This commission was created for the purposes of acquiring, planning, constructing, extending, improving, operating and maintaining publicly owned wastewater treatment facilities. For more detailed information, a copy of the financial statements can be obtained by writing to the Narragansett Bay Commission, 1 Service Road, Providence, RI 02905, or at [www.narrabay.com](http://www.narrabay.com).

*Central Falls School District*

The Central Falls School District ("District") is governed by a seven member board of trustees that is appointed by the State's Board of Regents for Elementary and Secondary Education ("Board"). In addition, the Commissioner of Education and the Board have authority over the development and approval of the District's operating budget and for other significant operating decisions and contracts. The District, which provides elementary and secondary education to residents of the City of Central Falls, is funded primarily through State appropriations and federal grant funds. For more detailed information, a copy of the financial statements can be obtained by writing to the Central Falls School District, 949 Dexter Street – Lower level, Central Falls, RI 02863-1715.

*Rhode Island Health and Educational Building Corporation (RIHEBC)*

This corporation has the following purposes: (1) to assist in providing financing for education facilities in the State; (2) to assist hospitals in the State in the financing of health care facilities; (3) to assist stand-alone, non-profit assisted-living and adult daycare facilities; (4) to assist in financing a broad range of non-profit health care providers; and (5) to assist in financing non-profit secondary schools and child care centers. RIHEBC issues bonds, notes and leases which are special obligations of RIHEBC that are payable from revenues derived from the projects financed or other monies of the participating education institution or health care institution. The bonds, notes and leases do not constitute a debt or pledge of the faith and credit of RIHEBC or the State and, accordingly, have not been reported in the accompanying financial statements. For more detailed information, a copy of the financial statements can be obtained by writing to the R.I. Health and Educational Building Corporation, 170 Westminster Street, Suite 1200, Providence, RI 02903.

*Rhode Island Higher Education Assistance Authority (RIHEAA)*

This authority was created by law in 1977 for the dual purpose of guaranteeing loans to students in eligible institutions and administering other programs of post secondary student assistance. For more detailed information, a copy of the financial statements can be obtained by writing to the Chief Financial Officer, R.I. Higher Education Assistance Authority, 560 Jefferson Boulevard, Warwick, RI 02886, or at [www.riheaa.org](http://www.riheaa.org).

*Rhode Island Industrial Facilities Corporation (RIIFC)*

The purpose of this corporation is to issue revenue bonds, construction loan notes and equipment acquisition notes for the financing of projects which further industrial development in the State. All bonds and notes issued by RIIFC are payable solely from the revenues derived from leasing or sale by RIIFC of its projects. The bonds and notes do not constitute a debt or pledge of the faith and credit of RIIFC or the State and, accordingly, have not been reported in the accompanying financial statements. For more detailed information, a copy of the financial statements can be obtained by writing to the Director of Finance and Administration, R.I. Industrial Facilities Corporation, 315 Iron Horse Way, Suite 101, Providence, RI 02903, or at [www.riedc.com](http://www.riedc.com).

*Rhode Island Clean Water Finance Agency (RICWFA)*

This agency was established in 1991 for the purpose of providing financial assistance in the form of loans to municipalities, sewer commissions and waste water management districts in the State for the construction or upgrading of water pollution abatement projects. RICWFA receives capital grants from the State and federal governments and is authorized to issue revenue bonds and notes. For more detailed information, a copy of the financial statements can be obtained by writing to the R.I. Clean Water Finance Agency, 235 Promenade Street, Suite 119, Providence, RI 02908, or at [www.ricwfa.com](http://www.ricwfa.com).

*Rhode Island Industrial-Recreational Building Authority (RIIRBA)*

This authority is authorized to insure first mortgages and first security agreements granted by financial institutions and the Rhode Island Industrial Facilities Corporation for companies conducting business in the State. For more detailed information, a copy of the financial statements can be obtained by writing to the Director of Finance and Administration, R.I. Industrial-Recreational Building Authority, 315 Iron Horse Way, Suite 101, Providence, RI 02903, or at [www.riedc.com](http://www.riedc.com).

*Rhode Island Water Resources Board Corporate (RIWRBC)*

This board was created by law to foster and guide the development of water resources, including the establishment of water supply facilities, and to lease these facilities to cities, towns, districts, and other municipal, quasi-municipal or private corporations engaged in the water supply business in the State. RIWRBC is authorized to issue revenue bonds which are payable solely from revenues generated by the lease of its facilities or the sale of water. For more detailed information, a copy of the financial statements can be obtained by writing to the R.I. Water Resources Board Corporate, 1 Capitol Hill, Providence, RI 02908.

*Rhode Island Public Telecommunications Authority (RIPTCA)*

This authority owns and operates a non-commercial educational television station in the State. For more detailed information, a copy of the financial statements can be obtained by writing to the R.I. Public Telecommunications Authority, 50 Park Lane, Providence, RI 02907-3124, or at [www.ripbs.org](http://www.ripbs.org).

*The College Crusade of Rhode Island (TCCRI)*

This is a Rhode Island nonprofit corporation, formerly named the Rhode Island Children's Crusade for Higher Education, formed for the purpose of fostering the education of economically disadvantaged youth through scholarship awards, summer jobs programs, and mentoring programs for parents and students. For more detailed information, a copy of the financial statements can be obtained by writing to The College Crusade of Rhode Island, The 134 Center, Suite 111, 134 Thurbers Avenue, Providence, RI 02905, or at [www.thecollegecrusade.org](http://www.thecollegecrusade.org).

## C. Financial Statement Presentation

### Government-wide Financial Statements

The government-wide financial statements (i.e., the Statement of Net Assets and the Statement of Activities) report information on all nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

The Statement of Net Assets presents the reporting entity's nonfiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

**Invested in capital assets, net of related debt** – This category reflects the portion of net assets associated with capital assets, net of accumulated depreciation and the amount of outstanding bonds and other debt attributable to the acquisition, construction or improvement of those assets.

**Restricted net assets** – This category represents the portion of net assets whose use is subject to constraints that are either a) imposed externally by creditors, grantors or contributors, or b) imposed by law through constitutional provisions or enabling legislation.

**Unrestricted net assets** – This category represents net assets that do not meet the definition of the two preceding categories. The use of unrestricted net assets is often subject to constraints imposed by management, but such constraints can be removed or modified.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are specifically associated with a service, program, or department and, thus, are clearly identifiable to a particular function. The State includes certain centralized services charged through internal service funds as direct expenses by charging these amounts directly to departments and programs. The State does not allocate indirect costs amongst the functional expenditure categories.

Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function, and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes and other items not properly included among program revenues are reported instead as general revenues.

### Fund Financial Statements

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and all enterprise funds are reported as separate columns in the fund financial statements, with nonmajor funds being combined into a single column.

The State reports the following fund types:

#### Governmental Fund Types

*Special Revenue Funds* - These funds account for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes and where a separate fund is legally mandated.

*Capital Projects Funds* - These funds reflect transactions related to resources received and used for the acquisition, construction, or improvement of capital facilities of the State and its component units.

*Permanent Fund* - The Permanent School Fund accounts for certain resources and the earnings thereon, which are used for the promotion and support of public education.

### Proprietary Fund Types

*Internal Service Funds* - These funds account for, among other things, employee medical benefits, State fleet management, unemployment and workers' compensation for State employees, prison industry operations, surplus property, telecommunications and other utilities, and records maintenance.

*Enterprise Funds* - These funds may be used to report any activity for which a fee is charged to external users for goods and services.

### Fiduciary Fund Types

#### *Pension and Other Post Employment Benefit Trust Funds*

*Pension Trust Funds* - These funds account for the activities of the Employees' Retirement System, Municipal Employees' Retirement System, State Police Retirement Benefit Trust, and Judicial Retirement Benefit Trust, which accumulate resources for pension benefit payments to qualified employees.

*Other Post Employment Benefit (OPEB) Trust Funds* - These funds account for the activities of the Rhode Island State Employees' and Electing Teachers OPEB System, which accumulate resources for other post employment benefit payments to qualified employees.

*External Investment Trust* - This fund accounts for the share of the Ocean State Investment Pool that is owned by participants external to the reporting entity.

*Private Purpose Trust Fund* - The Touro Jewish Synagogue Fund accounts for the earnings on monies bequeathed to the State for the purpose of maintaining the Touro Jewish Synagogue.

*Agency Funds* - These funds account for assets held by the State pending distribution to others, assets pledged to the State as required by statute, and health insurance for certain employees and retirees of a component unit.

In accordance with GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis for State and Local Governments*, the focus in the fund financial statements is on major and nonmajor funds rather than on fund type. Statement No. 34 defines the general fund as a major fund. Other governmental funds and enterprise funds are evaluated on these criteria:

- Total assets, liabilities, revenues, or expenditures/expenses of that fund are at least 10% of the respective total for all funds of that type, and
- Total assets, liabilities, revenues, or expenditures/expenses of that fund are at least 5% of the same respective total for all funds being evaluated.

### Major Funds

#### Governmental funds:

##### *General Fund*

This is the State's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

### *Intermodal Surface Transportation Fund*

This fund accounts for the collection of the gasoline tax, federal grants, and bond proceeds that are used in maintenance, upgrading, and construction of the State's highway system. It also accounts for the proceeds of the Grant Anticipation Revenue Vehicle (GARVEE) and the RI Motor Fuel Tax (RIMFT) revenue bonds and related expenditures.

#### Proprietary funds:

### *State Lottery Fund*

The State Lottery Fund, a division of the Department of Revenue, operates games of chance for the purpose of generating resources for the State's General Fund. For more detailed information, a copy of the financial statements can be obtained by writing to the Rhode Island Lottery, 1425 Pontiac Avenue, Cranston, RI 02920, or at [www.rilot.com](http://www.rilot.com).

### *Rhode Island Convention Center Authority (RICCA)*

The RICCA was established by State law as a single purpose building authority to finance the development of convention and other event facilities in Providence, RI. RICCA is responsible for the management and operations of the R.I. Convention Center, Dunkin' Donuts Center and the Veteran's Memorial Auditorium Arts and Cultural Center located in Providence.

### *Employment Security Fund*

This fund accounts for the State's unemployment compensation program. Revenues consist of taxes assessed on employers to pay benefits to qualified unemployed persons. Funds are also provided by the federal government, interest income, and loans from the Federal Unemployment Trust Fund.

## **D. Measurement Focus and Basis of Accounting**

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues and related receivables are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period (i.e., earned and collected within the next 12 months) or soon enough thereafter to pay liabilities of the current period. Significant sources of tax revenues susceptible to accrual are recorded as taxpayers earn income (personal income and business corporation taxes), as sales are made (sales and use taxes) and as other taxable events occur (miscellaneous taxes), net of estimated tax refunds. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, expenditures for principal and interest on long-term debt and compensated absences are recorded when payments come due. Expenditures and liabilities relating to other claims and judgments are recorded to the extent that such amounts are expected to be paid within the current period.

In accordance with GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Fund Accounting*, in the absence of specific guidance from GASB pronouncements, pronouncements of the Financial Accounting Standards Board issued on or before November 30, 1989 have been followed.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the enterprise and internal service funds are charges to customers for sales and services. Operating expenses for enterprise and internal service funds include the cost of sales and services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting these definitions are reported as nonoperating revenues and expenses.

The State's enacted budget designates the source of funds for expenditures. When a type of expenditure is allocable to multiple funding sources, generally the State uses restricted resources first, then unrestricted resources as they are needed.

#### **E. Cash and Cash Equivalents**

Cash represents amounts in demand deposit accounts with financial institutions. Cash equivalents are highly liquid investments with a maturity of three months or less at the time of purchase. Cash equivalents are stated at cost, which approximates fair value except for those of the Ocean State Investment Pool which are stated at amortized cost, which approximates fair value.

Except for certain internal service funds, the State does not pool its cash deposits. For those internal service funds that pool cash, each fund reports its share of the cash on the Statement of Net Assets.

#### **F. Funds on Deposit with Fiscal Agent**

Funds on deposit with fiscal agent in the governmental activities and business-type activities represent the unexpended portion of debt instruments sold primarily for capital acquisitions and historic tax credit financing, as well as funds held by the United States Treasury for the payment of unemployment benefits, respectively.

#### **G. Investments**

Investments have a maturity of more than three months and are generally stated at fair value. Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, as opposed to a forced or liquidation sale.

#### **H. Receivables**

Receivables are stated net of estimated allowances for uncollectible amounts, which are determined based upon past collection experience. Within governmental funds, an allowance for unavailable (amounts not expected to be collected in the next twelve months) amounts is also reflected.

#### **I. Due From Other Governments and Agencies**

Due from other governments and agencies is primarily comprised of amounts due from the federal government for reimbursement-type grant programs.

#### **J. Interfund Activity**

In general, eliminations have been made to minimize the double counting of internal activity, including internal service fund type activity, on the government-wide financial statements. However, in order to avoid distorting the direct costs and program revenues of the applicable functions, interfund services provided and used between different functional categories have not been eliminated.

The Due From/To Other Funds are reported at the net amount on the fund financial statements. Transfers between governmental and business-type activities are reported at the net amount on the government-wide financial statements.

In the fund financial statements, transactions for services rendered by one fund to another are treated as revenues of the recipient fund and expenditures/expenses of the disbursing fund. Reimbursements of expenditures/expenses made by one fund for another are recorded as expenditures/expenses in the reimbursing fund and as a reduction of expenditures/expenses in the reimbursed fund. Transfers represent flows of assets between funds of the primary government without equivalent flows of assets in return and without a requirement for payment.

#### **K. Inventories**

Inventory type items acquired by governmental funds are accounted for as expenditures at the time of purchase. Inventories of the proprietary funds are stated at cost (first-in, first-out). Inventories of university and colleges are stated at the lower of cost (first-in, first-out and retail inventory method) or market, and consist primarily of bookstore and dining, health and residential life services items. Inventories of all other component units are stated at cost.

## L. Capital Assets

Capital assets, which include land, intangible assets not being amortized, construction in progress, land improvements, buildings, building improvements, furniture and equipment (which also includes subcategories for vehicles and computer systems), depreciable intangibles (computer software), and infrastructure (e.g., roads, bridges, dams, piers) are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are recorded at historical cost or estimated historical cost. Donated capital assets are recorded at estimated fair value at the date of donation. Intangible assets not being amortized consist mostly of perpetual land rights such as conservation, recreational, and agricultural easements.

Applicable capital assets are depreciated or amortized using the straight-line method (using a half-year convention). Capitalization thresholds and estimated useful lives for depreciable capital asset categories of the primary government are as follows:

Asset Category	Capitalization Thresholds	Estimated Useful Lives
Capital Assets (Depreciable)		
Land improvements	\$ 1 million	20 years
Buildings	\$ 1 million	20 - 50 years
Building Improvements	\$ 1 million	10 - 20 years
Furniture and equipment	\$5 thousand	3 - 10 years
Intangibles	\$ 1 million	5 years
Infrastructure	\$ 1 million	7 - 75 years

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Interest incurred during the construction of capital facilities is not capitalized.

Capital assets acquired in the governmental funds are recorded as capital outlay expenditures in capital projects funds and current expenditures by function in other governmental fund financial statements.

Depreciation and amortization are recorded in the government-wide financial statements, proprietary funds, fiduciary funds and component unit financial statements. Capital assets of the primary government are depreciated using the straight-line method over the assets' estimated useful life.

The State has recorded its investment in intangible assets, which includes certain land rights such as conservation and agricultural easements as well as certain rights of way obtained by the State. These easements tend to be of a perpetual nature and thus are not amortized. Intangible assets also include the State's capitalization of internally developed or substantially customized computer software, which is amortized over a 5-year period. The State has included its investment in intangible assets within Note 5, Capital Assets.

Discretely presented component units have adopted estimated useful lives for their capital assets as well as capitalization thresholds. These entities depreciate capital assets using the straight-line method.

## M. Bonds Payable

In the Statement of Revenues, Expenditures, and Changes in Fund Balances-Governmental Funds, bond discounts, premiums, and issuance costs are recognized in the current period. In the government-wide financial statements bond discounts, premiums, issuance costs and deferred amounts on refundings are deferred and amortized over the term of the bonds using the outstanding principal method.

For proprietary fund types and component units, bond discounts, premiums, deferred amounts on refundings, discounts, and issuance costs are generally deferred and amortized over the term of the bonds using the straight-line method for issuance costs and the interest method for premiums and discounts. Bond premiums and discounts are presented as adjustments to the face amount of the bonds payable. Deferred bond issuance costs are included in other assets.

#### **N. Obligations under Capital Leases**

The construction and acquisition of certain office buildings, campus facilities and other public facilities, as well as certain equipment acquisitions, have been financed through bonds and notes issued by a trustee pursuant to a lease/purchase agreement with the State (See Note 6(E)).

#### **O. Compensated Absences**

Vacation pay may be discharged, subject to limitations as to carry-over from year to year, by future paid leave or by cash payment upon termination of service. Sick pay may be discharged by payment for an employee's future absence caused by illness or, to the extent of vested rights, by cash payment upon death or retirement. Also, an additional category of leave obligation has been established as a result of pay reductions taken by certain classes of employees. For governmental fund types, such obligations are recognized when paid. For the government-wide financial statements and proprietary fund types, they are recorded as fund liabilities when earned.

#### **P. Other Assets and Liabilities**

Other assets reported within the primary government include provider advances and deposits required by contract with the State's healthcare claims administrator.

Other liabilities include 1) escrow deposits, accrued salary and fringe benefits for the governmental fund types; 2) accrued interest payable, accrued salaries, accrued vacation and sick leave for the proprietary fund types; and 3) escrow deposits, landfill closure costs, accrued expenses, and arbitrage and interest payable for the component units.

#### **Q. Fund Balances**

In the fund financial statements, governmental funds report fund balance as nonspendable, restricted, committed, assigned or unassigned based primarily on the extent to which the State is bound to honor constraints on how specific amounts can be spent. More information about each category is presented below:

- Nonspendable – amounts that cannot be spent because they are either (a) not spendable in form or (b) legally or contractually required to be maintained intact.
- Restricted – amounts with constraints placed on their use that are either (a) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments; or (b) imposed by constitutional provisions, as is the case for the Budget Reserve and Cash Stabilization Fund, or (c) by law through enabling legislation enacted by the General Assembly.
- Committed – amounts that can only be used for specific purposes as established through the enactment of legislation by the General Assembly, and that remain binding unless modified or rescinded through subsequent legislative action. The underlying action that imposed the limitation must occur no later than the close of the fiscal year and must be binding unless repealed by the General Assembly.
- Assigned – amounts that are constrained by the State's intent that they be used for specific purposes. The intent is generally established by legislation enacted by the General Assembly and is implemented at the direction of the Governor. This is also the classification for residual funds in the State's special revenue funds.
- Unassigned – the residual classification for the State's General Fund that includes amounts not contained in the other classifications. In other funds, the unassigned classification is used only if expenditures incurred for specific purposes exceed the amounts restricted, committed, or assigned to those purposes.

When both restricted and unrestricted resources are available for use, it is the State's policy to use restricted resources first, followed by unrestricted resources. Unrestricted resources, when available for a particular use, are used in the following order: committed, assigned, and unassigned.

## R. Recently Issued Accounting Standards

During the fiscal year ended June 30, 2012, the State adopted the following new accounting standards issued by GASB:

GASB Statement No. 57 – *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, certain provisions were effective for the State's fiscal year ending June 30, 2012.

GASB Statement No. 64 – *Derivative Instruments: Application of Hedge Accounting Termination Provisions – an amendment of GASB Statement No. 53*, effective for the State's fiscal year ending June 30, 2012.

The State will adopt the following new accounting pronouncements in future years:

GASB Statement No. 60 – *Accounting and Financial Reporting for Service Concession Arrangements*, effective for the State's fiscal year ending June 30, 2013.

GASB Statement No. 61 – *The Financial Reporting Entity: Omnibus an amendment of GASB Statements No. 14 and No. 34*, effective for the State's fiscal 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*, effective for the State's fiscal year ending June 30, 2013.

GASB Statement No. 63 – *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, effective for the State's fiscal year ending June 30, 2013.

GASB Statement No. 65 – *Items Previously Reported as Assets and Liabilities*, effective for the State's fiscal year ending June 30, 2013.

GASB Statement No. 66 – *Technical Corrections – 2012 – an amendment to GASB No. 10 and No. 62*, effective for the State's fiscal year ending June 30, 2013.

GASB Statement No. 67 – *Financial Reporting for Pension Plans – an amendment to GASB Statement No. 25*, effective for the State's fiscal year ending June 30, 2014.

GASB Statement No. 68 – *Accounting and Financial Reporting for Pensions - an amendment to GASB Statement No. 27*, effective for the State's fiscal year ending June 30, 2015.

The State is determining the impact of these new pronouncements on future financial statements.

GASB Statements 63, 65, 67, and 68, in particular, could impact the State's recognition and timing of assets and liabilities in government-wide and/or fund financial statements. The requirements of these statements may require the restatement of beginning net assets and fund balances in future periods. The State is currently not planning to early implement these statements, and has made no estimation of the effect these statements will have on the financial statements.

## S. Change in Presentation

The classification of the Central Falls School District was changed from a related organization to a discretely presented component unit of the State for fiscal 2012. For fiscal 2011 the District was considered legally part of the City of Central Falls and was included in the City's financial statements for that fiscal year. A subsequent court decision in March 2012 clarified that the School District had a separate legal existence and was not a department of the City.

## Note 2. Cash, Cash Equivalents, Investments, and Funds in Trust

### A. Primary Government-Governmental and Business-Type Activities

#### Cash Deposits

Cash deposits include demand deposit accounts, interest-bearing deposit accounts, and certificates of deposit. Deposits are exposed to custodial credit risk if they are not covered by federal depository insurance and the deposits are a) uncollateralized, b) collateralized with securities held by the pledging financial institution, or c) collateralized with securities held by the pledging financial institution's trust department or agent but not in the State's name.

In accordance with Chapter 35-10.1 of the General Laws, 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 one hundred 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 one hundred percent of deposits, regardless of maturity. None of the cash deposits of the primary government were required to be collateralized at June 30, 2012 pursuant to this statutory provision. However, the Office of the General Treasurer has instituted a collateralization requirement for institutions holding the State's deposits. Financial institutions are required to pledge collateral equal to 102% of the balance of uninsured deposits. Additionally, consistent with State Investment Commission guidelines, certain interest-bearing deposit accounts used as short-term investments are required to be collateralized at 102% of the outstanding balance.

Effective December 31, 2010, federal depository insurance provisions were amended to provide 100% insurance coverage to noninterest-bearing transaction accounts through December 31, 2012.

As of June 30, 2012 all of the bank balances were either covered by federal depository insurance or collateralized by securities held by an independent third party in the State's name.

#### Cash Equivalent Investments and Investments

The State Investment Commission (Commission) is responsible for the investment of all State funds. Pursuant to Chapter 35-10 of the General Laws, the Commission may, in general, "invest in securities as would be acquired by prudent persons of discretion and intelligence in these matters who are seeking a reasonable income and the preservation of their capital."

The Ocean State Investment Pool Cash Portfolio (the Cash Portfolio) is a portfolio of the Ocean State Investment Pool Trust (OSIP or the Trust), which is an investment pool established by the General Treasurer of the State of Rhode Island under Declaration of Trust, dated January 25, 2012 under the Rhode Island Local Government Investment Pool Act, G.L. 35-10.2 of the Rhode Island General Laws as amended, for the purpose of investing funds of, and funds under custody of, agencies, authorities, commissions, boards, municipalities, political subdivisions, and other public units of the State of Rhode Island. The Cash Portfolio, which began operations on March 6, 2012, is not registered with the Securities and Exchange Commission (SEC) as an investment company, but maintains a policy to operate in a manner consistent with the SEC's Rule 2a-7 of the Investment Company Act of 1940 (Rule 2a-7).

The Cash Portfolio may invest in securities that would constitute an "Eligible Security" under and as defined in Rule 2a-7 which may include certain U.S. government and government agency obligations, U.S. dollar-denominated money market securities of domestic and foreign issuers such as short-term certificates of deposit, commercial paper, corporate bonds and notes, time deposits, municipal securities, asset-backed securities and repurchase agreements.

Government Accounting Standards Board Statement No. 31, "Accounting and Financial Reporting for Certain Investments and for External Investment Pools", establishes standards for accounting for investments held by government entities. The Cash Portfolio operates as a Rule 2a-7-like pool and thus reports all investments at amortized cost rather than fair value.

A copy of the annual report for the Ocean State Investment Pool can be obtained by writing to the Office of the General Treasurer, 50 Service Avenue, Warwick, RI 02886.

Other short-term cash equivalent type investments are made by the General Treasurer in accordance with guidelines established by the Commission. Investments of certain blended component units are not made at the direction of the Commission, but are governed by specific statutes or policies established by their governing body.

The State's cash equivalents and investments (expressed in thousands) at June 30, 2012 are as follows:

<b>Pooled cash equivalents (at amortized cost)</b>	
Financial company commercial paper	\$ 156,461
Other commercial paper	7,999
Asset backed commercial paper	55,105
Government agency repurchase agreement	3,132
Other repurchase agreements	38,000
Treasury debt	35,251
Certificates of deposit	10,000
Government agency debt	2,999
Other notes	18,000
Variable rate demand notes	5,060
Plus: other assets in excess of other liabilities	42
Total investment pool	<u>332,049</u>
<b>Funds held by fiduciary funds and discretely presented component units</b>	
Less: Other trust and agency funds	6,925
Less: Discretely presented component units	<u>9,710</u>
<b>Primary government pooled cash equivalents</b>	<u>315,414</u>
<b>Other primary government cash equivalents and investments</b>	
Repurchase agreements	1,612
Financial company commercial paper	52,559
Government agency debt	17,109
Money Market Mutual Funds	<u>11,676</u>
<b>Total primary government cash equivalents and investments</b>	<u>\$ 398,370</u>
Cash equivalents and investments	398,370
Cash	<u>440,655</u>
Total cash, cash equivalents and investments	<u><u>\$ 839,025</u></u>
<u>Statement of Net Assets</u>	
Cash and cash equivalents	760,048
Restricted cash and cash equivalents	9,309
Restricted investments	<u>69,668</u>
Total cash, cash equivalents and investments	<u><u>\$ 839,025</u></u>

The State's restricted investments, equaling \$69,668,000, are held by the Tobacco Settlement Financing Corporation, a nonmajor governmental fund.

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, the State will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. Investment securities are exposed to custodial credit risk if the securities are uninsured, are not registered in the name of the government, and are held by either: a. the counterparty, or b. the counterparty's trust department or agent but not in the government's name. Pursuant to guidelines established by the SIC, securities purchased or underlying collateral are required to be delivered to an independent third party custodian.

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Based on SIC policy, the State's short-term investment portfolio is structured to minimize interest rate risk by matching the maturities of investments with the requirements for funds disbursement.

As of June 30, 2012, information about the State's exposure to interest rate risk for cash equivalents and investments (expressed in thousands) is as follows:

**Pooled Cash Equivalents:**

Investment Type	Investment Maturities (in days) (At Amortized Cost)				
	At Fair Value	0-30	31-90	91-180	181-397
Financial Company Commercial Paper	\$ 156,468	\$ 30,998	\$ 90,496	\$ 34,967	--
Other Commercial Paper	7,998	4,999	3,000	--	--
Asset Backed Commercial Paper	55,107	45,072	8,036	1,998	--
Gov't Agency Repurchase Agreements	3,132	3,132	--	--	--
Other Repurchase Agreements	38,000	38,000	--	--	--
Treasury Debt	35,250	--	--	26,161	9,089
Certificates of Deposit	10,000	10,000	--	--	--
Government Agency Debt	2,999	--	--	--	2,999
Other Notes	18,003	--	--	--	18,000
Variable Rate Demand Notes	5,060	5,060	--	--	--
<b>Grand Total</b>	<b>\$ 332,017</b>	<b>\$ 137,261</b>	<b>\$ 101,532</b>	<b>\$ 63,126</b>	<b>\$ 30,088</b>

**Non-pooled Cash Equivalents and Investments:**

Investment Type	Fair Value	Investment Maturities (in Years)			
		Less Than 1	1-5	6-10	More Than 10
Repurchase agreements	\$ 1,612	\$ 1,612	\$ 0	\$ 0	\$ 0
Commercial paper	52,559	52,559	0	0	0
Government agency debt	17,109	17,109	0	0	0
Money market mutual funds	11,676	11,676	0	0	0
	<u>\$ 82,956</u>	<u>\$ 82,956</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Credit risk is mitigated by the State's minimum rating criteria policy, collateralization requirements, and the fact that maximum participation by any one issuer is limited to 35% of the total portfolio. Credit risk policies have been developed for investments in commercial paper.

As of June 30, 2012, information about the State's exposure to credit risk for cash equivalents and investments (expressed in thousands) is as follows:

**Pooled Cash Equivalents:**

Investment Type	Quality Ratings (1) (At Amortized Cost)				
	At Fair Value	A-1+	A-1	A-2	A-3
Financial Company Commercial Paper	\$ 156,468	\$ 47,960	\$ 98,505	\$ 9,996	--
Other Commercial Paper	7,998	--	--	6,999	1,000
Asset Backed Commercial Paper	55,107	--	55,105	--	--
Gov't Agency Repurchase Agreements	3,132	3,132	--	--	--
Other Repurchase Agreements	38,000	--	38,000	--	--
Treasury Debt	35,250	35,251	--	--	--
Certificates of Deposit	10,000	--	10,000	--	--
Government Agency Debt	2,999	2,999	--	--	--
Other Notes	18,003	18,000	--	--	--
Variable Rate Demand Notes	5,060	4,660	400	--	--
<b>Grand Total</b>	<b>\$ 332,017</b>	<b>\$ 112,002</b>	<b>\$ 202,010</b>	<b>\$ 16,995</b>	<b>\$ 1,000</b>

1- Moody's Investor Service, except where not available Standard & Poor's ratings are used.

The Ocean State Investment Pool itself has not been assigned credit quality ratings by rating agencies.

**Non-pooled Cash Equivalents and Investments:**

Issuer	Fair Value	Type of Investment	Moody's Rating	Average Maturities in Days
Government Agencies				
Federal Home Loan Mortgage Corporation	\$ 17,109		P-1	
Money market mutual funds				
Fidelity Institutional Money Market Gvt. Port Class III	10,118	Money Market	AAA-mf	58
Goldman Sachs Treasury Investments	2	Money Market	AAA-mf	53
Wells Fargo Advantage 100% Treasury Money Market Fund	1,556	Money Market	Aaa-mf	55
Commercial Paper				
Prudential PLC	52,559	Commercial Paper	P-1	
	<u>\$ 81,344</u>			

**Funds on Deposit with Fiscal Agent**

Investments within the category – Funds on deposit with fiscal agent – are governed by specific trust agreements entered into at the time of the issuance of the debt. The trust agreements outline the specific permitted investments, including any limitations on credit quality and concentrations of credit risk.

The State's funds on deposit with fiscal agent reported in the governmental funds (expressed in thousands) at June 30, 2012 and the breakdown by maturity are as follows:

Investment Type	Fair Value	Investment Maturities (in Years)			
		Less Than 1	1-5	6-10	More Than 10
U.S. Government Agency Securities	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Money Market Mutual Funds	115,394	115,394	0	0	0
Investment Contracts	5,277	5,277	0	0	0
Investments	120,671	\$ 120,671	\$ 0	\$ 0	\$ 0
Cash (fully insured)	16,051				
Funds in trust with fiscal agent	<u>\$ 136,722</u>				

The above investments with fiscal agent (expressed in thousands) consist of the following:

Issuer	Fair Value	Moody's Rating	Average Maturities in Days
Money Market Funds			
Dreyfus Treasury Prime Cash Management Fund	6,666	Aaa-mf	52
Federated Govt. Obligation Tax Managed Fund	18,371	Aaa-mf	43
Fidelity Institutional Money Market Gvt. Port Class III	88,477	AAA-mf	58
JP Morgan US Govt. Money Market Fund Agency Class	1,101	Aaa-mf	54
Wells Fargo Advantage 100% Treasury Money Market Fund	779	Aaa-mf	55
Investment Contracts			
FSA Capital Management GIC	5,277		
	<u>\$ 120,671</u>		

Funds on deposit with fiscal agent also include \$1,415,000 held by the Federal Unemployment Insurance Trust Fund.

## B. Concentration of Credit Risk

The SIC has adopted limitations as to the maximum percentages of the State's total short-term investment portfolio that may be invested in a specific investment type or with any one issuer of securities. The combined portfolio concentrations for cash equivalents, investments and funds in trust by issuer (expressed in thousands) that are greater than 5% are as follows:

Type	Issuer	Amount	Percent age
Money Market Funds	Fidelity Institutional Money Market Gvt. Port Class III	\$ 98,595	19.05%
Commercial Paper	Prudential PLC	52,559	10.16%

## C. Pension Trusts

The Employees' Retirement System (ERS) consists of four plans: the Employee Retirement System, Municipal Employees Retirement System (MERS), State Police Retirement Board Trust (SPRBT), and Judicial Retirement Board Trust (JRBT).

### Cash Deposits and Cash Equivalents

At June 30, 2012, the carrying amount of the ERS cash deposits was \$3,093,000 and the bank balance was \$3,794,000. The bank and book balances represent the plans' deposits in short-term trust accounts which include demand deposit accounts and interest-bearing, collateralized bank deposit accounts. Of the bank balance, \$2,177,000 is covered by federal depository insurance and the remainder representing interest-bearing collateralized bank deposits totaling \$1,617,000 is collateralized (102%) with U.S. Treasury and agencies held by a third party custodian.

In accordance with Rhode Island General Law 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 one hundred percent of time deposits with maturities greater than sixty days. Any of these institutions that do not meet minimum capital standards prescribed by federal regulators shall insure or pledge eligible collateral equal to one hundred percent of deposits, regardless of maturity. None of the System's deposits were required to be collateralized at June 30, 2012 (excluding the collateralized interest-bearing deposits). However, the State Investment Commission has adopted a collateralization requirement for institutions holding the State's deposits. Financial institutions are required to pledge collateral equal to 102% of the deposit amounts that are not insured by federal depository insurance.

### Investments

The State Investment Commission oversees all investments made by the State of Rhode Island, including those made for the System. Investment managers engaged by the Commission, at their discretion and in accordance with the investment objectives and guidelines for the System, make certain investments. The General Treasurer makes certain short-term investments on a daily basis. Rhode Island General Law Section 35-10-11 (b)(3) requires that all investments shall be made in securities as would be acquired by prudent persons of discretion and intelligence who are seeking a reasonable income and the preservation of capital.

On July 1, 1992, the State Investment Commission pooled the assets of the ERS with the assets of the MERS for investment purposes only, and assigned units to the plans based on their respective share of market value. On September 29, 1994 and November 1, 1995, the assets of the SPRBT and the JRBT, respectively, were added to the pool for investment purposes only. The custodian bank holds assets of the System in a Pooled Trust and each plan holds units in the trust. The number of units held by each plan is a function of each plans' respective contributions to, or withdrawals from, the trust.

Investment expense is allocated to each plan based on the plan's units in the Pooled Trust at the end of each month.

The following table presents the fair value of investments by type that are held within the Pooled Trust at June 30, 2012 (expressed in thousands):

Investment Type	Fair Value
Cash Deposits	\$ 15,561
Money Market Mutual Fund	148,466
U.S. Government Securities	399,497
U.S. Government Agency Securities	420,119
Collateralized Mortgage Obligations	26,499
Corporate Bonds	866,258
Domestic Equity Securities	140,764
International Equity Securities	7,703
Commingled Funds - Domestic Equity	2,186,538
Commingled Funds - International Equity	1,137,589
Hedge Funds	1,011,174
Private Equity	611,643
Real Estate	
Limited Partnership	117,565
Commingled Funds	102,731
Real Estate Investment Trusts	48,673
	\$ 7,240,780
Net investment receivable (payable)	(13,747)
Payable to broker	(2,007)
Total	\$ 7,225,026

Consistent with a target asset allocation model adopted by the State Investment Commission, the ERS directs its investment managers to maintain well diversified portfolios by sector, credit rating and issuer using the prudent person standard, which is the standard of care employed solely in the interest of the participants and beneficiaries of the funds and for the exclusive purpose of providing benefits to participants and defraying reasonable expenses of administering the funds.

Specific manager performance objectives are outlined and generally stated in relation to a benchmark or relevant index. These guidelines also include prohibited investments, limitations on maximum exposure to a single industry or single issuer, a minimum number of holdings within the manager's portfolio and, for fixed income.

### Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment.

Duration is a measure of a debt security's exposure to fair value changes arising from changes in interest rates. It uses the present value of cash flows, weighted for those cash flows as a percentage of the investment's full price. The ERS manages its exposure to interest rate risk by comparing each fixed income manager portfolio's effective duration against a predetermined benchmark index based on that manager's mandate. The fixed income indices currently used by the ERS are:

- Citigroup Broad Investment Grade Bond Index
- Barclays MBS Index
- Barclays Credit Index
- Credit Suisse First Boston Global High Yield Index
- Barclays US Tips Index

At June 30, 2012, no fixed income manager was outside of the policy guidelines.

The following table shows the ERS's fixed income investments by type, fair value and the effective duration at June 30, 2012 (expressed in thousands):

Investment Type	Fair Value	Effective Duration
U.S. Government Securities	\$ 420,119	2.21
U.S. Government Agency Securities	399,497	5.77
Collateralized Mortgage Obligations	26,499	3.47
Corporate Bonds	866,258	5.73
Total Fixed Income	<u>\$ 1,712,373</u>	4.86

The ERS also invested in a short-term money market mutual fund (State Street Bank Institutional Liquid Reserves) that held investments with a weighted average maturity of 25 days.

The ERS invests in various mortgage-backed securities, such as collateralized mortgage obligations (CMO), interest-only and principal-only (PO) strips. They are reported in U.S. Government Agency Securities and Collateralized Mortgage Obligations in the table above. CMO's are bonds that are collateralized by whole loan mortgages, mortgage pass-through securities or stripped mortgage-backed securities. Income is derived from payments and prepayments of principal and interest generated from collateral mortgages. Cash flows are distributed to different investment classes or tranches in accordance with the CMO's established payment order. Some CMO tranches have more stable cash flows relative to changes in interest rates while others are significantly sensitive to interest rate fluctuations.

The ERS may invest in interest-only (IO) and principal-only strips (PO) in part to hedge against a rise in interest rates. Interest-only strips are based on cash flows from interest payments on underlying mortgages. Therefore, they are sensitive to pre-payments by mortgagees, which may result from a decline in interest rates. Principal-only strips receive principal cash flows from the underlying mortgages. In periods of rising interest rates, homeowners tend to make fewer mortgage prepayments.

### Credit Risk

The ERS manages exposure to credit risk generally by instructing fixed income managers to adhere to an overall target weighted average credit quality for the portfolio and by establishing limits on the percentage of the portfolio that is invested in non-investment grade securities. The ERS's exposure to credit risk as of June 30, 2012 is as follows (expressed in thousands):

Quality Rating (1)	Collateralized Mortgage Obligations	U.S. Government Agency Obligations	Corporate Bonds
Aaa	\$ 19,163	\$ 420,119	\$ 67,173
Aa	6,015		94,453
A			161,602
Baa	525		331,775
Ba	58		62,444
B	36		93,250
Caa			23,891
Not rated	702		31,670
Fair Value	<u>\$ 26,499</u>	<u>\$ 420,119</u>	<u>\$ 866,258</u>

(1) Moody's Investors Service

During Fiscal 2012, Standard & Poors Investors Service downgraded the rating assigned to direct obligations of the United States government from AAA to AA+. Direct United States government obligations held within the ERS's Pooled Investment Trust, which totaled approximately \$399 million at June 30, 2012, are not included in the above credit risk table based on Moody's ratings.

The ERS's investment in a short-term money market mutual fund (State Street Bank Institutional Liquid Reserves) was rated AAAM by Standard & Poors Investors Service.

### Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of the ERS's investments in a single issuer. There is no single issuer exposure within the ERS's portfolio that comprises 5% of the overall portfolio.

### Custodial Credit Risk

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the ERS will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. At June 30, 2012 all securities were registered in the name of the ERS (or in the nominee name of its custodial agent) and were held in the possession of the ERS's custodial bank, State Street Bank and Trust.

### Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely impact the fair value of an investment. Portfolios are diversified to limit foreign currency and security risk. The ERS may enter into foreign currency exchange contracts to minimize the short-term impact of foreign currency fluctuations on foreign investments. The ERS's exposure to foreign currency risk at June 30, 2012 is as follows (expressed in thousands):

Currency	Commingled Fund	Foreign Cash	Foreign Currency Forward Contracts	Equities	Private Equity	Total
Australian Dollar	\$ 66,140	\$ (85)	\$ 165	\$	\$	\$ 66,220
Brazilian Real	35,301			889		36,190
Canadian Dollar	90,715	(414)	54	396	12,711	103,462
Chilean Peso	5,239					5,239
Colombian Peso	3,476					3,476
Czech Koruna	749					749
Danish Krone	9,008					9,008
Egyptian Pound	801					801
Euro Currency	204,788	(821)	228	1,181	84,854	290,230
Hong Kong Dollar	69,871	(17)		1,791		71,645
Hungarian Forint	775					775
Indian Rupee	17,482					17,482
Indonesian Rupiah	7,365					7,365
Israeli Shekel	4,564					4,564
Japanese Yen	165,040	(376)	(87)			164,577
Malaysian Ringgit	9,660					9,660
Mexican Peso	13,422					13,422
Moroccan Dirham	254					254
New Taiwan Dollar	29,458					29,458
New Zealand Dollar	910					910
Norwegian Krone	7,099					7,099
Peruvian Nuevo Sol	173					173
Philippine Peso	2,569					2,569
Polish Zloty	3,883					3,883
Pound Sterling	177,544	(289)	102	3,446		180,803
Singapore Dollar	13,980					13,980
South African Rand	21,314					21,314
South Korean Won	40,411					40,411
Swedish Krona	23,575	(5)	36		95	23,701
Swiss Franc	64,515					64,515
Thailand Baht	5,954					5,954
Turkish Lira	4,528					4,528
Total	<u>\$ 1,100,563</u>	<u>\$ (2,007)</u>	<u>\$ 498</u>	<u>\$ 7,703</u>	<u>\$ 97,660</u>	<u>\$ 1,204,417</u>
US Dollar	37,026					
Commingled Fund	<u>\$ 1,137,589</u>					

In addition to the foreign currency exposure highlighted in the foregoing table, certain hedge fund investments also have foreign currency exposure.

### Derivatives and Other Similar Investments

Certain of the ERS's investment managers are allowed to invest in derivative type transactions consistent with the terms and limitations governing their investment objective and related contract specifications. Derivatives and other similar investments are financial contracts whose value depends on one or more underlying assets, reference rates, or financial indices.

The ERS's derivative investments include forward foreign currency transactions, futures contracts, options, rights and warrants. The ERS enters into these transactions to enhance performance, rebalance the portfolio consistent with overall asset allocation targets, gain or reduce exposure to a specific market, or mitigate specific risks.

**Forward foreign currency contracts** – The ERS enters into foreign currency exchange contracts to minimize the short-term impact of foreign currency fluctuations on foreign investments. A currency forward is a contractual agreement to pay or receive specific amounts of foreign currency at a future date in exchange for another currency at an agreed upon exchange rate. These contracts involve risk in excess of the amount reflected in the ERS's Statements of Fiduciary Net Assets. The face or contract amount in U.S. dollars reflects the total exposure the System has in currency contracts. The U.S. dollar value of forward foreign currency contracts is determined using forward currency exchange rates supplied by a quotation service. Losses may arise due to changes in the value of the foreign currency or if the counterparty does not perform under the contract.

**Futures contracts** – The ERS uses futures to manage its exposure to the domestic and international equity, money market, and bond markets and the fluctuations in interest rates and currency values. Futures are also used to obtain target market exposures in a cost effective manner and to narrow the gap between the ERS's actual physical exposures and the target policy exposures. Using futures contracts in this fashion is designed to reduce (or hedge) the risk of the actual plan portfolio deviating from the policy portfolio more efficiently than by using physical securities. The program is only used to manage intended exposures and asset allocation rebalancing.

Buying futures tends to increase the ERS's exposure to the underlying instrument. Selling futures tends to decrease the ERS's exposure to the underlying instrument, or hedge other ERS investments. Losses may arise from changes in the value of the underlying instruments and if there is an illiquid secondary market for the contracts.

Through commingled funds, the ERS also indirectly holds derivative type instruments, primarily equity index futures.

The ERS invests in mortgage-backed securities, which are included in the categories described as collateralized mortgage obligations and U.S. Government Agency Securities. These securities are based on the cash flows from interest and principal payments by the underlying mortgages. As a result, they are sensitive to prepayments by mortgagees, which are likely in declining interest rate environments, thereby reducing the value of these securities.

The ERS may sell a security in anticipation of a decline in the fair value of that security or to lessen the portfolio allocation of an asset class. Short sales may increase the risk of loss to the System when the price of a security underlying the short sale increases and the ERS is obligated to deliver the security in order to cover the position.

The following summarizes the ERS's exposure to specific derivative investments at June 30, 2012 (expressed in thousands):

Investment Derivative Instruments	Change in fair value included in investment income	Fair value at June 30, 2012	Notional amount
Fixed income futures - long	\$ 9,837	\$	\$
Fixed income futures - short	(207)		(22,846)
Foreign currency forward contracts	(924)	498 (a)	76,397
Index futures - long	13,894		83,925
Index futures - short	1,828		(28,281)
Warrants	(26)	6	325
	<u>\$ 24,402</u>	<u>\$ 504</u>	

(a) - Foreign Currency Forward Contracts

Pending receivable	\$ 584
Pending payable	(86)
Foreign currency forward contract asset (liability)	<u>\$ 498</u>

The ERS is exposed to credit risk on derivative instruments that are in asset positions. The aggregate fair value of derivative instruments in asset positions at June 30, 2012 was \$591,000. This represents the maximum loss that would be recognized if all counterparties failed to perform as contracted. Risk is mitigated by using a continuous linked settlement process.

The System executes (through its investment managers) derivative instruments with various counterparties. The credit ratings of these counterparties were Baa1 (Moody's) or better, one counterparty not rated by Moody's but is rated A+ by Fitch.

#### D. OPEB Trust Funds

The Rhode Island State Employees' and Electing Teachers OPEB System (OPEB System), which accumulates resources for other post employment benefit payments to qualified employees, consists of six plans: State employees, Teachers, Judges, State police, Legislators and Board of Governors.

#### Cash Deposits and Cash Equivalents

At June 30, 2012, the carrying amount of the OPEB System's cash deposits and cash equivalents was \$205,637 and the bank balance was \$139,613. The bank and book balances represent the OPEB System's deposits in short-term trust accounts, which include fully insured demand deposit accounts and interest-bearing, collateralized bank deposit accounts.

In accordance with Rhode Island General Law 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 one hundred percent of time deposits with maturities greater than sixty days. Any of these institutions that do not meet minimum capital standards prescribed by federal regulators shall insure or pledge eligible collateral equal to one hundred percent of deposits, regardless of maturity. In addition, the State Investment Commission has adopted a collateralization requirement for institutions holding the State's deposits. Financial institutions are required to pledge collateral equal to 102% of the uninsured deposit amounts. At June 30, 2012, the System's cash deposits were either federally insured or collateralized.

At June 30, 2012, the System had cash equivalent investments consisting of \$4,644,856 in the Ocean State Investment Pool Trust (OSIP), an investment pool established by the State General Treasurer. The System's investment accounted for 1.4% of the total investment in OSIP at June 30, 2012. Funds of agencies, authorities, commissions, boards, municipalities, political subdivisions, and other public units of

the State are eligible to invest in OSIP. OSIP operates in a manner consistent with a SEC Rule 2a-7 like pool and thus, reports all investments at amortized cost rather than fair value. The OSIP is not rated and the weighted average maturity of investments held in the pool, by policy, is not to exceed 60 days. OSIP issues a publicly available financial report that can be obtained by writing to the Office of the General Treasurer, Finance Department, 50 Service Avenue - 2nd Floor, Warwick, RI 02886.

### Investments

The State Investment Commission oversees all investments made by the State of Rhode Island, including those made for the OPEB System. The General Treasurer makes certain short-term investments on a daily basis. Rhode Island General Law Section 35-10-11 (b) (3) requires that all investments shall be made in securities as would be acquired by prudent persons of discretion and intelligence who are seeking a reasonable income and the preservation of capital.

The assets of each of the plans are pooled for investment purposes only, and units are assigned to the plans based on their respective share of market value. The custodian bank holds assets of the OPEB System in a Pooled Account and each plan holds units in the account. The number of units held by each plan is a function of each plan's respective contributions to, or withdrawals from, the account.

Investment expense is allocated to each plan based on the plan's units in the pooled trust at the end of each month.

The following table presents the fair value of investments by type that are held within the pooled trust at June 30, 2012 (expressed in thousands):

<u>Investment Type</u>	<u>Fair Value</u>
US Government Securities	\$ 6,237
US Government Agency Securities	1,736
Collateralized Mortgage Obligations	859
Corporate Bonds	15,397
Money Market Mutual Fund	3,245
Commingled Funds - Domestic Equity	<u>14,241</u>
	41,715
Net investment receivable (payable)	<u>(572)</u>
Total Investments at Fair Value	<u>\$ 41,143</u>

Consistent with a target asset allocation model adopted by the State Investment Commission, the OPEB System maintains a diversified portfolio by sector, credit rating and issuer using the prudent person standard, which is the standard of care employed solely in the interest of the participants and beneficiaries of the funds and for the exclusive purpose of providing benefits to participants and defraying reasonable expenses of administering the funds.

### Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment.

The following table shows the OPEB System's fixed income investments by type, fair value and the effective duration at June 30, 2012 (expressed in thousands):

<u>Investment Type</u>	<u>Fair Value</u>	<u>Effective Duration</u>
US Government Agency Securities	\$ 1,736	2.11
US Government Securities	6,237	5.27
Collateralized Mortgage Obligations	859	3.40
Corporate Bonds	15,397	5.05
Total Fixed Income	\$ <u>24,229</u>	<u>4.85</u>

The OPEB System's investments in State Street Institutional Liquid Reserves, a money market mutual fund, had an average maturity of 25 days at June 30, 2012.

### Credit Risk

The OPEB System generally manages exposure to credit risk by adhering to an overall target weighted average credit quality for the portfolio. At June 30, 2012, all debt securities were U.S. Government Obligations and corporate bonds.

The OPEB System's exposure to credit risk on corporate bonds as of June 30, 2012 is as follows (expressed in thousands):

<u>Rating (1)</u>	<u>Collateralized Mortgage Obligations</u>	<u>US Government Agency Obligations</u>	<u>Corporate Bonds</u>
Aaa	\$ 737	\$ 1,736	\$ 3,300
Aa	122		2,299
A			3,344
Baa			5,450
Ba			286
Not Rated			718
Fair Value	\$ <u>859</u>	\$ <u>1,736</u>	\$ <u>15,397</u>

(1) Moody's Investor Service

The OPEB System's investment in a short-term money market mutual fund (State Street Institutional Liquid Reserves) was rated AAAM by Standard & Poor's Investors Service.

### Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of the OPEB System's investments in a single issuer. There is no single issuer exposure within the OPEB System's portfolio that comprises more than 5% of the overall portfolio.

### Custodial Credit Risk

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the OPEB System will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. At June 30, 2012, all securities were registered in the name of the OPEB

System (or in the nominee name of its custodial agent) and were held in the possession of its custodial bank, State Street Bank and Trust Co.

#### **Derivatives and other similar investments**

Through its commingled fund, the OPEB System indirectly holds derivative type instruments, primarily equity index futures.

#### **E. Private Purpose Trust**

The private purpose trust (Touro Jewish Synagogue) had investments of \$2,102,000 in the Fidelity Balanced Fund.

#### **F. Agency Funds**

As of June 30, 2012, all of the bank balances of Agency Funds were either covered by federal depository insurance or collateralized by securities held by an independent third party in the State's name.

**Note 3. Receivables**

Receivables at June 30, 2012 (expressed in thousands) consist of the following:

Primary Government	Taxes Receivable	Accounts Receivable	Notes and Loans Receivable	Total Receivables, Net	Due from Other Governments and Agencies	Due from Component Units
Governmental receivables	\$ 443,944	\$ 360,897	\$ 1,000	\$ 805,841	\$ 216,082	\$ 34,070
Less: Allowance for Uncollectibles	99,489	110,967		210,456		
Governmental receivables, net	344,455	249,930	1,000	595,385	216,082	34,070
Business-type receivables	70,940	32,626		103,566	1,858	
Less: Allowance for Uncollectibles	4,369	19,981		24,350		
Business-type receivables, net	66,571	12,645		79,216	1,858	
Receivables, Net of Allowance for Uncollectibles	411,026	262,575	1,000	674,601	217,940	34,070
Less: Current Portion						
Governmental receivables	333,319	235,128	1,000	569,447	213,402	1,915
Business-type receivables	66,571	12,645		79,216	1,858	
Noncurrent Receivables, Net	\$ 11,136	\$ 14,802	\$	\$ 25,938	\$ 2,680	\$ 32,155

**Note 4. Intra-Entity Receivables and Payables**

Intra-entity receivables and payables as of June 30, 2012 are the result of ongoing operations and are expected to be reimbursed within the subsequent fiscal year. They are summarized below (expressed in thousands):

	Interfund Receivable	Interfund Payable	Description
Governmental Funds			
Major Funds			
General	\$ 4,479	\$	Reimbursement for operating expenses
Intermodal Surface Transportation	956		Transportation funding
Non-Major Funds			
RI Temporary Disability Insurance		320	Debt service and administrative costs
Bond Capital		7,242	State match for transportation
RI Capital Plan		88	Excess transfer owed to General Fund
RI Historic Tax Credit	32		Tax credit fees owed to fund
Certificates of Participation	227		Fees restricted for COPS debt service
Total Non-Major Funds	259	7,650	
Total Governmental	5,694	7,650	
Proprietary Funds			
Enterprise			
RI Lottery		2,875	Net income owed to General Fund
RI Convention Center Authority	314		Project funding
Employment Security Trust	5,950		Benefit reimbursements
Total Enterprise	6,264	2,875	
Internal Service	393	1,826	Settlement of services rendered
Total primary government	\$ 12,351	\$ 12,351	

**Note 5. Capital Assets**

The capital asset activity of the reporting entity for the year ended June 30, 2012 consists of the following (expressed in thousands):

**Primary Government**

*Governmental Activities*

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets not being depreciated or amortized:				
Land	\$ 351,873	\$ 7,305	\$ (210)	\$ 358,968
Works of Art	1,283	131		1,414
Intangibles	155,206	3,887		159,093
Construction in progress	427,459	244,838	(225,577)	446,720
Total capital assets not being depreciated or amortized	<u>935,821</u>	<u>256,161</u>	<u>(225,787)</u>	<u>966,195</u>
Capital assets being depreciated or amortized:				
Land improvements	3,700			3,700
Buildings	644,386	40,379	(532)	684,233
Building Improvements	260,066	9,427	(518)	268,975
Furniture and equipment	242,348	9,717	(7,088)	244,977
Intangibles	14,049			14,049
Infrastructure	2,949,715	176,558	(10,884)	3,115,389
Total capital assets being depreciated or amortized	<u>4,114,264</u>	<u>236,081</u>	<u>(19,022)</u>	<u>4,331,323</u>
Less accumulated depreciation or amortization for:				
Land improvements	3,328	61		3,389
Buildings	200,160	14,925	(532)	214,553
Building Improvements	168,047	7,083	(518)	174,612
Furniture and equipment	211,641	12,845	(7,088)	217,398
Intangibles	10,835	1,435		12,270
Infrastructure	1,326,054	106,100	(10,884)	1,421,270
Total accumulated depreciation or amortization	<u>1,920,065</u>	<u>142,449</u>	<u>(19,022)</u>	<u>2,043,492</u>
Total capital assets being depreciated or amortized, net	<u>2,194,199</u>	<u>93,632</u>		<u>2,287,831</u>
Governmental activities capital assets, net	<u>\$ 3,130,020</u>	<u>\$ 349,793</u>	<u>\$ (225,787)</u>	<u>\$ 3,254,026</u>

The current period depreciation or amortization was charged to the governmental functions on the Statement of Activities as follows:

General government	\$ 8,871
Human services	6,861
Education	3,436
Public safety	11,101
Natural resources	5,794
Transportation	106,386
Total depreciation or amortization expense - governmental activities	<u>\$ 142,449</u>

*Business-type Activities*

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets not being depreciated:				
Land	\$ 45,558	\$	\$	\$ 45,558
Construction in progress	154	407	(537)	24
Total capital assets not being depreciated	45,712	407	(537)	45,582
Capital assets being depreciated:				
Buildings	234,130	288	(34)	234,384
Machinery and equipment	24,956	873	(182)	25,647
Total capital assets being depreciated	259,086	1,161	(216)	260,031
Less accumulated depreciation for:				
Buildings	100,816	8,447	(34)	109,229
Machinery and equipment	16,862	2,243	(182)	18,923
Total accumulated depreciation	117,678	10,690	(216)	128,152
Total capital assets being depreciated, net	141,408	(9,529)		131,879
Business-type activities capital assets, net	<u>\$ 187,120</u>	<u>\$ (9,122)</u>	<u>\$ (537)</u>	<u>\$ 177,461</u>

*Discretely Presented Component Units*

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets not being depreciated or amortized:				
Land *	\$ 112,684	\$ 1,429	\$ (2,244)	\$ 111,869
Construction in progress *	329,844	234,442	(88,194)	476,092
Other	250			250
Total capital assets not being depreciated or amortized	442,778	235,871	(90,438)	588,211
Capital assets being depreciated or amortized:				
Buildings *	1,742,287	69,542	(1,463)	1,810,366
Land improvements *	176,680	18,084	(527)	194,237
Machinery and equipment *	362,632	35,391	(15,463)	382,560
Intangibles	4,100		(4,100)	
Infrastructure *	666,510	32,034		698,544
Total capital assets being depreciated or amortized	2,952,209	155,051	(21,553)	3,085,707
Less accumulated depreciation or amortization for:				
Buildings *	647,076	58,682	(1,269)	704,489
Land improvements	104,528	4,821		109,349
Machinery and equipment *	198,968	25,006	(14,865)	209,109
Intangibles	4,100		(4,100)	
Infrastructure *	116,284	14,219		130,503
Total accumulated depreciation or amortization	1,070,956	102,728	(20,234)	1,153,450
Total capital assets being depreciated or amortized, net	1,881,253	52,323	(1,319)	1,932,257
Total capital assets, net	<u>\$ 2,324,031</u>	<u>\$ 288,194</u>	<u>\$ (91,757)</u>	<u>\$ 2,520,468</u>

\* Beginning balances have been restated.

**Note 6. Long-Term Liabilities**

**A. Changes in Long-Term Liabilities**

Changes in long-term liabilities for the year ended June 30, 2012 are presented in the following table:

	<b>Long-term Liabilities</b>			Ending Balance	Amounts Due Within One Year	Amounts Due Thereafter
	Beginning Balance	Additions	Reductions			
<i>(Expressed in Thousands)</i>						
<b>Governmental Activities</b>						
<i>Bonds Payable</i>						
General obligation bonds (see section B)	\$ 1,049,400	\$ 291,765	\$ (230,580)	\$ 1,110,585	\$ 88,040	\$ 1,022,545
RIEDC Grant Anticipation Revenue Bonds	372,310		(29,590)	342,720	31,075	311,645
RIEDC Rhode Island Motor Fuel Tax Revenue Bonds	74,060		(3,710)	70,350	3,840	66,510
Tobacco Settlement Asset-Backed Bonds	795,161		(15,735)	779,426		779,426
Accreted interest on TSFC bonds	51,710	15,191		66,901		66,901
RIEDC Historic Tax Credit Bonds	120,820		(14,830)	105,990	15,415	90,575
Net unamortized premium/discount	22,235	44,903	(7,268)	59,870		59,870
Deferred amount on refunding	(6,744)	(11,455)	1,360	(16,839)		(16,839)
<b>Bonds Payable, net</b>	<b>2,478,952</b>	<b>340,404</b>	<b>(300,353)</b>	<b>2,519,003</b>	<b>138,370</b>	<b>2,380,633</b>
Obligation under capital leases (see section E)	224,045	31,980	(22,225)	233,800	22,835	210,965
Net unamortized premium/discount	5,051	517	(946)	4,622		4,622
Deferred amount on refunding	(1,200)		242	(958)		(958)
<b>Obligation under capital leases, net</b>	<b>227,896</b>	<b>32,497</b>	<b>(22,929)</b>	<b>237,464</b>	<b>22,835</b>	<b>214,629</b>
Compensated absences	89,269	63,030	(71,236)	81,063	67,782	13,281
Net OPEB Obligation (see note 14 C)	13,257	128		13,385		13,385
Special obligation notes	13,100		(4,925)	8,175	1,500	6,675
<i>Other Long-term Liabilities</i>						
Pollution remediation	20,222	6,193	(14,900)	11,515	3,025	8,490
Other	57,493	8,771	(20,087)	46,177	11,388	34,789
<b>Total Governmental Long-term Liabilities</b>	<b>\$ 2,900,189</b>	<b>\$ 451,023</b>	<b>\$ (434,430)</b>	<b>\$ 2,916,782</b>	<b>\$ 244,900</b>	<b>\$ 2,671,882</b>
<b>Business-type Activities</b>						
Revenue bonds (see section B)	\$ 259,620	\$	\$ (9,110)	\$ 250,510	\$ 9,570	\$ 240,940
Net unamortized premium/discount	963		(138)	825		825
Deferred amount on refunding	(10,914)		1,114	(9,800)		(9,800)
<b>Revenue bonds, net</b>	<b>249,669</b>		<b>(8,134)</b>	<b>241,535</b>	<b>9,570</b>	<b>231,965</b>
Notes payable	607		(188)	419	188	231
Deferred Revenue	7,500	770	(625)	7,645	625	7,020
Compensated absences	434	232	(266)	400	172	228
Due to Other Governments and Agencies (see Section J)	222,352	2,294		224,646		224,646
<b>Total Business-type Long-term Liabilities</b>	<b>\$ 480,562</b>	<b>\$ 3,296</b>	<b>\$ (9,213)</b>	<b>\$ 474,645</b>	<b>\$ 10,555</b>	<b>\$ 464,090</b>
<b>Component Units</b>						
Bonds payable (see section B)	\$ 3,769,666	\$ 235,820	\$ (388,704)	\$ 3,616,782	\$ 188,174	\$ 3,428,608
Net unamortized premium/discount	41,841	9,025	(2,329)	48,537	105	48,432
Deferred amount on refunding	(12,137)		1,238	(10,899)		(10,899)
<b>Bonds Payable, net</b>	<b>3,799,370</b>	<b>244,845</b>	<b>(389,795)</b>	<b>3,654,420</b>	<b>188,279</b>	<b>3,466,141</b>
Notes payable (see section C)	82,994	251,467	(236,674)	97,787	87,744	10,043
Loans payable (see section D)	359,678	41,617	(18,931)	382,364	20,448	361,916
Obligations under capital leases	12,028	130	(1,785)	10,373	1,368	9,005
Net OPEB obligation	32,876	7,369	(131)	40,114		40,114
Compensated absences	34,287	1,356	(1,560)	34,083	10,002	24,081
Due to primary government	37,596	107	(3,633)	34,070	1,915	32,155
Due to Other Governments and Agencies	364,995	88	(62,076)	303,007	35,543	267,464
Deferred Revenue	48,169	8,957	(499)	56,627	37,715	18,912
Due to Component Units	3,064	49,034	(2,429)	49,669	47,033	2,636
<i>Other Long-term liabilities</i>						
Arbitrage rebate	14,827	5,863	(4,163)	16,527	11,019	5,508
Pollution remediation	31,221		(5,721)	25,500	1,245	24,255
Other liabilities	230,405	36,547	(11,625)	255,327	14,478	240,849
<b>Total Component Units Long-term Liabilities</b>	<b>\$ 5,051,510</b>	<b>\$ 647,380</b>	<b>\$ (739,022)</b>	<b>\$ 4,959,868</b>	<b>\$ 456,789</b>	<b>\$ 4,503,079</b>

Certain beginning balances of the component units have been reclassified to conform with the financial statement presentation.

## B. Bonds Payable

At June 30, 2012, future debt service requirements were as follows (expressed in thousands):

Fiscal Year Ending June 30	Primary Government				Component Units	
	Governmental Activities		Business Type Activities		Principal	Interest
	Principal	Interest	Principal	Interest		
2013	\$ 138,370	\$ 113,161	\$ 9,570	\$ 13,565	\$ 188,174	\$ 139,088
2014	126,830	108,793	10,060	13,075	116,755	134,512
2015	138,215	102,750	10,550	12,535	114,201	129,946
2016	144,165	96,083	11,095	11,983	117,252	125,197
2017	151,700	88,749	11,645	11,424	117,654	120,342
2018 - 2022	548,725	345,997	67,655	47,604	687,290	513,911
2023 - 2027	320,820	234,338	87,150	27,907	659,561	365,037
2028 - 2032	103,280	179,728	24,345	10,185	621,150	223,071
2033 - 2037	168,260	116,156	18,440	2,279	497,670	110,936
2038 - 2042	371,700	116,156			345,595	38,323
2043 - 2047					66,020	13,824
2048 - 2052	197,006	2,637,174 *			85,460	2,388
	<u>\$ 2,409,071</u>	<u>\$ 4,139,085</u>	<u>\$ 250,510</u>	<u>\$ 150,557</u>	<u>\$ 3,616,782</u>	<u>\$ 1,916,575</u>

\* Accreted interest on capital appreciation bonds of the Tobacco Settlement Financing Corporation.

### Primary Government - Governmental Activities

General obligation bonds of the State are serial bonds with interest payable semi-annually. During the year ended June 30, 2012 the State issued the following general obligation bonds:

- \$145,035,000 Consolidated Capital Development Loan of 2011, Series A, with interest rates ranging from 0.00% to 5.50%, maturing from 2013 through 2032.
- \$23,780,000 Consolidated Capital Development Loan of 2011, Refunding Series B, with interest rates ranging from 2.00% to 5.00%, maturing from 2013 through 2016. The proceeds were used to effect an advance refunding of \$25,535,000 of general obligation bonds. The net proceeds from the sale of the refunding bonds were used to purchase U.S. Government securities which were deposited in an irrevocable trust with an escrow agent to provide for all future debt service of the refunded bonds. The refunding met the requirements of an in-substance debt defeasance and the refunded bonds were removed from the Statement of Net Assets. The refunding decreases total debt service payments over the next 4 years by \$2,253,000 and resulted in an economic gain (difference between the present values of the debt service payments on the old and new debt) of \$2,191,000.
- \$122,950,000 Consolidated Capital Development Loan of 2012, Refunding Series A, with interest rates ranging from 3.00% to 5.00%, maturing from 2016 through 2028. The proceeds were used to effect an advance refunding of \$131,815,000 of general obligation bonds. The net proceeds from the sale of the refunding bonds were used to purchase U.S. Government securities which were deposited in an irrevocable trust with an escrow agent to provide for all future debt service of the refunded bonds. The refunding met the requirements of an in-substance debt defeasance and the refunded bonds were removed from the Statement of Net Assets. The refunding decreases total debt service payments over the next 16 years by \$6,479,000 and resulted in an economic gain (difference between the present values of the debt service payments on the old and new debt) of \$7,302,000.

At June 30, 2012, general obligation bonds authorized by the voters and unissued amounted to \$117,000,000. In accordance with the General Laws, unissued bonds are subject to extinguishment seven years after the debt authorization was approved, unless extended by the General Assembly.

In addition to the debt authorized by the voters for which the full faith and credit is pledged, the General Assembly has authorized the issuance of other debt that is subject to annual appropriation. The following authorizations have been enacted and the State plans to issue the debt over the next several years: (1) Energy Conservation Certificates of Participation - \$52,720,000, (2) Economic Development Corporation -

Fund to Grow Rhode Island Companies - \$44,500,000, (3) Economic Development Corporation – 195 Land Sales - \$42,000,000 and Information Technology Improvements Certificates of Participation - \$45,300,000.

*RIEDC Grant Anticipation Bonds and Rhode Island Motor Fuel Tax Revenue Bonds* - The R.I. Economic Development Corporation (RIEDC), on behalf of the State, issues special obligation debt. Grant Anticipation Revenue Vehicle Bonds are payable solely from future federal aid revenues to be received by the State in reimbursement of federally eligible costs of specific transportation construction projects. Rhode Island Motor Fuel Tax Revenue Bonds are payable solely from certain pledged revenues derived from two cents (\$.02) per gallon of the thirty-two cents (\$.32) per gallon Motor Fuel Tax. The bonds provide the State matching funds for the Grant Anticipation Revenue Vehicle Bonds. The bonds do not constitute a debt, liability, or obligation of the State or any political subdivision thereof. The RIEDC has no taxing power. The obligation of the State to make payments to the trustee of future federal aid revenues and future pledged motor fuel taxes is subject to annual appropriation by the General Assembly. Pledged revenues were sufficient to fund fiscal 2012 debt service payments for Grant Anticipation and Motor Fuel Tax Revenue Bonds. These revenues have been pledged for the term of the Grant Anticipation and Motor Fuel Tax Revenue Bonds through fiscal 2021 and 2027, respectively.

*Tobacco Settlement Asset-Backed Bonds and Accreted Interest* - The Tobacco Settlement Financing Corporation (TSFC), a blended component unit, has issued \$882,395,742 of Tobacco Asset-Backed Bonds that were used to purchase the State's future rights in the Tobacco Settlement Revenues under the Master Settlement Agreement and the Consent Decree and Final Judgment. The bonds are secured solely by and are payable solely from the tobacco receipts sold to the TSFC and other monies of the TSFC and do not constitute a general, legal, or moral obligation of the State or any political subdivision thereof, and the State has no obligation or intention to satisfy any deficiency or default of any payment of the bonds. The TSFC has no taxing power. Certain of the TSFC bonds are capital appreciation bonds on which no periodic interest payments are made, but which are issued at a deep discount from par and accrete to full value at maturity in the year 2052. The bond indenture contains "Turbo Maturity" provisions, whereby the corporation is required to apply 100% of all collections that are in excess of the current funding requirements of the indenture to the early redemption of the bonds. During the year ended June 30, 2012, TSFC utilized \$15,735,000 of excess collections to early redeem an equal amount of outstanding bonds. Pledged tobacco revenues were sufficient to fund fiscal 2012 debt service payments for Tobacco Settlement Asset-Backed bonds. These revenues have been pledged for the term of the underlying debt through fiscal 2052.

*Historic Tax Credit Bonds* - In FY2009 the RIEDC, on behalf of the State, issued \$150,000,000 of revenue bonds under the Historic Structures Tax Credit Financing Program. The bonds do not constitute a debt, liability, or obligation of the State or any political subdivision thereof. The RIEDC has no taxing power. The State is obligated under a Payment Agreement to make payments to the trustee. This obligation is subject to annual appropriation by the General Assembly. The proceeds of the bonds are being used to provide funds for redemption of Historic Structures Tax Credits. There is remaining authorization to issue up to \$206,200,000 of Historic Tax Credit Bonds.

### **Primary Government - Business-Type Activities**

#### *R.I. Convention Center Authority*

The R.I. Convention Center Authority (RICCA) is limited to the issuance of bonds or notes in an aggregate principal amount of \$305,000,000. At June 30, 2012, outstanding bond and note indebtedness totaled \$250,929,000.

Revenue bonds of RICCA were issued to (a) refund bonds and notes, (b) pay construction costs, (c) pay operating expenses, (d) pay interest on revenue bonds prior to completion of construction, (e) fund a debt service reserve, (f) pay costs of issuance and (g) acquire and renovate the Dunkin Donuts Center. The revenue bonds are secured by all rents receivable, if any, under a lease agreement between the RICCA and the State covering all property purchased by the RICCA. The agreement also covers a mortgage on facilities and land financed by the proceeds of the revenue bonds and amounts held in various accounts into which bond proceeds were deposited. Minimum annual lease payments by the State are equal to the gross debt service of RICCA. In the event of an operating deficit (excluding depreciation), annual lease payments may be increased by the amount of the deficit. The obligation of the State to pay such rentals is subject to and

dependent upon annual appropriations of such payments being made by the Rhode Island General Assembly for such purpose. Those appropriations are made in connection with the State's annual budgetary process and are therefore dependent upon the State's general financial resources and factors affecting such resources. In addition, outstanding indebtedness is insured under certain financial guaranty insurance policies.

All outstanding indebtedness is subject to optional and mandatory redemption provisions. Mandatory redemption is required for certain bonds over various years through 2027 at the principal amount of the bonds. Certain bonds may be redeemed early, at the option of RICCA, at amounts ranging from 100% to 102% of the principal balance.

Each of the RICCA's Bond Resolutions contains certain restrictive covenants. During fiscal year 2012, the RICCA was unable to fund the Operating Reserve and Debt Service Reserve requirements.

### **Discretely Presented Component Units**

#### *University of Rhode Island, Rhode Island College and the Community College of Rhode Island*

The University of Rhode Island (URI), Rhode Island College (RIC), and the Community College of Rhode Island (CCRI) have issued a number of series of revenue bonds to finance housing, student union (including bookstores) and dining facilities. Under terms of the trust indentures, certain net revenues from these operations must be transferred to the trustees for payment of interest, retirement of bonds, and maintenance of facilities. The bonds are payable in annual or semi-annual installments to various maturity dates. Revenue bonds also include amounts borrowed under loan and trust agreements between the R.I. Health and Educational Building Corporation (RIHEBC) and the Board of Governors for Higher Education acting for URI, RIC, and CCRI. The agreements provide for RIHEBC's issuance of the bonds with a loan of the proceeds to the university and colleges and the payment by the university and colleges to RIHEBC of loan payments that are at least equal to debt service on the bonds. The bonds are secured by a pledge of revenues of the respective institutions.

#### *R.I. Housing and Mortgage Finance Corporation*

Bonds of the R.I. Housing and Mortgage Finance Corporation (RIHMFC) are special obligations of RIHMFC, payable from the revenue, prepayments and all the funds and accounts pledged under the various bond resolutions to the holders of the bonds. The proceeds of the bonds were generally used to acquire mortgage loans which are secured principally by a first lien upon real property and improvements.

#### *R.I. Economic Development Corporation*

The R.I. Economic Development Corporation (RIEDC) has bonds outstanding referred to as Airport Revenue Bonds. They were issued to finance the construction and related costs of certain capital improvements at T.F. Green State Airport. The proceeds of the bonds were loaned to the R.I. Airport Corporation, a subsidiary and component unit of RIEDC.

Per its Master Indenture of Trust and Supplemental Indentures, the R.I. Airport Corporation (RIAC) has pledged net revenues derived from the operation by RIAC of the Airport and certain outlying airports to repay \$252,590,000 in airport revenue bonds. Proceeds from the bonds were used for various airport improvement projects. The amount available to pay debt service per the Master Indenture, including pledged passenger facility charges, was approximately \$38,098,000 for the year ended June 30, 2012. Principal and interest payments for the year ended June 30, 2012 were approximately \$22,528,000.

RIAC has pledged facility revenues related to the InterLink Facility, net of specified operating expenses, to repay \$48,195,000 in First Lien Special Facility Bonds. Proceeds from the bonds were used for the construction of the InterLink Facility. Facility revenues, including interest income, were \$7,646,000 for the year ended June 30, 2012. Principal and interest paid for the year ended June 30, 2012 was approximately \$2,977,000. Principal payments commenced on July 1, 2011. 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 and Boston; and a parking garage for rental car operators and rail commuters.

In June 2006, the R.I. Airport Corporation (RIAC), RIEDC and the R.I. Department of Transportation (RIDOT) executed a Secured Loan Agreement (Agreement) which provides for borrowings of up to \$42,000,000 with the United States Department of Transportation under the Transportation Infrastructure Finance and Innovation Act of 1998. The purpose of the Agreement is to reimburse RIEDC and RIDOT and to provide funding to RIAC for a portion of eligible project costs related to the InterLink Facility Project. RIAC is permitted under the Agreement to make requisitions of funds for eligible project costs, and it is anticipated that such requisitions will occur through fiscal year 2013. Upon completion of the project, RIAC began making monthly payments of principal and interest, with interest at a rate of 5.26%. Payments are made on behalf of RIEDC (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 Facility. As of June 30, 2012, RIAC had \$40,059,000 in borrowings under this agreement.

The RI Economic Development Corporation is authorized to issue bonds or other obligations not to exceed \$42,000,000 to finance the acquisition by the I-195 Redevelopment Commission of the surplus land from the State. These bonds will be repaid by the Redevelopment Commission from the proceeds of the sale of land and are also to be secured by a capital reserve fund. Any deficiency in the capital reserve fund is subject to annual appropriation by the General Assembly. No bonds have been issued as of June 30, 2012. See Note 17 B – Related Party Transactions.

*R.I. Industrial-Recreational Building Authority*

The \$60,000,000 of authorized bonds that may be issued by the R.I. Industrial-Recreational Building Authority (RIIRBA) are limited by mortgage balances that it has insured which are guaranteed by the State. See Note 11 for details of specific commitments relating to a defaulted project guaranteed by RIIRBA.

*Other Component Units*

Other nonmajor component units have various bonds outstanding. These revenue bonds were generally issued to fulfill the component unit's corporate purpose. Additional information on each nonmajor component unit's debt obligations is available in their audited financial statements.

**C. Notes Payable**

**Primary Government**

*Special Obligation Notes* (expressed in thousands) at June 30, 2012 are as follows:

Note payable to a financial institution - to finance the design, development and implementation of a motor vehicles information management system for the Division of Motor Vehicles – the note is payable with interest of 4.2137% due semi-annually and principal due April 1, 2013-2017	\$ 8,175
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The special obligation note is subject to annual appropriation by the General Assembly. The note payable to a financial institution will be repaid from a \$1.50 surcharge on every transaction processed at the Division of Motor Vehicles. This surcharge is pledged to fund debt service on the note. Pledged revenues were sufficient to fund fiscal 2012 debt service payments for this special obligation note. These revenues have been pledged for the term of the note through fiscal 2017.

### Discretely Presented Component Units

Notes payable (expressed in thousands) at June 30, 2012 are as follows:

Component Units	
Rhode Island College note payable to the federal government with interest at 5.5% payable in semi-annual installments of principal and interest through 2024.	\$ 1,525
R.I. Housing and Mortgage Finance Corporation bank notes and lines of credit, 1.29% to 6.25% interest, payable through 2030.	93,886
R.I. Economic Development Corporation (Quonset Development Corporation) monthly payments of principal and interest through FY 2016 bearing interest at 5.00%.	2,026
R.I. Economic Development Corporation (R.I. Airport Corporation) note payable at 4.15% interest, payable through 2015	350
	<u>97,787</u>
Less: current portion	(87,744)
	<u><u>\$ 10,043</u></u>

### D. Loans Payable

#### Discretely Presented Component Units

Loans payable include liabilities of the Narragansett Bay Commission (NBC) to the R.I. Clean Water Finance Agency (RICWFA) of \$340,979,944.

### E. Obligations Under Capital Leases

#### Primary Government

The State has entered into capital lease agreements, Certificates of Participation (COPS), with financial institutions. These financing arrangements have been used by the State to acquire, construct or renovate facilities and acquire other capital assets. The State's obligation under capital leases at June 30, 2012 consists of the present value of future minimum lease payments less any funds available in debt service reserve funds. Obligation of the State to make payments under lease agreements is subject to and dependent upon annual appropriations being made by the General Assembly.

In July 2011 the State issued \$31,980,000 of Lease Participation Certificates with interest rates from 2.00% to 4.50%. The proceeds will be used for a number of energy conservation projects at State facilities. The certificates mature in 2012 through 2026.

The following is a summary of material future minimum lease payments (expressed in thousands) required under capital leases that have initial or remaining noncancelable lease terms in excess of one year as of June 30, 2012:

Fiscal Year Ending June 30	COPS
2013	\$ 33,225
2014	31,608
2015	30,949
2016	30,514
2017	27,401
2018 - 2022	100,037
2023 - 2027	42,869
2028 - 2032	4,964
Total future minimum lease payments	<u>301,567</u>
Amount representing interest	(67,767)
Present value of future minimum lease payments	<u><u>\$ 233,800</u></u>

## F. Defeased Debt

In prior years, the State and its component units defeased certain general obligation bonds and revenue bonds by placing the proceeds of the new bonds or other sources in irrevocable trusts to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liabilities for the defeased bonds are not included in the basic financial statements. At June 30, 2012, the following bonds outstanding (expressed in thousands) are considered defeased:

	Amount
Primary government:	
General Obligation Bonds	\$ 176,150
R.I. Convention Center Authority	25,800
Component Units:	
R.I. Depositors Economic Protection Corporation (ceased operations during FY04)	168,125
R.I. Economic Development Corporation	13,060
R.I. Turnpike and Bridge Authority	32,300
R.I. Clean Water Finance Agency	53,410

## G. Conduit Debt

The R.I. Industrial Facilities Corporation, the R.I. Health and Educational Building Corporation and the R.I. Economic Development Corporation issue revenue bonds, equipment acquisition notes, and construction loan notes to finance various capital expenditures for Rhode Island business entities. The bonds and notes issued by the corporations are not general obligations of the corporations and are payable solely from the revenues derived from the related projects. They neither constitute nor give rise to a pecuniary liability for the corporations nor do they represent a charge against their general credit. Under the terms of the various indentures and related loan and lease agreements, the business entities make loan and lease payments directly to the trustees of the related bond and note issues in amounts equal to interest and principal payments due on the respective issues. The payments are not shown as receipts and disbursements of the corporations, nor are the related assets and obligations included in the financial statements. The amount of conduit debt outstanding on June 30, 2012 was \$65,500,000, \$3,005,229,000 and \$1,063,000,000 respectively, for these component units. Certain issues of conduit debt are moral obligations of the State, and the current amounts outstanding are disclosed in Note 12.

## H. Short-Term Borrowing

The table below summarizes General Fund short-term borrowing (expressed in thousands) for the fiscal year ended June 30, 2012:

	Balance July 1, 2011	Additions	Reductions	Balance June 30, 2012
General Obligation Tax Anticipation Notes	\$ 0	\$ 200,000	\$ 200,000	\$ 0
Total Short-Term Borrowing	\$ 0	\$ 200,000	\$ 200,000	\$ 0

The borrowings were used to provide short-term working capital.

In addition, R.I. Housing & Mortgage Corporation had outstanding balances of \$68,000,000 on two lines of credit that are payable on demand and accrue interest at rates ranging from 1.29% to 1.70%.

## I. Pollution Remediation Liabilities

GASB Statement No. 49 establishes guidance to estimate and report potential costs which may be incurred for pollution remediation liabilities. GASB 49 requires the reporting entity to reasonably estimate and report a remediation liability when one of the following obligating events has occurred:

- Pollution poses an imminent danger to the public and the reporting entity is compelled to take action.
- The reporting entity is in violation of a pollution related permit or license.
- The reporting entity is named or has evidence it will be named as a responsible party by a regulator.

- The reporting entity is named or has evidence it will be named in a lawsuit to enforce a cleanup.
- The reporting entity commences or legally obligates itself to conduct remediation activities.

The State and certain component units have remediation activities underway, and these are in stages including site investigation, planning and design, clean up and site monitoring. Several agencies within State government have as part of their mission the responsibility to investigate possible pollution sites and oversee the remediation of those sites. These agencies have the expertise to estimate the remediation obligations presented herein based on prior experience in identifying and funding similar remediation activities. The remediation liabilities reported have been calculated using the expected cash flow technique. Situations posing potential liabilities, for which a reasonable estimate could not be made, have not been included.

The remediation obligation estimates presented are subject to change over time. Cost may vary due to price fluctuations, changes in technology, changes in potential responsible parties, results of environmental studies, changes in laws or regulations, and other factors that could result in revision to the estimates. Recoveries from responsible parties may reduce the State's obligation. Capital assets may be created when pollution remediation outlays are made under specific circumstances.

#### **J. Due to Other Governments and Agencies**

The State had borrowed \$224,646,000 at June 30, 2012 from the federal government (Unemployment Insurance Trust Fund) to fund employment insurance benefits paid from the Employment Security Fund to eligible unemployed individuals. Interest accrued beginning January 1, 2011 and is payable on October 1 of each year.

The interest due on federal loans cannot be paid from employer taxes and federal revenue received by the State to pay unemployment benefits. In recent years, the General Assembly passed legislation increasing the Job Development Fund Assessment on employers by 0.3%, dedicating the additional assessment to pay the principal and interest on the federal loans. Other legislative changes, effective in fiscal year 2012 and 2013, included adjusting the unemployment insurance taxable wage base and reducing individual unemployment benefit amounts. Estimated savings from these changes are designed to reduce the amount owed to the federal government in future years.

The State projects that it will need to continue to borrow in fiscal year 2013 as authorized by Federal law in order to meet its cash flow needs to finance the cost of unemployment benefit payments.

#### **K. Compensated Absences**

State employees and those of certain component units are granted vacation and sick leave in varying amounts based upon years of service. Additionally, the State has deferred payment of certain compensation to employees. A liability has been calculated for all earned vacation credits subject to certain limitations and vested sick leave credits that are payable at retirement subject to certain limitations. Payment is calculated at their current rate of pay.

#### **L. Arbitrage Rebate**

A liability accrues for income on the investment of debt proceeds determined to be arbitrage earnings in accordance with federal regulations. These amounts are generally payable to the federal government five years after the issuance date of the bonds.

#### **M. Due to the Primary Government**

This consists of the repayment of general obligation debt that was issued by the State on behalf of certain component units.

#### **N. Other Long-Term Liabilities**

*Governmental Activities* - the liabilities consist primarily of:

- *Retainage related to infrastructure construction projects* - these amounts are considered long-term liabilities since the related construction projects are not expected to be completed in the subsequent fiscal period.
- *Tax refunds payable* - these amounts are tax carry-forward credits for taxpayers that are not expected to be paid in the subsequent fiscal period.

In addition, certain other long-term payables are included in this category. Historically, long-term liabilities, other than debt, will be paid through certain funds as follows:

- Compensated Absences – Assessed Fringe Benefits Fund, an internal service fund and the respective fund to which the underlying employee’s wages and benefits are charged.
- Net OPEB Obligation – General Fund.
- Pollution remediation – General, RI Capital Plan, and Intermodal Surface Transportation Funds.
- Other long-term liabilities – General and Intermodal Surface Transportation Funds.

*Component Units* – the liabilities consist primarily of landfill closure and post-closure costs and grants refundable.

**Note 7. Net Assets/Fund Balances**

**Governmental Activities**

*Restricted Net Assets*

The Statement of Net Assets reflects \$552,863,000 of restricted net assets, of which \$232,636,000 is restricted by enabling legislation. The restricted net assets that are restricted by enabling legislation are included in the Temporary Disability Insurance Program and Other categories on the Statement of Net Assets. The principal components of the remaining balance of the restricted net assets relate to the Budget Reserve and Cash Stabilization Account and unexpended bond proceeds.

**Governmental Funds – Fund Balances**

*Governmental fund balance categories are detailed below (expressed in thousands):*

	Major Funds			Total
	General Fund	IST Fund	Other Funds	
Fund Balances:				
Nonspendable:				
Permanent Fund Principal	\$	\$	\$ 174	\$ 174
Restricted for:				
Budget Reserve and Cash Stabilization	153,408			153,408
Purposes specified by enabling legislation	78,940			78,940
Debt Service		13,722	71,077	84,799
Capital Projects			234,253	234,253
Temporary Disability Insurance			153,696	153,696
Historic Tax Credit Redemption			23,490	23,490
Transportation		97,815		97,815
Education			1,841	1,841
Other			381	381
Committed to:				
Appropriations Carried Forward by Statute:				
Judiciary	136			136
Legislature	6,337			6,337
Transportation		1,742		1,742
Employees' Retirement System Transfer	12,944			12,944
Other	3,376			3,376
Assigned to:				
Subsequent Years Expenditures	97,393			97,393
Other	246	117	201	564
Unassigned:	20,374	(4,717)		15,657
Totals	\$ 373,154	\$ 108,679	\$ 485,113	\$ 966,946

Article IX of the State Constitution requires the maintenance of a State Budget Reserve and Cash Stabilization Account (“Reserve”) within the State’s General Fund. Section 35-3 of the General Laws specifically establishes the annual minimum balance requirements for the account. For fiscal year 2012, 2.80% of total general revenues and opening surplus are transferred to the Reserve. Amounts in excess of 4.60% of total general revenues and opening surplus are transferred to the RI Capital Plan Fund to be used for capital projects. The Reserve, or any portion thereof, may be appropriated in the event of an

emergency involving the health, safety or welfare of the citizens of the State or in the event of an unanticipated deficit in any given year. Such appropriations must be approved by a majority of each chamber of the General Assembly.

The State has not adopted any minimum fund balance requirements for any funds beyond the State Budget Reserve and Cash Stabilization Account within the General Fund.

Pursuant to the General Laws upon issuance of the audited financial statements, the State Controller is required to transfer all general revenues received in the fiscal year (net of the transfer to the State Budget Reserve and Cash Stabilization Account) in excess of those estimates adopted for that fiscal year as contained in the final enacted budget, to the Employees' Retirement System. The amount of such transfer is \$12,944,000 which is reflected in the committed category of fund balance in the table above. It is anticipated the transfer will be made in fiscal year 2013 upon issuance of the audited financial statements.

**Note 8. Taxes**

Tax revenue reported on the Statement of Activities is reported net of the allowance for uncollectible amounts and net of estimated refunds. Tax revenue on the Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds is reported net of estimated refunds, uncollectible amounts and the amount that will not be collected within one year (unavailable). The unavailable amount is reported as deferred revenue. The detail of the general revenue taxes as stated on the Statement of Activities and the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances is presented below (expressed in thousands):

	Governmental Funds	Statement of Activities
General Fund		
Personal Income	\$ 1,059,119	\$ 1,060,605
General Business Taxes:		
Business Corporations	122,140	121,668
Public Utilities Gross Earnings	100,631	100,683
Financial Institutions	3,558	10,246
Insurance Companies	85,205	85,253
Bank Deposits	2,001	2,001
Health Care Provider Assessment	41,922	41,918
Sub-total - General Business Taxes	<u>355,457</u>	<u>361,769</u>
Sales and Use Taxes:		
Sales and Use	851,056	853,081
Motor Vehicle	48,392	48,392
Motor Fuel	733	745
Cigarettes	131,086	131,043
Alcoholic	11,874	11,874
Sub-total - Sales and Use Taxes	<u>1,043,141</u>	<u>1,045,135</u>
Other Taxes:		
Inheritance and Gift	46,412	46,657
Racing and Athletics	1,327	1,327
Realty Transfer	6,435	6,435
Sub-total - Other Taxes	<u>54,174</u>	<u>54,419</u>
Total - General Fund	<u>2,511,891</u>	<u>2,521,928</u>
Intermodal Surface Transportation Fund		
Gasoline	136,646	136,646
Other Governmental Funds	165,794	165,794
Total Taxes	<u>\$ 2,814,331</u>	<u>\$ 2,824,368</u>

**Note 9. Operating Transfers**

Operating transfers for the fiscal year ended June 30, 2012 are presented below (expressed in thousands):

	Transfers	Description
Governmental Activities		
Major Funds		
General		
Major Funds		
Intermodal Surface Transportation	\$ 50,686	Debt service and operating assistance
Nonmajor Funds		
RI Temporary Disability Insurance	1,811	Administrative cost reimbursement
Historic Tax Credit	6,558	Reimbursement for tax credits claimed
Bond Capital	5,091	Interest earnings transfer
RI Capital Plan	3	Reimbursement for capital expenditures
Business-Type Activities		
Lottery	377,706	Net income transfer
Employment Security	97	Administrative cost reimbursement
Intermodal Surface Transportation		
Bond Capital	52,841	Infrastructure funding
Nonmajor Funds		
COPs		
General	2,186	Debt service
RI Capital Plan		
General	70,264	Transfer statutory excess in budget reserve
Bond Capital	12,554	Premium on new bonds
RI Public Rail Corporation		
Intermodal Surface Transportation	1,882	Operating assistance
Total Governmental Activities	<u>581,679</u>	
Business-Type Activities		
Convention Center		
General	23,140	Debt service
Employment Security		
General	8,237	Administrative cost reimbursement
Assessed Fringe Benefits	2,040	Reimbursement for State employees' unemployment compensation
Total operating transfers primary government	<u><u>\$ 615,096</u></u>	

**Note 10. Operating Lease Commitments**

The primary government is committed under numerous operating leases covering real property. Operating lease expenditures totaled approximately \$10,871,000 for the fiscal year ended June 30, 2012.

Most of the operating leases contain an option allowing the State, at the end of the initial lease term, to renew its lease at the then fair rental value. In most cases, it is expected that these leases will be renewed or replaced by other leases.

The following is a summary of material future minimum rental payments (expressed in thousands) required under operating leases that have initial or remaining lease terms in excess of one year as of June 30, 2012:

Fiscal Year Ending June 30	
2013	\$ 9,813
2014	9,307
2015	9,100
2016	6,999
2017	2,840
2018 - 2022	7,226
Total	<u><u>\$ 45,285</u></u>

The minimum payments shown above have not been reduced by any sublease receipts.

**Note 11. Commitments**

**Primary Government**

Commitments arising from encumbrances are listed below (expressed in thousands):

Major funds	
General	\$ 7,106
IST	463,271
Total major funds	<u>470,377</u>
Other governmental funds	<u>2,744</u>
Total encumbrances outstanding	<u><u>\$ 473,121</u></u>

The primary government is committed at June 30, 2012 under various contractual obligations for infrastructure construction and other capital projects, which will be principally financed with debt proceeds and federal grants. Encumbrances within the General Fund will be principally financed through appropriations of general revenue and federal and restricted revenue in succeeding fiscal years. The primary government is also committed at June 30, 2012 under contractual obligations with various service providers, which will be funded through appropriations of general revenue and federal and restricted revenue in succeeding fiscal years.

**Performance-based Agreements**

The R.I. Economic Development Corporation (RIEDC), on behalf of the State, entered into several agreements with the developer of the Providence Place Mall. The agreements state the terms by which the State shall perform with regard to a shopping mall, parking garage and related offsite improvements. The authority to enter into these agreements was provided in legislation passed by the General Assembly and signed by the Governor. This legislation further provided for payments to the developer through fiscal year 2021 of an amount equal to the lesser of (a) two-thirds of the amount of sales tax generated from retail transactions occurring at or within the mall or (b) \$3,680,000 in the first five years and \$3,560,000 in years 6 through 20. In the year ended June 30, 2012, \$3,560,000 was paid to the developer.

The RIEDC has issued economic development revenue bonds whereby the State will assume the debt if the employer reaches and maintains a specified level of full-time equivalent employees. The participating employers have certified that the employment level has been exceeded, thereby triggering credits toward the debt. As a result, the State paid \$2,829,000 of the debt on the related economic development revenue bonds in fiscal year 2012. The State has commitments relating to this debt through fiscal year 2027.

**Rhode Island Lottery – Master Contract Agreements**

*Gaming Systems Provider - GTECH*

The Lottery in May 2003 entered into a 20-year master contract with its gaming systems provider, GTECH, granting it the right to be the exclusive provider of information technology hardware, software, and related services for all lottery games. This contract is effective from July 1, 2003 through June 30, 2023, and it amends all previous agreements between the parties. As consideration for this exclusive right, the gaming systems provider paid the Lottery \$12.5 million. In the event that the contract term is not fulfilled, the Lottery will be obligated to refund a pro-rata share of this amount to the gaming systems provider. Additionally, GTECH was obligated to invest \$100 million in connection with the construction of a new corporate headquarters and expansion of its manufacturing operations in the State. The gaming system contractor is also required to employ no less than 1,000 full time active employees during the term of the agreement.

*Video Lottery Facilities – UTGR, Inc.*

During fiscal year 2006, the Lottery entered into a five (5) year Master Video Lottery Terminal Contract with UTGR, Inc., the owners of Twin River, to manage one of the State’s licensed video lottery facilities. The contract entitles UTGR, Inc. to compensation ranging from 26% to 28.85% of video lottery net terminal

income at the facility. UTGR and the Lottery extended the contract and signed the first five-year extension term commencing on July 18, 2010. The second term would commence on July 18, 2015. Certain extensions are contingent on UTGR's compliance with full-time employment mandates.

The Master Contract has been amended in recent years to reflect the statutory authorization of the operation of a promotional points program at Twin River. In fiscal year 2012, Twin River was authorized and issued approximately \$18.7 million in promotional points to facility patrons. Recently enacted legislation has authorized an additional expansion of Twin River's promotional play program effective July 1, 2012.

The Master Contract has also been amended to reflect the statutory requirement that the Lottery reimburse UTGR for allowable marketing expenses at an amount not to exceed \$6 million multiplied by the Lottery's percentage of net terminal income (61.16% for fiscal year 2012). The reimbursement of marketing expenses by the Lottery occurs only after UTGR has incurred \$4 million in qualified marketing expenses (with marketing expenses defined by the Lottery).

#### *Video Lottery Facilities – Newport Grand*

On November 23, 2005, the Lottery entered into a five (5) year Master Video Lottery Terminal Contract with Newport Grand to continue to manage one of the State's licensed video lottery facilities.

Newport Grand and the Lottery extended the contract and signed the first five-year extension term of the contract commencing on November 23, 2010. The second term, which would commence on November 23, 2015, is contingent on Newport Grand's compliance with full-time employment mandates specified in the 2010 law. The contract, as amended, entitles Newport Grand to compensation equal in percentage of net terminal income to that of Twin River.

The Master Contract has been amended in recent years to reflect the statutory authorization of the operation of a promotional points program at Newport Grand. In fiscal year 2012, Newport Grand was authorized and issued approximately \$2.9 million in promotional points to facility patrons. Recently enacted legislation has authorized an additional expansion of Newport Grand's promotional play program effective July 1, 2012.

The Master Contract has also been amended to reflect the statutory requirement that the Lottery reimburse Newport Grand for allowable marketing expenses at an amount not to exceed \$840,000 multiplied by the Lottery's percentage of net terminal income (61.76% for fiscal year 2012). The reimbursement of marketing expenses by the State occurs only after Newport Grand has incurred \$560,000 in qualified marketing expenses (with marketing expenses to be defined by the Lottery).

#### ***R. I. Public Rail Corporation***

The R. I. Public Rail Corporation (RIPRC), a blended component unit, has obtained a letter of credit in the amount of \$7,500,000 in favor of AMTRAK to secure the RIPRC's performance of its obligations arising under any South County Rail Service agreements. RIPRC has been designated as the entity responsible for securing and maintaining liability insurance coverage to provide funds to pay all or a portion of the liabilities of the State and AMTRAK for property damage, personal injury, bodily injury or death arising out of the South County Commuter Rail Service with policy limits of \$200 million subject to a self-insured retention of \$7.5 million.

#### **Discretely Presented Component Units**

##### *R.I. Airport Corporation*

The R.I. Airport Corporation (RIAC), a subsidiary and component unit of RIEDC, was obligated for completion of certain airport improvements under commitments of approximately \$3,485,000, which are expected to be funded from current available resources and future operations. As of June 30, 2012, RIAC was also obligated for the completion of certain projects related to the InterLink facility of approximately \$7,270,000.

*R.I. Resource Recovery Corporation*

Landfill closure and post-closure:

The EPA established closure and post-closure care requirements for municipal solid waste landfills as a condition for the right to currently operate them. The landfill operated by the Corporation has been segregated into five distinct phases. Phases I, II and III were closed by the Corporation in prior years. While Phase IV reached capacity during fiscal year 2012, portions of Phase IV have been capped, with final capping expected during fiscal year 2013. In 2005, the Corporation began landfilling in Phase V. As of June 30, 2012 the Corporation has not begun landfilling in phase VI.

A liability for closure and post-closure care of \$50,460,559 as of June 30, 2012 has been recorded in the accompanying statement of net assets, as summarized by Phases below:

	Year ended June 30, 2012
Phase I	\$ 8,158,778
Phase II and III	4,790,035
Phase IV	9,759,537
Phase V	27,752,209
	<u>\$ 50,460,559</u>

The Corporation has received site approval for Phase VI from the State Planning Council and has been licensed by RIDEM.

As of June 30, 2012, the remaining total estimated current cost to be recognized in the future as landfill closure and post-closure care expense, the estimated percent of landfill capacity used and the estimated remaining years for accepting waste are as follows:

	Estimated remaining costs to be recognized	Estimated capacity used	Estimated remaining years for accepting waste
Phase V	\$ 9,754,258	74.0%	3 years

As of June 30, 2012 the Corporation revised its estimate for future pollution remediation and landfill closure and post-closure care costs. The revised estimate resulted in a \$12,471,204 reduction of the corresponding liability from \$88,433,606 at June 30, 2011 to \$75,962,402 at June 30, 2012. This reduction was primarily attributable to the transfer of responsibility for gas collection system costs from the Corporation to a private third party.

Amounts provided for closure and post-closure care are based on current costs. These costs may be adjusted each year due to changes in the closure and post-closure care plan, inflation or deflation, technology, or applicable laws or regulations. It is at least reasonably possible that these estimates and assumptions could change in the near term and that the change could be material.

Included in restricted assets held in trust in the accompanying statements of net assets as of June 30, 2012 is \$41,376,909 placed in trust to meet the financial requirements of closure and post-closure care related to Phases II, III, IV and V. The Corporation plans to make additional trust fund contributions each year to enable it to satisfy these and future costs.

Pollution remediation obligations:

Amounts provided for pollution remediation obligations are based on current costs. These costs may be adjusted each year due to changes in the remediation plan, inflation or deflation, technology, or applicable laws or regulations. It is at least reasonably possible that these estimates and assumptions could change in the near term and that the change could be material.

The pollution remediation obligation for the year ended June 30, 2012 is as follows:

Balance, June 30, 2011	Additions	Reductions	Balance, June 30, 2012	Current Portion
\$ 31,222,407	\$ 0	\$ (5,720,564)	\$ 25,501,843	\$ 1,245,398

Superfund site:

In prior years, the EPA issued administrative orders requiring the Corporation to conduct environmental studies of the Central Landfill and undertake various plans of action. Additionally, in 1986, the Central Landfill was named to the EPA's Superfund National Priorities List.

During 1996, the Corporation entered into a Consent Decree with the EPA concerning remedial actions taken by the Corporation for groundwater contamination. The Consent Decree, which was approved by the U.S. District Court on October 2, 1996, required the establishment of a trust fund in the amount of \$27,000,000 for remedial purposes. The balance of the trust fund totaled \$42,230,754 as of June 30, 2012 and has been included in restricted assets held in trust in the accompanying statement of net assets.

In 2004, the Corporation began the capping project for the Superfund site and continued to revise its estimates for leachate pretreatment costs and flows. The Corporation has recorded a liability for future remediation costs of approximately \$25,327,000 as of June 30, 2012.

Other pollution remediation obligations:

The Corporation is the owner of several properties adjacent to its landfill operations. The Corporation is obligated to remediate one of these parcels. The Corporation has recorded a liability for future remediation costs of approximately \$175,000 as of June 30, 2012.

Environmental concerns:

In August 1996, the Corporation entered into a Consent Agreement (the Agreement) with RIDEM concerning action to be taken by the Corporation regarding the restoration of certain wetlands. Projects included the relocation of Cedar Swamp Brook, creation of a three acre wetland, and the implementation of a soil and erosion plan. The Agreement also called for the establishment of an escrow account for wetlands replacement. Annual deposits of \$100,000 were made by the Corporation during fiscal years 1997 through 2002, as required by RIDEM. During 2004, RIDEM released from the escrow approximately \$543,000 to the Corporation. As of June 30, 2012 the escrow account totaled approximately \$156,000.

The Corporation submitted a comprehensive plan to RIDEM which was approved by RIDEM in April 1998. The Corporation had until 2001 to complete the restoration. Phase I of the Cedar Swamp Brook relocation was substantially completed by November 1998. The wetlands restoration work was completed in the spring of 1999 and is awaiting RIDEM approval.

*R.I. Public Transit Authority*

The R.I. Public Transit Authority is committed under construction contracts in the amount of \$33,964,170 at June 30, 2012.

*R.I. Industrial-Recreational Building Authority*

At June 30, 2012, the Authority had insured contractual principal and interest payments required under first mortgages and first security agreements principally for land and buildings of manufacturing and distribution entities located throughout Rhode Island. Principal balances outstanding under first mortgages and first security agreements insured by the Authority at June 30, 2012 are \$19,467,587.

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

#### *Other Component Units*

Other component units have various commitments arising from the normal course of their operations. These commitments are not significant, overall, to the State's financial statements.

### **Note 12. Contingencies**

#### **Primary Government**

The State, its officers and employees are defendants in numerous lawsuits. For those cases in which it is probable that a loss has or will occur and the amount of the potential judgment can be reasonably estimated or a settlement or judgment has been reached but not paid, the State has recognized a liability within its financial statements. Specific litigation matters are discussed below.

Challenges to the 2009 and 2010 Pension Reform - A number of unions representing state employees and teachers filed a lawsuit in State court in May 2010 initially challenging and attempting to block the 2009 pension reforms enacted by the General Assembly and later amended the suit to include 2010 reforms. The 2005 reforms were not challenged. The State intends to vigorously contest the lawsuit. The defendant State officials filed a Motion for Summary Judgment on the claims set forth in the Amended Complaint, which was heard on July 18, 2011. Prior to the hearing, the parties stipulated that the only issue that would be presented to the Court during the hearing on the Motion would concern whether the statute created a contract between the state and its participants. The parties agreed that in the event that the Court concluded that the statute did create a contract, the remaining issues of whether the contract had been impaired and whether any such impairment was legally justified would be briefed and argued at a later date.

On September 13, 2011, the Superior Court issued its decision in which it ruled that pension plan participants have a contractual right based on an implied-in-fact contract theory. Consistent with the parties' stipulation, the Court did not decide whether that contract had been impaired or whether any such impairment was legally justified. The defendant State officials believe the Superior Court's ruling was legally wrong. On October 3, 2011, Defendants filed a Petition for Issuance of a Writ of Certiorari and Supporting Memorandum of Law with the Rhode Island Supreme Court. Defendants also filed a motion through which they requested that the Supreme Court expedite its review of the Petition for Issuance of a Writ of Certiorari.

On November 22, 2011, the Supreme Court denied the petition for Writ of Certiorari. The litigation is proceeding through discovery at this time.

Challenges to the 2011 Pension Reform - In June 2012, certain retiree groups and unions representing state and municipal employees who maintain they are current beneficiaries of ERSRI commenced five separate lawsuits in State court challenging the Rhode Island Retirement Security Act of 2011 ("RIRSA") enacted by the General Assembly. In each of the five cases, the plaintiffs alleged that RIRSA violates the Contract Clause, the Takings Clause and the Due Process Clause of the Rhode Island Constitution. In addition, in the Rhode Island Public Employees' Retirement Coalition v. Chafee, C.A. No. 12-3166 case, the plaintiffs also allege counts for promissory estoppel and breach of contract. The State intends to vigorously contest the lawsuit.

On August 17, 2012, the defendants filed a motion to dismiss the Rhode Island Public Employees' Retirement Coalition v. Chafee, C.A. No. 12-3166 case on the ground that Rhode Island's pension legislation does not create a contract with ERSRI participants and that general contract principles, such as implied contracts, cannot be used to determine whether a state statute creates a contract. In the remaining four cases, the defendants filed motions for more definite statements in which they argued that it is not clear

from the plaintiffs' pleadings what purported contract or contract(s) plaintiffs allege have been impaired. The defendants also moved in the alternative and asked the Court to dismiss the remaining four cases if the Court concluded that the plaintiffs' purported contracts derive from Rhode Island's pension legislation.

On December 18, 2012, the Superior Court judge presiding over the cases involving challenges to enacted pension reforms ordered the parties to participate in mediation in an attempt to reach a settlement before the case moves to trial.

An adverse judgment to the State rendered in the pension litigation could significantly increase both the unfunded liability under the plans within the ERSRI and the State's actuarially determined annual required contribution.

### **Other**

Separate claims have been made against the Rhode Island Department of Education (RIDE) by the Cranston School Department and the Chariho Regional School Committee alleging that they are owed reimbursement for certain expenses incurred by them in the operation of their respective area vocational-technical career centers. None of the other six school districts that operate regional vocational technical centers in the State have raised similar claims to date. The claims were assigned to a hearing officer at the Department of Education. On August 26, 2009, counsel for the Department filed a preliminary motion to dismiss on several legal grounds. That motion was granted and both claims were dismissed by the Commissioner on January 21, 2010. Both parties appealed to the Board of Regents. The Board of Regents affirmed the dismissal. An Administrative Procedures Act appeal and a Petition for Writ of Mandamus in the Superior Court have been filed on the basis of these claims. The mandamus action was dismissed on the motion of RIDE's counsel, whereupon an appeal was filed by Petition for Writ of Certiorari to the Supreme Court. Said petition was granted and the matter is pending before the Supreme Court. Accordingly, both court actions are proceeding with the mediation process continuing for the Supreme Court action. The aggregate sums demanded by the school districts approximate \$22 million; however, tentative mediated settlements (for significantly lesser amounts) are pending between the RIDE and both school departments and, if finalized, will result in the dismissal of both the Superior Court and Supreme Court cases. However, settlement amounts require appropriation by the General Assembly in order to be finalized.

With respect to other litigation, State officials are of the opinion that the lawsuits are not likely to result either individually or in the aggregate in final judgments against the State that would materially affect its financial position.

The Securities and Exchange Commission has opened a non-public formal investigation into the disclosures by the State regarding ERSRI. The State is fully cooperating with the investigation.

### **Tobacco Settlement Financing Corporation**

According to the Master Settlement Agreement ("MSA"), for any year in which the Participating Manufacturers ("PMs") suffer a loss of market share of more than two percent as compared to their collective market share in 1997, there is the potential of a Non-Participating Manufacturer Adjustment ("NPM Adjustment"), which would permit the tobacco manufacturers to reduce their MSA payments for that year. Whether such an adjustment is applicable depends on whether: (1) an economic firm jointly selected by the Settling States and the PMs determines that the disadvantages experienced by the PMs as a result of the provisions of the MSA were a "significant factor" contributing to the market share loss ("Significant factor proceeding"); and (2) the State is found to not have diligently enforced its escrow statute. For calendar years 2003, 2004, 2005 and 2006, there have been four Significant Factor Proceedings in which the firm found in favor of the PMs. There will not be a Significant Factor Proceedings for calendar years 2007, 2008, 2009, 2010, 2011 and 2012.

From April 2005 through April 2012, many of the tobacco manufacturers participating in the MSA either withheld all or portions of their payments due or remitted their payments to an escrow account, disputing the calculations of amounts due under the agreement. These manufacturers assert that the calculations of the amounts due failed to apply the NPM Adjustment. The Corporation's share of these disputed payments is approximately \$27.4 million.

Currently, the Settling States and the PMs are engaged in arbitration proceedings in connection with the issue of Diligent Enforcement for the calendar year 2003. However, Rhode Island's Diligent Enforcement is no longer being challenged for 2003. Future NPM Adjustments could be as large as or exceed the reported potential \$1.2 billion calendar year 2003 NPM adjustment. The resolution of the substance of such disputes could take years. Moreover, there is no assurance that these funds will be collected by the Corporation in the future. Due to these uncertainties regarding the ultimate realization of the remaining amount of these disputed payments, they have not been recognized as revenue in the accompanying financial statements. The Corporation and the other affected parties are taking actions prescribed in the MSA to arrive at a resolution of these matters.

In addition to NPM Adjustment arbitration, litigation has been filed alleging, among other claims, that the MSA violates provisions of the U.S. Constitution, state constitutions, federal antitrust and civil rights laws, and state consumer protection laws. These actions, if ultimately successful, could result in a determination that the MSA is void or unenforceable. The lawsuits seek to prevent the states from collecting any monies under the MSA, and/or a determination that prevents the tobacco manufacturers from collecting MSA payments through price increases to cigarette consumers. In addition, class action lawsuits have been filed in jurisdictions alleging violations of state Medicaid agreements. To date, no such lawsuits have been successful. The enforcement of the terms of the MSA may continue to be challenged in the future. In the event of an adverse court ruling, the corporation may not have adequate financial resources to service its debt obligations.

### **Lottery**

The Lottery's master contracts with its video lottery facility operators contain revenue protection provisions in the event that existing video lottery facility operators incur revenue losses caused by new gaming ventures within the State.

The Lottery's video lottery operations could be adversely impacted by enacted legislation in Massachusetts allowing three casinos and one slot parlor in that State. Massachusetts has developed a two-phase application process for potential operators and developers. The Massachusetts Gaming Commission could award casino licenses during fiscal 2014 based on their current timeline. Depending on the resulting location of the facilities within Massachusetts, video lottery revenues in Rhode Island could decrease.

In response to the above, the Rhode Island General Assembly enacted legislation that called for a statewide referendum in November 2012 to allow casino-style gaming at Twin River and Newport Grand.

For casino-style gaming to be allowed at Twin River and Newport Grand, the referenda had to pass both statewide and locally in the communities that currently host Twin River (Town of Lincoln) and/or Newport Grand (City of Newport). While the referendum passed statewide for both facilities and in the Town of Lincoln for Twin River, the referendum to allow table gaming in the City of Newport did not pass in Newport. Thus, table games will be allowed at Twin River but not at Newport Grand. As required, by March 31, 2013 the Lottery will promulgate rules and regulations related to state-operated table gaming at Twin River. It is anticipated that the table gaming will commence at Twin River on or about July 1, 2013.

While the Narragansett Indian Tribe filed a complaint against the State of Rhode Island in the Superior Court on or about September 28, 2011, inter alia, challenging the constitutionality of the casino gaming act on the grounds that it would not be "state-operated" and the act "delegates unconstitutional authority to a private corporation", on or about June 29, 2012, the Superior Court found that the Narragansett Indian Tribe had not sustained their burden of proof that the act violates the State or United States constitution. The Narragansett Indian Tribe filed a notice of appeal of that decision. The State also filed an appeal on the issue of the Narragansett Indian Tribe's standing in the litigation. The prebriefs are due in that matter on December 21, 2012. The remaining issues in the case which are still pending in the Superior Court relate to whether the state "operates" Twin River and Newport Grand.

**Federal Grants**

The State receives significant amounts of federal financial assistance under grant agreements which specify the purpose of the grant and conditions under which the funds may be used. Generally, these grants are subject to audit.

The Single Audit for the State of Rhode Island for the fiscal year ended June 30, 2011 was issued in March 2012. That report identified approximately \$13.7 million in questioned costs relating to the primary government. In addition, a number of findings had potentially significant but unknown or unquantifiable questioned costs. The ultimate disposition of these findings rests with the federal grantor agencies, and, in most cases, resolution is still in progress. Adjustments are made to the financial statements when costs have been specifically disallowed by the federal government or sanctions have been imposed upon the State and the issue is not being appealed or the right of appeal has been exhausted. The fiscal 2012 Single Audit is in progress. It is anticipated that there will be additional questioned costs identified in that audit. The State’s management believes that any disallowances of federal funding received by the State will not have a material impact on the State’s financial statements.

**Moral Obligation Bonds**

Some component units issue bonds with bond indentures requiring capital reserve funds. Monies in a capital reserve fund are to be utilized by the trustee in the event scheduled payments of principal and interest by the component unit are insufficient to pay the bond holder(s). These bonds are considered “moral obligations” of the State when the General Laws require the executive director to submit to the Governor the amount needed to restore each capital reserve fund to its minimum funding requirement and the Governor is required to include the amount in the annual budget. At June 30, 2012, the R.I. Housing and Mortgage Finance Corporation and the R.I. Economic Development Corporation (RIEDC) had \$227,135,801 and \$110,169,052, respectively, in “moral obligation” bonds outstanding.

The Job Creation Guaranty Program (JCGP) created by the General Assembly in 2010, authorizes the RIEDC to provide credit enhancements up to \$125 million on bonds or loans privately placed with capital providers and banks. In November 2010, RIEDC issued \$75 million of taxable revenue bonds to provide a loan in the amount of \$75 million to 38 Studios LLC (38 Studios) under the Job Creation Guarantee Program (JCGP). The State used its “moral obligation” authority to guarantee debt service payments to the bondholders. The original loan proceeds were segregated as follows:

Capital Reserve Account held by trustee	\$ 12,750,000
Capitalized Interest Account held by trustee	10,600,000
Amount available for the 38 Studios Project and bond issuance costs	<u>51,650,000</u>
Total	\$ 75,000,000

On June 7, 2012, 38 Studios filed for bankruptcy under Chapter 7 in Delaware listing \$151 million in liabilities and \$21.7 million in assets. On August 8, 2012 a federal judge allowed the assets to be liquidated through the state court in Rhode Island.

As of June 30, 2012, all project funds have been completely expended. Amounts available at June 30, 2012 in the Capitalized Interest Account totaling approximately \$2.65 million have been expended for debt service due November 1, 2012. Amounts available in the Capital Reserve Account totaling approximately \$12.75 million are expected to be used to pay debt service due in May and November 2013.

In accordance with the enabling legislation and an agreement between the RIEDC, the trustee, and 38 Studios, should amounts in the Capital Reserve Fund fall below minimum requirements, the RIEDC had agreed to present the Governor with a certificate stating the amounts required to restore any shortfall and the Governor is required to include such amounts in a budget request for appropriation to the General Assembly. RIEDC presented a certificate to the Governor dated October 23, 2012 requesting \$12,750,000 to restore the Capital Reserve Fund to the minimum requirement for fiscal 2014. The General Assembly may, but is not required to, appropriate such amounts.

It is estimated that the total debt service on the bonds after exhausting any existing reserves with the trustee approximates \$89 million. The maturity dates on the bonds range from 2015 to 2020 with required sinking

fund payments commencing in November 2013. Maximum annual debt service is approximately \$12,750,000.

In November 2012, RIEDC sued various individuals and entities involved with the loan to 38 Studios including principals of 38 Studios, former employees of RIEDC and various advisors to RIEDC alleging fraud, negligence, breach of fiduciary duty and other charges. The suit seeks recovery of compensatory and punitive damages associated with the various counts identified in the lawsuit.

No loss contingency has been accrued by the RIEDC or the State at June 30, 2012 for any amounts potentially required to pay the debt service on the bonds issued by the RIEDC pursuant to the JCGP. Amounts to be recovered from the sale of remaining assets of 38 Studios (e.g., intellectual property) or from the lawsuit previously described which may be used to pay the debt service on the bonds cannot be reasonably estimated. The General Assembly will consider the request to fund the anticipated shortfall in the minimum Capital Reserve Fund requirement as part of its consideration of the Governor's Fiscal 2014 budget submission.

### **Component Units**

#### *R.I. Higher Education Assistance Authority (RIHEAA) and R.I. Student Loan Authority (RISLA)*

On March 30, 2010, the President of the United States signed into law the Health Care and Education Reconciliation Act of 2010 (the Act), which included the Student Aid and Fiscal Responsibility Act (SAFRA). The Act made sweeping changes in student financial assistance programs, including a provision which eliminated loan originations under the Federal Family Education Loan (FFEL) Program effective July 1, 2010. As a result, new guaranteed student loans now originate under the Federal Direct Loan Program. RIHEAA's role as a guaranty agency in the FFEL Program constituted its single largest activity, and approximately 80% of the Authority's employees are allocated to the guaranty agency functions. The elimination of new loan originations has had a significant impact on the Authority's ongoing operations.

RIHEAA management and its Board continue to evaluate the impact of the Act and the options for future operations. The Authority will continue to provide services for loans currently in its portfolio, including claims payments and reinsurance transactions, default prevention and aversion activities, and collections of defaulted student loans. RIHEAA will also continue to promote awareness of and access to post-secondary education opportunities and programs. It is difficult, however, to predict the time period over which such services would be required, to what extent they would constitute a substantive activity, and for how long they might be financially viable. RIHEAA currently anticipates that the time period would be in the range of three to five years.

In June 2012, the Rhode Island General Assembly passed and the Governor signed into law added language to RIHEAA's enabling legislation, titled – Reserve Funds: "To assure continued solvency of the authority, the authority's operating fund shall be used solely for the ordinary operating expenses of the authority. Furthermore, it is the intent of the general assembly that these funds eventually be used to increase financial assistance to Rhode Island students in the form of scholarships and grants." The RIHEAA Board has had discussions about the new legislative language and is in the process of developing proposals and programs that are consistent with the legislature's intent.

In fiscal year 2012, the Rhode Island Student Loan Authority (RISLA) entered into a line-of-credit agreement with RIHEAA to purchase FFELP loans that are over 240 days delinquent from the Asset-Backed Commercial Paper Conduit program that was established by the DOE with funds advanced from RIHEAA. All claim and borrower payments of principal and interest received by RISLA are remitted to RIHEAA to reduce the outstanding balance of the line-of-credit. The maximum amount of the line-of credit is \$6.5 million. The outstanding balance at June 30, 2012 was \$5,782,532.

#### *R.I. Housing and Mortgage Finance Corporation*

As of June 30, 2012, the Corporation may borrow up to a maximum of \$40,000,000 under one revolving loan agreement expiring in November 2013, up to a maximum of \$15,000,000 under a revolving loan agreement expiring in January 2013 and up to a maximum of \$20,000,000 under a revolving loan agreement expiring in May 2013.

The Corporation is a party to financial instruments with off-balance sheet risk in connection with its commitments to provide financing. Such commitments expose the Corporation to credit risk in excess of the amounts recognized in the accompanying balance sheets. The Corporation's exposure to credit loss in the event of nonperformance by the borrowers is represented by the contractual amount of such instruments. Total credit exposure as a result of loan commitments at June 30, 2012 is \$40,483,841.

#### *Rhode Island Public Transit Authority*

The Authority currently has a projected \$7.8 million operating deficit based on the Board of Director's approved budget for Fiscal Year 2013 and current management projections. The Authority is funded primarily by state gasoline tax revenue and to a lesser degree, certain federal funds. Total gasoline tax revenue, and the Authority's share of such revenue is expected to decrease from the previous fiscal year. Other Authority operating costs have increased, notably; fuel and the employee wage and benefit costs. Management is developing contingency plans to address the continued availability of transportation services to the public. These plans include a review of all estimated expenditure activity to determine only those expenditures that are of a critical nature as well as proposals to freeze other non-critical expenditure requests. In addition, management plans to propose and request additional funding sources from the State of Rhode Island which would require appropriation from the General Assembly. It should be noted that some of the contingency plans require action by external parties that may or may not occur. Absent an alternate source of funding, including funding sources requested from the State of Rhode Island or as a result of any savings achieved pursuant to the implementation of the contingency plans above, it is questionable whether the Authority will have sufficient funds for operations beyond the fourth quarter of Fiscal Year 2013.

#### *Other Component Units*

Other component units have various contingent liabilities that have arisen in the normal course of their operations. These contingencies are not significant to the State's financial statements.

### **Note 13. Employer Pension Plans**

#### **Plan Descriptions**

The State, through the Employees' Retirement System (ERS), administers four defined benefit pension plans. Three of these plans - the Employees' Retirement System (ERS), a cost-sharing multiple-employer defined benefit pension plan, and the Judicial Retirement Benefits Trust (JRBT) and the State Police Retirement Benefits Trust (SPRBT), which are single-employer defined benefit pension plans, cover most State employees. The State does not contribute to the Municipal Employees' Retirement System, an agent multiple-employer defined benefit pension plan. The ERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. The level of benefits provided to State employees and teachers, which is subject to amendment by the general assembly, is established by Chapter 36-10 of the General Laws. The ERS issues a publicly available financial report that includes financial statements and required supplementary information for the plans. The report may be obtained by writing to the Employees' Retirement System, 50 Service Ave., Warwick, RI 02886.

#### **Summary of Significant Accounting Policies**

##### *Basis of Accounting*

The financial statements of the ERS are prepared on the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded when incurred. Plan member contributions are recognized in the period in which the wages, subject to required contributions, are earned for the performance of duties for covered employment. Employer contributions to each plan are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of each plan. Dividend income is recorded on the ex-dividend date. Investment transactions are recorded on a trade date basis. The gains or losses on foreign currency exchange contracts are included in income consistent with changes in the underlying exchange rates.

*Method Used to Value Investments*

Investments are recorded in the financial statements at fair value. Fair value is the amount that a plan can reasonably expect to receive for an investment in a current sale between a willing buyer and a willing seller - that is, other than a forced liquidation sale.

Short-term investments are generally carried at cost, which approximates fair value.

The fair value of fixed income securities and domestic and international equity securities is generally based on published market prices and quotations from national security exchanges and securities pricing services.

Commingled funds consist of institutional domestic equity index, international equity index, and real estate funds. The fair value of the commingled funds is based on the reported net asset value (NAV) of the respective fund based upon the fair value of the underlying securities or assets held in the commingled fund.

Futures contracts are valued at the settlement price established each day by the board of trade or exchange on which they are traded.

The ERS also trades in foreign exchange contracts to manage exposure to foreign currency risks. Such contracts are used to purchase and sell foreign currency at a guaranteed future price. The change in the estimated fair value of these contracts, which reflects current foreign exchange rates, is included in the determination of the fair value of the ERS investments.

Other investments that are not traded on a national security exchange (primarily private equity and real estate investments) are generally valued based on audited December 31 net asset values adjusted for (1) cash flows for the period January 1 to June 30 (which principally include additional investments and partnership distributions), and (2) significant changes in fair value as determined or estimated by the general partners as of June 30. The general partners estimate the fair value of the underlying investments held by the partnership periodically. Publicly traded investments held by the partnerships are valued based on quoted market prices. If not publicly traded, the fair value is determined by the general partner. Financial Accounting Standards Board, ASC Topic 820, *Fair Value Measurements and Disclosures*, requires private equity and real estate limited partnership general partners to value non-publicly traded assets at current fair value, taking into consideration the financial performance of the issuer, cash flow analysis, recent sales prices, market comparable transactions, a new round of financing, a change in economic conditions, and other pertinent information. ERS management considers the fair values reported by the general partners at June 30 in addition to the audited net asset values at December 31 adjusted for cash flows for the period January 1 to June 30 in determining the fair value of private equity and real estate investments on the financial statements of ERS.

Private equity and real estate investments represented 8.5% and 3.7%, respectively, of the total reported fair value of all ERS investments at June 30, 2012. Of the underlying holdings within private equity investments, approximately 15% were valued based on quoted market prices. The remaining underlying assets were valued generally following the objectives outlined above. Because these fair values were not determined based on quoted market prices, the fair values may differ from the values that would have been determined had a ready market for these investments existed.

Hedge funds are valued based on information provided by the fund manager and as verified by their respective third party administrator. Of the underlying holdings within the hedge funds approximately 63% were valued based on Tier 1 inputs (unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted investments) and 31% as Tier 2 inputs (other significant inputs, either directly or indirectly, at the measurement date such as a) quoted prices for similar assets or liabilities in active markets; b) quoted prices for identical or similar assets and liabilities in markets that are not active; c) observable inputs, other than quoted prices, for assets and liabilities; or d) inputs that are derived from or corroborated by observable market data by correlation or other means. The remaining underlying holdings within the hedge funds approximating 6% were valued based on Tier 3 inputs (unobservable inputs which are developed based on the best information available in the circumstances which might include the fund's own data).

Investment management expenses are presented separately as a component of net investment income and include investment consultants, custodial fees and direct investment expenses allocated by managers. In some instances (hedge funds, private equity and real estate investments), investment related costs are not readily separable from investment income and consequently investment income is recorded net of related expenses.

*Funding Policy and Annual Pension Cost*

The actuarial assumptions and methods employed in the valuation of the plans performed as of June 30, 2009 (used to determine contribution rates for fiscal 2012) differ from those employed in the June 30, 2011 valuation (the most recent valuation performed of the plans). The notes to the required supplementary information describe changes to actuarial methods and assumptions. A summary of the State's annual pension cost (expressed in thousands) for the fiscal year ended June 30, 2012 and the actuarial assumptions used in the June 30, 2009 valuations of the plans is provided in the table below:

	Employees' Retirement System	State Police Retirement Benefits Trust	Judicial Retirement Benefits Trust
Contribution rates:			
State	22.98%	25.39%	18.69%
Plan members - state employees	8.75%	8.75%	8.75%
State contribution for teachers	8.64% and 9.09%		
Annual pension cost	\$233,834	\$5,333	\$1,718
Contributions made - state employees	\$153,448	\$5,333	\$1,718
Contributions made - teachers	\$80,386		
Actuarial valuation date	June 30, 2009	June 30, 2009	June 30, 2009
Actuarial cost method	Entry Age Normal-Ultimate Normal Cost Method	Entry Age Normal-Ultimate Normal Cost Method	Entry Age Normal-Ultimate Normal Cost Method
Amortization method	Level Percent of Payroll - Closed	Level Percent of Payroll - Closed	Level Percent of Payroll - Closed
Equivalent Single Remaining Amortization Period	20 years	20 years	20 years
Asset valuation method	5 Year Smoothed Market	5 Year Smoothed Market	5 Year Smoothed Market
Actuarial Assumptions:			
Investment rate of return	8.25%	8.25%	8.25%
Projected salary increases	4.50% to 9.00%	4.50% to 12.50%	4.50%
Inflation	3.00%	3.00%	3.00%
Cost-of-living adjustments	Schedule A Members eligible at 9/30/09 - 3.0% compounded	\$1,500 per annum	3.0%
	Members not eligible at 9/30/09 - 2.5% compounded		
	Schedule B members 2.5% compounded		
Level of benefits established by:			
General Law(s)	36-8 to 10 16-15 to 17	42-28-22.1	8-3-16, 8-8-10.1, 8-8-2-7 and 28-30-18.1

Three-Year Trend Information

	Year Ending	Annual Pension Cost (APC) (In Thousands)	Percentage of APC Contributed	Net Pension Obligation
Employees' Retirement System	6/30/10	192,091	100%	0
	6/30/11	196,847	100%	0
	6/30/12	233,834	100%	0
State Police Retirement Benefits Trust	6/30/10	3,591	100%	0
	6/30/11	3,787	100%	0
	6/30/12	5,333	100%	0
Judicial Retirement Benefits Trust	6/30/10	1,181	100%	0
	6/30/11	1,298	100%	0
	6/30/12	1,718	100%	0

*Funded Status and Funding Progress*

The table below displays the funded status of each plan for the fiscal year ended June 30, 2011, the most recent actuarial valuation date:

	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age - (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a) / c)
ERS						
State Employees	\$ 2,443,690,798	\$ 4,255,362,463	\$ 1,811,671,665	57.40%	\$ 633,146,197	286.10%
Teachers	3,776,407,834	6,325,941,951	2,549,534,117	59.70%	1,002,656,294	254.30%
SPRBT	73,151,768	74,185,705	1,033,937	98.60%	19,711,694	5.20%
JRBT	40,105,919	46,594,407	6,488,488	86.10%	8,474,716	76.60%

The schedules of funding progress, presented as required supplementary information (RSI) following the notes to the financial statements, present multiyear trend information about whether the actuarial values of plan assets are increasing or decreasing over time relative to the Actuarial Accrued Liabilities (AAL) for benefits.

Additional information as of the June 30, 2011 actuarial valuation follows:

	ERS			
	State Employees	Teachers	SPRBT	JRBT
Valuation Date	6/30/2011	6/30/2011	6/30/2011	6/30/2011
Actuarial Cost Method	Entry Age Normal	Entry Age Normal	Entry Age Normal	Entry Age Normal
Amortization Method	Level Percent of Payroll-Closed	Level Percent of Payroll-Closed	Level Percent of Payroll-Closed	Level Percent of Payroll-Closed
Equivalent Single Remaining Amortization Period	24 years	24 years	24 years	24 years
Asset Valuation Method	5 Year Smoothed Market	5 Year Smoothed Market	5 Year Smoothed Market	5 Year Smoothed Market
Actuarial Assumptions				
Investment Rate of Return	7.50%	7.50%	7.50%	7.50%
Projected Salary Increases	4.00% to 7.00%	4.00% to 12.75%	4.00% to 12.00%	4.00%
Inflation	2.75%	2.75%	2.75%	2.75%
Cost of Living Adjustments	COLA is equal to the average five-year fund asset performance (percent) greater than 5.5% up to a maximum of 4% - the COLA is to be applied to the first \$25,000 of benefits, indexed over time (see note 2 below). COLA is delayed until the later of Social Security eligibility age or 3 years after retirement except for State Police for which the COLA is delayed until the later of age 55 or 3 years after retirement.			

Note 1. Within the Entry Age Normal Actuarial Cost Method, the Individual Entry Age Cost Methodology is used.

Note 2. Cost of Living Adjustments (COLA) in member benefit provisions prior to the enactment of pension reform legislation on November 18, 2011 will remain in effect through June 30, 2012.

A COLA of 2% is assumed only every five years until the plans achieve an 80% collective funded status in accordance with the law. It is assumed that the plans will not achieve the targeted 80% funded status for 19 years.

### Pension Reform – Provisions effective July 1, 2012

In November 2011, the Rhode Island General Assembly enacted comprehensive pension reform legislation titled the Rhode Island Retirement Security Act of 2011 (RIRSA). The enacted reforms are effective beginning July 1, 2012. The objectives of the legislation include improving the funded status of the plans within the System and stabilizing the projected increase in required employer contributions.

The pension reform measures include:

- For General State and Municipal Employees and Teachers: changing the structure of the retirement program to a hybrid plan designed with a smaller defined benefit plan and a supplemental defined contribution plan.
- Changing the automatic cost of living adjustments (COLA) from a stated amount or CPI-based COLA to a formula contingent on the actual investment performance over time.
- Suspending COLA when the funded ratio is lower than 80%. The ERS, Judicial and State Police Plans will be aggregated to determine if the 80% funded ratio has been met. When the COLA is suspended based on funded status, potential periodic COLA are provided every five years.
- Reamortizing the unfunded actuarial accrued liability to 25 years from the previous 19 year schedule.

- Preserving accumulated benefits earned by members (service credit multiplier) as of June 30, 2012.
- Aligning retirement eligibility ages to those for Social Security with a phased approach for those members who are vested (five years) as of June 30, 2012.

## Other

Certain employees of the University of Rhode Island, Rhode Island College and the Community College of Rhode Island (principally faculty and administrative personnel) are covered by individual annuity contracts under a defined contribution retirement plan. Eligible employees who have reached the age of 30, and who have two (2) years of service are required to participate in either the Teachers Insurance and Annuity Association, the Metropolitan Life Insurance Company, or Variable Annuity Life Insurance Company retirement plan. Eligible employees must contribute at least 5% of their gross biweekly earnings. The University and Colleges contribute 9% of the employees' gross biweekly earnings. Total expenses by the institutions for such annuity contracts amounted to approximately \$16,040,000 during the year ended June 30, 2012.

The Rhode Island Public Transit Authority has a defined benefit pension plan for all employees, for which eligibility to participate begins immediately upon employment. Benefits vest upon completion of ten years of service. Authority employees are eligible to retire upon attainment of age 62 and 10 years of continuous service. Retired employees are entitled to a monthly benefit for life as stipulated in the plan provisions. The plan also provides death and disability benefits. Employees are required to contribute 3% of their base salary to the plan. The remaining contributions to the plan are made by the Authority. Employer contributions paid in fiscal year 2012 totaled \$7,670,118. At January 1, 2012, the most recent valuation date, the total actuarial accrued liability was \$109,160,786 and the actuarial value of assets was \$72,301,088. The Authority contributed 100.00% of its annual pension cost for fiscal year 2012 and had a net pension obligation of \$1,741,566 at June 30, 2012.

Certain other component units have defined contribution pension and savings plans. For information regarding these pension and savings plans, please refer to the component units' separately issued financial reports.

## Note 14. Other Post-Employment Benefits

### A. Plan Descriptions

The Rhode Island State Employees' and Electing Teachers OPEB System (the "System") acts as a common investment and administrative agent for other post employment benefits provided for the six groups/plans listed below:

- Certain state employees and employees of the following component units: Narragansett Bay Commission, RI Airport Corporation and RI Economic Development Corporation.
- Certain certified public school teachers
- Judges
- State police officers
- Legislators
- Certain employees of the Board of Governors for Higher Education (BOG)

Members of the System must meet the eligibility and services requirements set forth in the RI General Laws or other governing documents.

Although the assets of the six plans are commingled for investment purposes, each plan's assets are accounted for separately and may be used only for the payment of benefits to the members of that plan, in accordance with the terms of that plan.

The System's financial statements are included as Trust Funds within the Fiduciary Funds. The System is administered by the State of Rhode Island OPEB Board and was authorized, created and established under Chapter 36-12.1 of the RI General Laws. The Board was established under Chapter 36-12.1 as an independent board to hold and administer, in trust, the funds of the OPEB system. The Board began operations and the Trust was established effective July 1, 2010.

The System issues a publicly available financial report that includes financial statements and required supplementary information for the plans and a description of the benefit structures. The report may be obtained by writing to the State Controller's Office, 1 Capitol Hill, Providence, RI 02903.

A summary of the principal provisions of the plans follow:

	State Employees and Teachers	Judicial	State Police	Legislators	BOG Plan
Plan type	Cost Sharing Multiple Employer	Single employer	Single employer	Single employer	Cost Sharing Multiple Employer
Eligibility	Members of ERS meeting eligibility criteria.	Retired judges.	Retired members of the State Police.	Retired legislators.	Members of the BOG Alternative Retirement Plan as defined in RI G.L. 16-17.1-1 and 2 meeting eligibility criteria.
Plan benefits	Retiree plan for members and dependents until Medicare eligible; subsequently eligible for Medicare supplement.	May purchase active employee plan for member and dependents until age 65. At 65 must enroll in Medicare supplement.	Active employee plan for member and dependents until age 65; at that age coverage ceases if Medicare eligible.	May purchase active employee plan for member and dependents until age 65. At 65 must enroll in Medicare supplement.	For employees retiring after June 21, 1998 the Board pays a portion of the post 65 Tier II benefits depending on the years of service and the retiree's age. Those employees who retired previously have different benefits which are discussed below.
Other	Retired teachers can purchase coverage for themselves and dependents at active or early retirement rate, as applicable until age 65. At 65 must enroll in Medicare supplement.				

RIGL Sections 16-17.1-1 and 2, 36-10-2, 36-12.1, 36-12.2.2 and 36-12-4 govern the provisions of the System, and they may be amended in the future by action of the General Assembly.

## B. Funding Policy, Funding Status and Funding Progress

The contribution requirements of plan members, the State, and other participating employers are established and may be amended by the General Assembly.

In fiscal year 2012 the State and other participating employers were required by law to fund the plans on an actuarially determined basis. For the fiscal year ended June 30, 2012, the State and other participating employers paid \$56,846,593 into the plans.

## C. Annual OPEB Cost and Net OPEB Obligation

As required by GASB Statement 45, the participating employers recognized an expense equal to a) the annual required contribution of the employer (ARC), which was actuarially determined, plus b) interest on the net OPEB obligation at the beginning of the fiscal year, where applicable, less c) the ARC adjustment, where applicable (discounted present value of the OPEB liability at the beginning of the fiscal year). 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.

The annual OPEB cost for the year, the amount actually paid on behalf of the plans and the changes in the net OPEB obligation are as follows (dollar amounts expressed in thousands):

Date of Actuarial Valuation	State	Teachers	Judicial	State	Legislators	BOG
	Employees	06/30/09	06/30/09	Police	06/30/09	06/30/09
Annual required contribution as a percent of payroll	6.86%	N/A	7.19%	33.18%	46.35%	2.69%
Annual required contribution	\$ 44,235	\$ 2,321	\$ 782	\$ 5,841	\$ 778	\$ 2,884
Plus: Interest on net OPEB obligation at beginning of year	0	N/A	141	411	106	0
Less: Adjustment to ARC	0	N/A	113	332	85	0
Annual OPEB cost	44,235	2,321	810	5,920	799	2,884
Participating State and/or other employer contributions	44,235	2,321	782	5,841	778	2,884
Increase in OPEB obligation	0	0	28	79	21	0
Net OPEB obligation at beginning of year	0	0	2,839	8,302	2,116	0
Net OPEB obligation at end of year	\$ 0	\$ 0	\$ 2,867	\$ 8,381	\$ 2,137	\$ 0

The State's annual OPEB cost, the percentage of annual OPEB cost contributed to the plans, and the net OPEB obligation were as follows (dollar amounts expressed in thousands):

Plan	Fiscal Year	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
State Employees	2010	\$ 45,852	73.07%	\$ -
	2011	41,120	100.00%	-
	2012	44,235	100.00%	-
Teachers	2010	2,345	100.00%	-
	2011	2,333	100.00%	-
	2012	2,321	100.00%	-
Judicial	2010	1,131	15.33%	2,811
	2011	1,014	97.23%	2,839
	2012	810	96.53%	2,867
State Police	2010	4,640	48.88%	8,222
	2011	4,295	98.13%	8,302
	2012	5,920	98.66%	8,381
Legislators	2010	1,861	7.72%	2,095
	2011	1,541	98.62%	2,116
	2012	799	97.34%	2,137
BOG	2010	1,665	53.20%	-
	2011	2,869	100.00%	-
	2012	2,884	100.00%	-

The Net OPEB Obligation for the State Employees and BOG plans has been restated for 2010 due to the change in the plans' type from an agent multi-employer to cost sharing multi-employer plan.

The table below displays the funded status of each plan at June 30, 2011, the most recent actuarial valuation date (dollar amounts expressed in thousands):

	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age - (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a) / c)
State Employees	\$ 11,545	\$ 786,293	\$ 774,748	1.5%	\$ 600,273	129.1%
Teachers	2,040	11,512	9,472	17.7%	n/a	n/a
Judicial	841	2,610	1,769	32.2%	10,813	16.4%
State Police	1,488	81,759	80,271	1.8%	17,384	461.8%
Legislators	1,442	1,443	1	99.9%	1,615	0.1%
BOG	3,189	53,751	50,562	5.9%	125,340	40.3%

Covered payroll and the UAAL as a percentage of covered payroll are not presented for teachers since the required contribution by the State is for the Tier I subsidy for teachers who have elected to participate in the State's Retiree Health Care Benefit Plan.

#### D. Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in the actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedules of funding progress, presented as required supplementary information

following the notes to the financial statements, show whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

The accompanying schedules of employer contributions present trend information about the amounts contributed to the plans by employers in comparison to the ARC, an amount that is actuarially determined in accordance with the parameters of GASB Statement 43. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost for each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not exceeding thirty years.

The Annual Required Contributions for fiscal year 2012 were determined based on the June 30, 2009 valuations for all plans.

As of the June 30, 2009 actuarial valuation, the Unfunded Actuarial Accrued Liability (UAAL) was amortized by a level (principal and interest combined) percent of payroll contribution for each component unit employer. The UAAL was determined using the actuarial value of assets and actuarial accrued liability calculated as of the valuation date. The UAAL for all plans, except teachers, is being amortized over the remainder of a closed 30-year (or shorter) period from June 30, 2006. The remaining amortization period at June 30, 2009 is 27 years. The UAAL for teachers is being amortized as a level dollar amount over an 8-year period from June 30, 2007.

For the June 30, 2009 valuation the actuarial assumptions include a 5.0% discount rate, a health care cost trend assumption of 9% progressively declining to 4.5% after 10 years, and salary growth assumption rates ranging between 4.5% and 13.25%. Other assumptions, including those relating to rates of termination, rates of retirement, percent married, and retiree health care election rates, were based on the most recent experience study for the Employees' Retirement System of Rhode Island as well as on anticipated experience changes in conjunction with the adopted retirement plan changes enacted through legislation.

The most recent actuarial valuations of the plans were performed as of June 30, 2011.

A number of changes in OPEB specific actuarial assumptions were made between the June 30, 2009 and June 30, 2011 valuations. These changes include reflecting new assumptions adopted by the Employees Retirement System of Rhode Island (ERSRI), and the State Police Retirement Benefits Trust of Rhode Island (SPRBT), changes to the OPEB specific assumptions, and changes to reflect the potential excise tax under the Patient Protection and Affordable Care Act.

Changes from the ERSRI and SPRBT experience studies include changes to the retirement and disability rates for ERSRI and changes to salary expectations and mortality for both ERSRI and SPRBT.

Changes to the OPEB specific assumptions include a change in the medical trend assumption of 9% decreasing to 4.5% in 8 years to 9% decreasing to 4.0% in 10 years, a change in the Medicare election rate for Legislators from 75% electing Medicare to 100% electing Medicare and the addition of the assumption that current retired Teachers over age 65 in the Early Retiree Plan are assumed to not be eligible for Medicare.

The Patient Protection and Affordable Care Act includes an excise tax on high cost health plans beginning in 2018. The excise tax is 40% of costs above a threshold. The actuarial assumptions used in the most recent valuation assume that the plans will be subject to the excise tax as early as 2018.

The following table summarizes the actuarial methods and assumptions used in the most recent actuarial valuation:

Summary of Actuarial Methods and Assumptions as of June 30, 2011 valuation						
	Plan					
	State Employees	Teachers	Judicial	State Police	Legislators	Board of Governors
<b>Valuation Date</b>	June 30, 2011					
<b>Plan Type</b>	Cost sharing multiple employer	Single Employer (1)	Single Employer	Single Employer	Single Employer	Cost sharing multiple employer
<b>Actuarial Cost Method</b>	Individual Entry Age					
<b>Amortization Method</b>	Level Percent of Payroll – Closed	Level Dollar	Level Dollar	Level Percent of Payroll – Closed	Level Dollar	Level Percent of Payroll – Closed
<b>Equivalent Single Remaining Amortization Period</b>	25 years	4 years	25 years	25 years	25 years	25 years
<b>Asset Valuation Method</b>	Four year smoothed market					
<b>Actuarial Assumptions</b>						
<b>Investment Rate of Return</b>	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%
<b>Projected Salary Increases</b>	4.00% to 7.0%	N/A	4.00%	4.00% to 12.0%	4.25% to 8.50%	4.00% to 7.00%
<b>Valuation Health Care Cost Trend Rate</b>	9% in 2012, grading to 4.0% in 2021	9% in 2012, grading to 4.0% in 2021	9% in 2012, grading to 4.0% in 2021	9% in 2012, grading to 4.0% in 2021	9% in 2012, grading to 4.0% in 2021	9% in 2012, grading to 4.0% in 2021
<p><b>Note 1</b> – The Teachers plan accounts for the Tier I subsidy funded by the State for Teachers electing to participate and retiring before October 1, 2008.</p> <p><b>Note 2</b> – The actuarial assumptions do not include a separate general inflation rate assumption.</p>						

Certain other component units have other post employment benefit plans. For information regarding these plans, please refer to the component units' separately issued financial reports.

**Note 15. Deferred Compensation**

The State offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The Department of Administration, pursuant to Chapter 36-13 of the General Laws, administers the plan. The Department of Administration contracts with private corporations to provide investment products related to the management of the deferred compensation plan. Plan distributions are normally available to employees at the later of age 59 or retirement and mandatory distributions must commence once the individual reaches age 70½. The plan also allows for distributions for qualifying events such as termination, death or “unforeseeable emergency”.

Current Internal Revenue Service regulations require that amounts deferred under a Section 457 plan be held in trust for the exclusive benefit of participating employees and not be accessible by the government or its creditors. The plan assets also may be held in annuity contracts or custodial accounts, which are treated as trusts.

The State does not serve in a trustee capacity. Accordingly, the plan assets are not included in the State’s financial statements.

**Note 16. Risk Management**

The State is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; employee injury; and natural disasters.

The State has entered into agreements with commercial insurance companies for comprehensive insurance coverage on State property to protect the State against loss from fire and other risks. Furthermore, the State is required by the General Laws to provide insurance coverage on all motor vehicles owned by the State and operated by State employees in the sum of \$100,000 per person and \$300,000 per accident for personal injury and \$20,000 for property damage. During Fiscal 2012, and the two preceding fiscal years, no settlements exceeded insured coverage limits.

The State also has a contract with an insurance company to provide health care benefits to active and retired employees. For coverage provided to active employees, the State retains the risk of loss. Retirees that are Medicare eligible may choose Medicare supplement coverage that is either premium based (State retains no risk of loss) or a self-insured plan option. Except for the premium based coverage provided to certain Medicare eligible retirees, the State reimburses the company for the costs of all claims paid plus administrative fees. The estimated liability for incurred but not reported (IBNR) claims at June 30, 2012 was calculated based on historical claims data. The change in claims liability (expressed in thousands) is as follows:

	Liability at July 1	Current Year Claims and IBNR Estimate	Claim Payments	Liability at June 30
Health Insurance Funds				
Unpaid claims	\$ 16,071	\$ 203,563	\$ 205,854	\$ 13,780

The State is self-insured for risks of loss related to torts. Tort claims are defended by the State’s Attorney General and, when necessary, appropriations are provided to pay claims.

The State is self-insured for various risks of loss related to work related injuries of State employees. The State maintains the Assessed Fringe Benefits Fund, an internal service fund that services, among other things, workers’ compensation claims. Funding is provided through a fringe benefit rate applied to State payrolls on a pay-as-you-go basis.

**Note 17. Other Information**

**A. Elimination Entries**

When the governmental fund statements and the internal service fund statements are combined into one column for governmental activity on the government-wide financial statements, interfund balances and activity should be eliminated. The following are the eliminations (expressed in thousands) that were made:

	Total Governmental Funds	Internal Service Funds	Total	Eliminations	Internal Balances
<b>Assets</b>					
Due from other funds	\$ 5,694	\$ 393	\$ 6,087	\$ (9,476)	\$ (3,389)
Loans to other funds	9,469		9,469	(9,469)	
<b>Total assets</b>	<b>\$ 15,163</b>	<b>\$ 393</b>	<b>\$ 15,556</b>	<b>\$ (18,945)</b>	<b>\$ (3,389)</b>
<b>Liabilities</b>					
Due to other funds	\$ 7,650	\$ 1,826	\$ 9,476	\$ (9,476)	\$
Loans from other funds	6,809	2,660	9,469	(9,469)	
<b>Total liabilities</b>	<b>\$ 14,459</b>	<b>\$ 4,486</b>	<b>\$ 18,945</b>	<b>\$ (18,945)</b>	<b>\$</b>
<b>Program revenue</b>					
General government	\$	\$ 263,825	\$ 263,825	\$ (263,825)	
Public safety		10,023	10,023	(10,023)	
<b>Expenses</b>					
General government		(263,770)	(263,770)	263,770	
Public safety		(10,078)	(10,078)	10,078	
<b>Net revenue (expenses)</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
<b>Transfers</b>					
Operating transfers in	\$ 581,679	\$	\$ 581,679	\$ (237,293)	\$ 344,386
Operating transfers out	(235,253)	(2,040)	(237,293)	237,293	
<b>Net transfers</b>	<b>\$ 346,426</b>	<b>\$ (2,040)</b>	<b>\$ 344,386</b>	<b>\$</b>	<b>\$ 344,386</b>
<b>Total Business-type Activities</b>					
			<b>Total</b>	<b>Eliminations</b>	<b>Internal Balances</b>
<b>Assets</b>					
Due from other funds	\$ 6,264	\$	\$ 6,264	\$ (2,875)	\$ 3,389
<b>Total assets</b>	<b>\$ 6,264</b>	<b>\$</b>	<b>\$ 6,264</b>	<b>\$ (2,875)</b>	<b>\$ 3,389</b>
<b>Liabilities</b>					
Due to other funds	\$ 2,875	\$	\$ 2,875	\$ (2,875)	\$
<b>Total liabilities</b>	<b>\$ 2,875</b>	<b>\$</b>	<b>\$ 2,875</b>	<b>\$ (2,875)</b>	<b>\$</b>
<b>Transfers</b>					
Operating transfers in	\$ 33,417	\$	\$ 33,417	\$ (33,417)	\$
Operating transfers out	(377,803)		(377,803)	33,417	(344,386)
<b>Net transfers</b>	<b>\$ (344,386)</b>	<b>\$</b>	<b>\$ (344,386)</b>	<b>\$</b>	<b>\$ (344,386)</b>

**B. Related Party Transactions**

The R.I. Industrial-Recreational Building Authority is authorized to insure mortgages and first security agreements granted by financial institutions and the R.I. Industrial Facilities Corporation for companies conducting business in the State.

The State entered into a lease and operating agreement (the agreement) with the R.I. Airport Corporation (RIAC), a subsidiary of the R.I. Economic Development Corporation, whereby the State has agreed to lease various assets to RIAC. The agreement requires RIAC to reimburse the State for principal and interest payments for certain airport related General Obligation Bonds. The term of the agreement is 30 years beginning July 1, 1993, with annual rent of \$1.00. In the event RIAC does not have sufficient funds to make the required lease 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 rights to terminate the agreement as long as there are bonds and subordinate indebtedness outstanding.

The R.I. Student Loan Authority (RISLA) and the R.I. Higher Education Assistance Authority (RIHEAA), component units of the State, are related parties. RISLA is a public instrumentality created to provide a

statewide student loan program through the acquisition and origination of student loans. RIHEAA is a public instrumentality created for the dual purpose of guaranteeing loans to students in eligible institutions and administering other programs of post-secondary student financial assistance assigned by law.

Transactions between RISLA and RIHEAA as of and during the year ended June 30, 2012 were as follows:

Guaranteed loans outstanding at June 30, 2012	\$	502,286,000
Guarantee claims paid during the year		18,011,000
Balance on line of credit		5,783,000
FFELP Rehabilitation loan balance		1,390,000
Loan repayment due from RIHEAA		17,000

In November 2004, the voters of Rhode Island authorized the issuance of \$30 million in general obligation debt for the construction of a new residence hall at Rhode Island College (RIC). Of this amount, \$20 million will be repaid to the State. The residence hall was finished and in service by September 2007, at which time RIC began collecting revenues to pay for its share of the debt service. Debt service obligation is to be split two-thirds to RIC and one-third to the State for all payments after September 2007. RIC will repay the State for the debt service paid on its behalf on a straight-line basis amortized over the remaining life of the bonds, which carry rates ranging from 3-5% and a life of nineteen years beginning in fiscal year 2009.

The Narragansett Bay Commission has approximately \$341,000,000 of loans payable to the R.I. Clean Water Finance Agency.

In July 2011 the Governor signed into law an Act authorizing the sale of surplus property (real estate) created by the relocation of Interstate 195. The Act also creates the I-195 Redevelopment District Commission (the "Redevelopment Commission"), a component unit of the Rhode Island Economic Development Corporation. The seven-member commission is authorized to plan, implement, administer and oversee the redevelopment of the Interstate 195 surplus properties. Also included in this legislation was authorization for RI Economic Development Corporation to issue bonds or other obligations not to exceed \$42,000,000 to finance the acquisition by the Redevelopment Commission of the surplus land from the State. This financing, in combination with residual funds from the motor fuel proceeds, is expected to be sufficient to fund completion of the Interstate 195 relocation project and certain activities of the Redevelopment Commission. To the extent these resources are not sufficient to complete the project, other State and federal Transportation funds would be made available, which would impact the progress of other contemplated projects. No bonds have been issued as of June 30, 2012.

### C. Budgeting, Budgetary Control, and Legal Compliance

#### Budget Preparation

An annual budget is adopted on a basis consistent with generally accepted accounting principles. The budget encompasses the General, Intermodal Surface Transportation and Temporary Disability Insurance Funds as well as selective portions of certain other funds. Preparation and submission of the budget is governed by the State Constitution and the Rhode Island General Laws. The budget, as enacted, contains a complete plan of proposed expenditures from all sources of funds (general, federal, restricted, and transfers in). Revenues upon which the budget plan is based are determined as part of the State's Revenue Estimating Conference. The Conference, held twice each year, results in a consensus estimate of revenues for the next fiscal year and an update of prior revenue estimates for the current fiscal year.

As required by the Constitution and the Rhode Island General Laws, annual appropriations are limited to 97.2 percent of estimated general revenues. The remaining 2.8 percent is contributed to the Budget Reserve Account until such account equals 4.6 percent of total general revenues and opening surplus. Excess contributions to the Budget Reserve Account are transferred to the Rhode Island Capital Plan Fund to be used for capital projects.

The annual budget is adopted on a comprehensive basis and includes activity that, for financial reporting purposes, is recorded in multiple funds. Consequently, the budgetary comparison schedules for an individual fund include amounts in the "actual" column that have no corresponding budget amount. These

amounts are principally interfund transfers which are not included in the comprehensive budget to avoid duplication but are appropriately reflected in the individual fund financial statements.

### Budgetary Controls

The legal level of budgetary control, i.e., the lowest level at which management (executive branch) may not reassign resources without special approval (legislative branch) is the line item within the appropriation act. Management cannot reallocate any appropriations without special approval from the legislative branch.

Budgetary controls utilized by the State consist principally of statutory restrictions on the expenditure of funds in excess of appropriations, accounting system controls to limit expenditures in excess of authorized amounts, and budgetary monitoring controls.

### D. Significant Transactions with Component Units

The significant transactions with the discretely presented component units are presented (expressed in thousands) below:

Significant transactions between primary government and component units		
	(Revenue)	
	Expense	Description
Governmental activities		
General		
R.I. Higher Education Assistance Authority	\$ 5,911	Operating assistance
R.I. Economic Development Corporation	16,659	Operating and capital assistance
University of Rhode Island	58,581	Operating assistance
Rhode Island College	38,395	Operating assistance
Community College of Rhode Island	44,862	Operating assistance
Central Falls School District	49,999	Operating assistance
R.I. Public Transit Authority	7,106	Operating assistance
IST		
R.I. Public Transit Authority	40,939	Operating assistance
Bond Capital		
University of Rhode Island	18,689	Construction, improvement or purchase of assets
Certificates of Participation		
Community College of Rhode Island	6,223	Construction, improvement or purchase of assets
R. I. Capital Plan		
University of Rhode Island	11,328	Construction, improvement or purchase of assets
Rhode Island College	5,150	Construction, improvement or purchase of assets
Total Governmental Activities	<u>\$ 303,842</u>	

### E. Individual Fund Deficits

The following Internal Service Funds had cumulative fund deficits at June 30, 2012:

- Assessed Fringe Benefits (\$1,673,000)
- Central Utilities (\$250,000)
- State Telecommunications (\$188,000)
- Records Center (\$116,000)

The deficits will be eliminated through charges for services in fiscal year 2013.

### F. Restatements – Net Assets and Fund Balances

The beginning net assets of the discretely presented component units were restated by \$4,157,000. Rhode Island College (RIC) holds certain funds for various student organizations, agencies and others affiliated with RIC. RIC has determined that certain funds collected were not on behalf of others and should have been classified as revenue to RIC upon receipt. Accordingly, RIC restated its beginning net assets by \$3,519,000. The classification of the Central Falls School District (CFSD) was changed from a related organization to a discretely presented component unit of the State for fiscal year 2012. For fiscal year 2011 the CFSD was considered legally part of the City of Central Falls and was included in the City's

financial statements for that fiscal year. A subsequent court decision in March 2012 clarified that the CFSD had a separate legal existence and was not a department of the City. The CFSD had beginning net assets of \$638,000.

## Note 18. Subsequent Events

### Primary Government

In June 2012, the General Assembly enacted a law requiring the transfer of the Sakonnet River and Jamestown Verranzano bridges from the Rhode Island Department of Transportation to the Rhode Island Turnpike and Bridge Authority. The transfer process will begin during the fiscal year ending June 30, 2013.

In October 2012 the State issued \$81,400,000 of General Obligation Bonds. The bonds mature in 2014 through 2033 and will be used for a variety of purposes including higher education facilities and transportation infrastructure projects.

In November 2012, the voters of the State approved the issuance of general obligation bonds for (1) Higher Education Facilities - \$50,000,000, (2) Veterans' Home - \$94,000,000, (3) Clean Water Finance Agency - \$20,000,000, (4) Environmental Management - \$20,000,000, and (5) Affordable Housing - \$25,000,000.

### Component Units

On June 25, 2012, the Rhode Island Public Telecommunications Authority Board voted to authorize management of WSBE-TV/DT to petition the Federal Communications Commission (FCC) to transfer the licenses held by the Authority to the Rhode Island PBS Foundation. On August 1, 2012, the Board of the Rhode Island PBS Foundation voted to acquire all licenses, permits, rights and assets of the Authority used or related to the operation of non-commercial television station WSBE-TV/DT. On August 12, 2012, the Authority applied to the FCC to assign the broadcasting license to the Foundation. The FCC approved the proposal on September 24, 2012, and the Authority and the Foundation consummated the assignment of the broadcasting license to the Foundation effective October 10, 2012. As of that date, the Authority no longer has responsibility for operating WSBE-TV/DT.

In July and August 2012, the Rhode Island Student Loan Authority (RISLA) retired \$126,750,000 of bonds for various Student Loan Programs. These transactions resulted in a gain in the amount of \$8,332,500.

On August 30, 2012, RISLA issued \$111,000,000 in taxable LIBOR floating rate notes. Proceeds from this issuance were used to refinance FFLEP loans that were previously pledged to secure other debt obligations of the RISLA and to provide funds to retire those obligations. RISLA also issued \$78,000,000 in taxable bonds on August 30, 2012. These proceeds were used to retire bonds from the 2008 B 1-4 Series bonds.

In November 2012, RISLA issued \$260,000,000 in Taxable LIBOR Floating Rate Notes (FFLEP Loan Backed Bonds, Series 2012-2). The funds from the issuance were used to extinguish a Note Payable in the amount of \$276,330,959 due to the US Department of Education for funds advanced as part the Asset Backed Commercial Paper Straight A Conduit Program.

Subsequent to June 30, 2012, the Rhode Island Housing and Mortgage Finance Corporation issued and redeemed or refunded various series of Homeownership Opportunity Bonds.

On November 8, 2012, Rhode Island Clean Water Finance Agency issued \$65,860,000 of Water Pollution Refunding Revenue Bonds.

In July 2012, the Rhode Island Public Transit Authority's (RIPTA) management ordered a third-party investigation regarding a potential security breach involving a security camera in the fare box pulling location. Subsequently, the Governor appointed a resource team to assume day-to-day managerial control of RIPTA. The resources team is investigating and identifying operational and administrative inefficiencies, if any, and other management concerns with RIPTA. The resources team is expected to make, and if approved by RIPTA, to implement, recommendations to address those inefficiencies and

management concerns. The Rhode Island State Police is also conducting a criminal investigation related to the above security breach in the fare box pulling location. Management is currently unable to predict the outcome of the resources team's efforts or the criminal investigation being conducted by the State Police.

On November 28, 2012, Narragansett Bay Commission issued Wastewater Systems Revenue Bond Anticipation Notes, 2012 Series 1, in the amount \$40,000,000 with an interest rate of .50% with a maturity date of May 23, 2013.

Subsequent to June 30, 2012, Quonset Development Corporation entered into a loan agreement to borrow \$7,500,000 to support the Davisville Dredging project.

State of Rhode Island  
Fiscal Year Ended June 30, 2012

# Required Supplementary Information



**State of Rhode Island and Providence Plantations**  
**Schedule of Revenues, Expenditures and Changes in Fund Balance**  
**Budget and Actual**  
**General Fund**  
**For the Fiscal Year Ended June 30, 2012**  
**(Expressed in Thousands)**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
<b>Revenues:</b>				
General Revenues:				
Personal Income Tax	\$ 1,010,021	\$ 1,046,200	\$ 1,060,482	\$ 14,282
General Business Taxes:				
Business Corporations	121,225	131,600	123,054	(8,546)
Public Utilities Gross Earnings	99,400	98,300	100,631	2,331
Financial Institutions	500	2,500	3,558	1,058
Insurance Companies	102,600	89,000	89,488	488
Bank Deposits	2,000	2,100	2,001	(99)
Health Care Provider Assessment	41,327	41,600	41,922	322
Sales and Use Taxes:				
Sales and Use	846,513	846,000	851,056	5,056
Motor Vehicle	51,600	47,700	48,392	692
Motor Fuel	1,100	1,000	733	(267)
Cigarettes	133,500	133,600	131,086	(2,514)
Alcohol	12,100	12,000	11,874	(126)
Other Taxes:				
Inheritance and Gift	29,300	44,800	46,412	1,612
Racing and Athletics	1,200	1,300	1,327	27
Realty Transfer Tax	6,500	5,900	6,435	535
Total Taxes (1)	<u>2,458,886</u>	<u>2,503,600</u>	<u>2,518,451</u>	<u>14,851</u>
Departmental Revenue	<u>343,543</u>	<u>344,500</u>	<u>339,895</u>	<u>(4,605)</u>
Total Taxes and Departmental Revenue	<u>2,802,429</u>	<u>2,848,100</u>	<u>2,858,346</u>	<u>10,246</u>
Other Sources:				
Other Miscellaneous	6,325	16,800	20,110	3,310
Lottery	361,042	378,500	377,706	(794)
Unclaimed Property	6,200	14,000	14,556	556
Total Other Sources	<u>373,567</u>	<u>409,300</u>	<u>412,372</u>	<u>3,072</u>
Total General Revenues	<u>3,175,996</u>	<u>3,257,400</u>	<u>3,270,718</u>	<u>13,318</u>
Federal Revenues	2,232,560	2,296,461	2,119,476	(176,985)
Restricted Revenues	187,698	225,865	192,642	(33,223)
Other Revenues	76,339	75,001	67,640	(7,361)
Total Revenues (2)	<u>5,672,593</u>	<u>5,854,727</u>	<u>5,650,476</u>	<u>(204,251)</u>
<b>Expenditures (4):</b>				
General government	682,832	756,766	668,592	88,174
Human services	3,086,250	3,062,175	2,969,166	93,009
Education	1,316,394	1,332,215	1,305,922	26,293
Public safety	457,376	480,377	459,137	21,240
Natural resources	96,246	105,078	75,141	29,937
Total Expenditures (2)	<u>5,639,098</u>	<u>5,736,611</u>	<u>5,477,958</u>	<u>\$ 258,653</u>
Transfer of Excess Budget Reserve to RI Capital Fund			70,264	
Total Expenditures	<u>\$ 5,639,098</u>	<u>\$ 5,736,611</u>	<u>5,548,222</u>	
Change in Fund Balance			102,254	
Fund balance - beginning			270,900	
Fund balance - ending			<u>\$ 373,154</u>	

(continued)

**State of Rhode Island and Providence Plantations**  
**Schedule of Revenues, Expenditures and Changes in Fund Balance**  
**Budget and Actual**  
**General Fund**  
**For the Fiscal Year Ended June 30, 2012**  
**(Expressed in Thousands)**

	Original Budget	Final Budget	Actual	Variance with Final Budget
<b>Expenditures by Source:</b>				
General Revenues	\$ 3,142,501	\$ 3,139,286	\$ 3,110,242	\$ 29,044
Federal Funds	2,232,559	2,296,461	2,121,017	175,444
Restricted Receipts	187,699	225,863	180,842	45,021
Other Funds	76,339	75,001	65,857	9,144
	\$ 5,639,098	\$ 5,736,611	\$ 5,477,958	\$ 258,653

**General Fund - Reconciliation of Budget Results to Changes in Fund Balance:**

**Budgeted Surplus:**

Total Revenue - Final Budget	\$ 5,854,727
Total Expenditures - Final Budget	5,736,611
<b>Final Budget - Projected Surplus (3)</b>	\$ 118,116

**Final Budget and Actual - Results**

Total Revenues - Variance (Actual Revenue less than Budget)	\$ (204,251)
Total Expenditures - Variance (Actual Expenditures less than Budget)	258,653
<b>Surplus resulting from operations compared to final budget</b>	\$ 54,402
Total General Fund Surplus - Fiscal Year Ended June 30, 2012	\$ 172,518
Less: Transfer of Excess Budget Reserve to RICAP Fund	(70,264)
<b>Net Change in General Fund - Fund Balance</b>	\$ 102,254
Fund Balance, Beginning	270,900
Fund Balance, Ending	\$ 373,154

**Notes:**

(1) Transfers from the Historic Tax Credit Special Revenue Fund reported as "Other Financing Sources" on the General Fund have been allocated to General Revenue Tax Categories on this schedule to align with the State's legally adopted budget format.

(2) Certain revenue and expenditure amounts classified as "Other Financing Sources (Uses)" have been reclassified within the budgetary comparison schedule to align with the State's legally adopted budgetary format.

(3) RI General Law section 35-3-20.1, titled "Limitation on state spending", mandates that expenditure appropriations shall not be greater than 97.2% of estimated general revenue for the fiscal year ending June 30, 2012.

(4) Debt service expenditures are included in the above respective categories:

General government	\$ 160,894
Education	24,043
Public safety	23
	\$ 184,960

(continued)

**State of Rhode Island and Providence Plantations**  
**Schedule of Revenues, Expenditures and Changes in Fund Balance**  
**Budget and Actual**  
**General Fund**  
**For the Fiscal Year Ended June 30, 2012**  
**(Expressed in Thousands)**

**Reconciliation of Fund Balance - Financial Reporting Perspective to Budgetary Perspective**

	<b>Fund Balance Reported in the Financial Statements</b>	<b>Budgetary Perspective</b>	
		<b>Fund Balance Not Available for Appropriation in Fiscal 2013</b>	<b>Fund Balance Available for Appropriation in Fiscal 2013</b>
Restricted	\$ 232,348	\$ 232,348	\$
Committed	22,793	22,793	
Assigned	97,639	2,826 (a)	94,813 (b)
Unassigned	20,374		20,374 (c)
<b>Total Fund Balance</b>	<b>\$ 373,154</b>	<b>\$ 257,967</b>	<b>\$ 115,187</b>

(a) Assigned fund balance not available for appropriation in fiscal 2013 includes (1) centralized cost allocation surplus that requires offset through fiscal 2013 centralized charges and (2) general revenue appropriations carried forward by the Governor.

(b) Assigned fund balance available for appropriation in fiscal 2013 includes fiscal 2012 ending surplus amounts of \$93.9 million appropriated as resources in the 2013 enacted budget, and fund balance amounts encumbered at June 30, 2012.

(c) Remaining fund balance available for appropriation.

(concluded)

**State of Rhode Island and Providence Plantations**  
**Schedule of Revenues, Expenditures, and Changes in Fund Balance**  
**Budget and Actual**  
**Intermodal Surface Transportation Fund**  
**For the Fiscal Year Ended June 30, 2012**  
**(Expressed in Thousands)**

	<b>Original Budget</b>	<b>Final Budget</b>	<b>Actual</b>	<b>Variance with Final Budget</b>
<b>Revenues:</b>				
Taxes	\$ 136,853	\$ 137,363	\$ 136,646	\$ (717)
Departmental restricted revenue	1,000	2,699	1,637	(1,062)
Federal grants	309,996	338,457	291,786	(46,671)
Other revenues	16,713	5,086	1,235	(3,851)
Total revenues	<u>464,562</u>	<u>483,605</u>	<u>431,304</u>	<u>(52,301)</u>
<b>Other financing sources:</b>				
Operating transfers in			52,841	52,841
Total revenues and other financing sources	<u>464,562</u>	<u>483,605</u>	<u>484,145</u>	<u>540</u>
<b>Expenditures:</b>				
<b>Central Management</b>				
Gasoline Tax	1,109	1,282	1,333	(51)
Federal Funds	11,394	9,515	6,450	3,065
Total - Central Management	<u>12,503</u>	<u>10,797</u>	<u>7,783</u>	<u>3,014</u>
<b>Management and Budget</b>				
Gasoline Tax	1,177	1,511	852	659
Total - Management and Budget	<u>1,177</u>	<u>1,511</u>	<u>852</u>	<u>659</u>
<b>Infrastructure - Engineering</b>				
Gasoline Tax	52,274	53,797	54,128	(331)
Land Sale Revenue	16,603	1,995	1,242	753
GARVEE Residual Revenue		2,981		2,981
Federal Funds	298,601	328,942	285,069	43,873
Restricted Receipts	1,000	2,699	2,518	181
Subtotal - Infrastructure - Engineering	<u>368,478</u>	<u>390,414</u>	<u>342,957</u>	<u>47,457</u>
State Match - FHWA			49,811	(49,811)
Total - Infrastructure - Engineering	<u>368,478</u>	<u>390,414</u>	<u>392,768</u>	<u>(2,354)</u>
<b>Infrastructure - Maintenance</b>				
Gasoline Tax	41,452	35,832	33,909	1,923
Outdoor Advertising	100	100		100
Nonland Surplus	10	10		10
Total - Infrastructure - Maintenance	<u>41,562</u>	<u>35,942</u>	<u>33,909</u>	<u>2,033</u>
Total Expenditures	<u>423,720</u>	<u>438,664</u>	<u>435,312</u>	<u>3,352</u>
<b>Other financing uses:</b>				
<b>Transfers to other funds</b>				
Gas tax			46,129	
Other			18	
Total expenditures and other financing uses			<u>481,459</u>	
Net change in fund balance			2,686	
Fund balance - beginning			31,928	
Fund balance - ending (excluding GARVEE)			<u>\$ 34,614</u>	

For financial statement presentation the GARVEE fund has been merged into the IST fund. Only the IST fund is budgeted.

State of Rhode Island and Providence Plantations  
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June 30, 2012  
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**Employees' Retirement System**

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age - (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a) / c)
06/30/2011	\$ 6,220,099	\$ 10,581,304	\$ 4,361,206	58.8%	\$ 1,635,802	266.6%
06/30/2010 **	6,405,209	10,499,318	4,094,109	61.0%	1,619,484	252.8%
06/30/2009	6,655,012	11,383,207	4,728,195	58.5%	1,593,336	296.7%

**State Police Retirement Benefits Trust**

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age - (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a) / c)
06/30/2011	\$ 73,152	\$ 74,186	\$ 1,034	98.6%	\$ 19,712	5.2%
06/30/2010 **	65,760	73,049	7,288	90.0%	19,715	37.0%
06/30/2009	60,232	75,480	15,248	79.8%	17,096	89.2%

**Judicial Retirement Benefits Trust**

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age - (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a) / c)
06/30/2011	\$ 40,106	\$ 46,594	\$ 6,488	86.1%	\$ 8,475	76.6%
06/30/2010 **	38,074	46,642	8,567	81.6%	7,461	114.8%
06/30/2009	36,839	41,738	4,899	88.3%	6,843	71.6%

\*\* Restated to reflect pension reform legislation enacted on November 18, 2011

State of Rhode Island and Providence Plantations  
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June 30, 2012  
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**State Employees Plan**

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a) / c)
06/30/2011	\$ 11,545	\$ 786,293	\$ 774,748	1.5%	\$ 600,273	129.1%
06/30/2009	0	673,640	673,640	0.0%	574,569	117.2%
06/30/2007	0	679,538	679,538	0.0%	626,145	108.5%

**Teachers Plan**

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a) / c)
06/30/2011	\$ 2,040	\$ 11,512	\$ 9,472	17.7%	NA	NA
06/30/2009	0	13,529	13,529	0.0%	NA	NA
06/30/2007	0	10,243	10,243	0.0%	NA	NA

**Judicial Plan**

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a) / c)
06/30/2011	\$ 841	\$ 2,610	\$ 1,769	32.2%	\$ 10,813	16.4%
06/30/2009	0	8,665	8,665	0.0%	9,395	92.2%
06/30/2007	0	14,024	14,024	0.0%	9,888	141.8%

**State Police Plan**

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a) / c)
06/30/2011	\$ 1,488	\$ 81,759	\$ 80,271	1.8%	\$ 17,384	461.8%
06/30/2009	0	67,079	67,079	0.0%	16,725	401.1%
06/30/2007	0	54,620	54,620	0.0%	15,977	341.9%

**Legislators Plan**

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a) / c)
06/30/2011	\$ 1,442	\$ 1,443	\$ 1	99.9%	\$ 1,615	0.1%
06/30/2009	0	11,752	11,752	0.0%	1,612	729.0%
06/30/2007	0	29,764	29,764	0.0%	1,592	1869.6%

**Board of Governors for Higher Education Health Care Insurance Retirement Plan**

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a) / c)
06/30/2011	\$ 3,189	\$ 53,751	\$ 50,562	5.9%	\$ 125,340	40.3%
06/30/2009	0	47,704	47,704	0.0%	112,884	42.3%
06/30/2007	0	57,881	57,881	0.0%	110,092	52.6%

## Budget and Actual

An annual budget is adopted on a basis consistent with generally accepted accounting principles for the General Fund and certain special revenue funds. The annual budget is prepared on a comprehensive basis and includes activity that, for financial reporting purposes, is recorded in multiple funds. Consequently, the budgetary comparison schedules for an individual fund include amounts in the "actual" column that have no corresponding original or final budget amount. These amounts are principally interfund transfers which are not included in the comprehensive budget to avoid duplication but are appropriately reflected in the individual fund financial statements.

The original budget includes the amounts in the applicable appropriation act, general revenue appropriations carried forward by the Governor, and any unexpended balances designated by the General Assembly.

A more detailed budgetary comparison schedule for the General Fund is available on the State Controller's website, <http://controller.admin.ri.gov/index.php>.

## Schedules of Funding Progress - Pensions

### 1. Actuarial Assumptions and Methods

The information presented in the required supplementary information schedules was determined as part of the actuarial valuations at the dates indicated. Additional information as of the latest actuarial valuation, June 30, 2011 follows:

Summary of Actuarial Assumptions Used in the June 30, 2011 Valuation					
	ERS		MERS	SPRBT	JRBT
	State Employees	Teachers			
<b>Actuarial Cost Method</b>	Entry Age Normal - the Individual Entry Age Actuarial Cost methodology is used.				
<b>Amortization Method</b>	Level Percent of Payroll – Closed				
<b>Equivalent Single Remaining Amortization Period</b>	24 years	24 years	24 years	24 years	24 years
<b>Asset Valuation Method</b>	5 Year Smoothed Market				
<b>Actuarial Assumptions</b>					
<b>Investment Rate of Return</b>	7.50%	7.50%	7.50%	7.50%	7.50%
<b>Projected Salary Increases</b>	4.00% to 7.00%	4.00% to 12.75%	<u>General Employees</u> 4.00% to 8.00% <u>Police &amp; Fire Employees</u> 4.25% to 14.25%	4.00% to 12.00%	4.00%
<b>Inflation</b>	2.75%	2.75%	2.75%	2.75%	2.75%
<b>Cost of Living Adjustments</b>	COLA is equal to the average five-year fund asset performance (percent) greater than 5.5% up to a maximum of 4% - the COLA is to be applied to the first \$25,000 of benefits, indexed over time. COLA is delayed until the later of Social Security eligibility age or 3 years after retirement except for State Police and MERS Police and Fire for which the COLA is delayed until the later of age 55 or 3 years after retirement.				
<p><b>Note 1</b> – Cost of Living Adjustments (COLA) in member benefit provisions prior to the enactment of pension reform legislation on November 18, 2011 will remain in effect through June 30, 2012.</p> <p>For the MERS plan, a 2% COLA is assumed after July 1, 2012. For all other plans, a COLA of 2% is assumed only every five years until the plans achieve a 80% collective funded status in accordance with the law. It is assumed that the plans will not achieve the targeted 80% funded status for 16 years.</p>					

## 2. Schedules of Funding Progress

### ***Changes affecting the June 30, 2011 actuarial valuation:***

The retirement rates were modified to be consistent with the retirement eligibility changes instituted by the Rhode Island Retirement Security Act of 2011. Members that were assumed to retire prior to the Act, but before the earliest allowable age under the Act, are assumed to retire once eligible.

For future cost of living benefit adjustments, the benefit adjustments are assumed to be suspended for approximately 16 years, except for the intermittent adjustment every fifth year.

### ***Changes affecting the June 30, 2010 actuarial valuation (as restated to reflect the provisions of pension reform legislation enacted on November 18, 2011):***

The June 30, 2010 valuations (as restated to reflect the provisions of pension reform legislation enacted on November 18, 2011) reflect comprehensive changes to plan member benefit provisions which are effective beginning July 1, 2012. The June 30, 2010 valuations also reflect material changes to certain actuarial assumptions.

The revised member benefit provisions become effective on July 1, 2012. These include changes in service period accrual rates, retirement eligibility age, and future cost of living adjustments. Additionally, the unfunded accrued liability is now amortized over a twenty-five year period from June 30, 2010 compared to the 30 year period from June 30, 1999 employed in prior actuarial valuations.

The Individual Entry Age Cost Method is used in the June 30, 2010 actuarial valuations. Prior valuations utilized the Ultimate Normal Cost methodology where normal cost was determined based on the benefits applicable to new hires under the replacement benefit structure resulting from prior pension reform measures. The annual investment rate of return was lowered from 8.25% to 7.5%.

The post-termination mortality rates for non-disabled state employees and members of the MERS, State Police and Judicial plans were previously based on the 1994 Group Annuity Mortality Tables. New mortality tables have been constructed and adopted with adjustments for these employees using the RP-2000 Combined Healthy for Males and Females with White Collar adjustments, projected with Scale AA from 2000 for non-disabled individuals.

The post-termination mortality rates used for non-disabled teachers in the June 30, 2009 and June 30, 2010 valuations were both based on tables developed by ERSRI's actuary based on teacher experience. The rates used in the June 30, 2010 valuation for male teachers were lowered to 97% of the rates in these tables based on male teacher experience, projected with Scale AA from 2000 from 100% of the actuary's table based on male teacher experience used in the June 30, 2009 valuation. The rates used in the June 30, 2010 valuation for female teachers were lowered to 92% of the rates used in the actuary's tables based on female teacher experience, projected with Scale AA from 2000 from 95% of the actuary's table based on female teacher experience used in the June 30, 2009 valuation.

The post-termination mortality rates for disabled members of all ERSRI plans are based on the PBGC table Va for males and table VIa for females. The rates used in the June 30, 2010 valuation for disabled males eligible for social security disability benefits were lowered to 60% of PBGC table Va from 65% of this table in the June 30, 2009 valuation. The rates used in the June 30, 2010 valuation for disabled females eligible for social security disability benefits were lowered to 60% of PBGC table VIa from 100% of this table in the June 30, 2009 valuation.

The pre-retirement mortality rates for all members of the ERSRI plans were previously based on the 1994 Group Annuity Mortality Tables. The rates used in the June 30, 2010 valuation for these employees were based on the RP-2000 Combined Tables with white collar adjustment for males and females. The tables were adjusted for each individual plan.

The inflation assumption rate was decreased from 3% to 2.75% and the projected salary increase assumptions were also decreased compared to the prior valuation. The assumption for cost of living adjustments subject to the Consumer Price Index (for those not eligible to retire on September 30, 2009) was decreased from 2.5% to 2.35%.

***Changes affecting the June 30, 2009 actuarial valuation:***

The June 30, 2009 valuation for the Employees' Retirement System and the Judicial Retirement Benefit Trust reflects the enactment of Article 16 of Chapter 23 of the 2010 Public Laws which amended the laws governing benefits for state employees, teachers and judges not eligible to retire by June 12, 2010.

The changes enacted as a result of Article 16 of Chapter 23 of the 2010 Public Laws governing benefit provisions for the Employees' Retirement System and the Judicial Retirement Benefit Trust are reflected and were applied in determining the contributions rates for the fiscal years ended June 30, 2010 and June 30, 2011.

## Schedules of Funding Progress - Other Postemployment Benefits

### 1. Actuarial Assumptions and Methods

The information presented in the required supplementary information schedules was determined as part of the actuarial valuations at the dates indicated. Additional information as of the latest actuarial valuation, June 30, 2011, follows:

Summary of Actuarial Methods and Assumptions as of June 30, 2011 Valuations

	<u>Plan</u>					
	State Employees	Teachers	Judicial	State Police	Legislators	Board of Governors
<b>Valuation Date</b>	June 30, 2011					
<b>Plan Type</b>	Cost sharing multiple employer	Single Employer (1)	Single Employer	Single Employer	Single Employer	Cost sharing multiple employer
<b>Actuarial Cost Method</b>	Individual Entry Age					
<b>Amortization Method</b>	Level Percent of Payroll – Closed	Level Dollar	Level Dollar	Level Percent of Payroll – Closed	Level Dollar	Level Percent of Payroll – Closed
<b>Equivalent Single Remaining Amortization Period</b>	25 years	4 years	25 years	25 years	25 years	25 years
<b>Asset Valuation Method</b>	4 Year Smoothed Market					
<b>Actuarial Assumptions</b>						
<b>Investment Rate of Return</b>	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%
<b>Projected Salary Increases</b>	4.00%	N/A	4.00%	4.00%	4.25%	4.00%
	To			To	To	To
	7.00%			12.00%	8.50%	7.00%
<b>Valuation Health Care Cost Trend Rate</b>	9% in 2012, grading to 4.0% in 2021					

**Note 1** – The Teachers plan accounts for the Tier I subsidy funded by the State for Teachers electing to participate and retiring before October 1, 2008.

## 2. Schedules of Funding Progress

### ***Changes affecting the June 30, 2011 Actuarial Valuation:***

A number of changes in actuarial assumptions were made between the June 30, 2009 and June 30, 2011 valuations. These changes include reflecting new assumptions adopted by the Employees Retirement System of Rhode Island (ERSRI) and the State Police Retirement Benefits Trust of Rhode Island (SPRBT), changes to the OPEB specific assumptions as well as the provisions of the Retirement Security Act, which was enacted on November 18, 2011 and included comprehensive pension reform measures. The June 30, 2011 valuation also reflects the potential excise tax under the Patient Protection and Affordable Care Act.

Changes from the ERSRI and SPRBT experience studies include changes to the retirement and disability rates and salary expectations. In addition, new mortality assumptions were adopted for all plans which provide for future mortality improvement by using generational mortality.

The significant decrease in the unfunded actuarial accrued liability for the Judicial and Legislator plans is primarily due to retirement eligibility changes resulting from enactment of the Retirement Security Act and an increase in the Medicare election rate.

Changes to the OPEB specific assumptions include a change in the medical trend assumption of 9% decreasing to 4.5% in 8 years to 9% decreasing to 4.0% in 10 years, a change in the Medicare election rate for Legislators from 75% electing Medicare to 100% electing Medicare and the addition of the assumption that current retired Teachers over age 65 in the Early Retiree Plan are assumed to not be eligible for Medicare.

The June 30, 2011 actuarial valuation employs a four-year smoothed market methodology for the determination of the actuarial value of assets. In addition, the Judicial and Legislator plans changed from a level percent of payroll amortization method to the level dollar method.

The Patient Protection and Affordable Care Act includes an excise tax on high cost health plans beginning in 2018. The excise tax is 40% of costs above a threshold. The actuarial assumptions used in the most recent valuation assume that the plans will be subject to the excise tax as early as 2018.

### ***Changes affecting the June 30, 2009 Actuarial Valuation:***

With the creation of the trust effective July 1, 2010, the State Employees and Board of Governors plans met the requirements of cost-sharing multiple employer plans. These plans were previously considered agent multiple-employer plans absent the creation of the trust.

The following changes in actuarial assumptions were made between the June 30, 2007 and June 30, 2009 valuations. These changes include an increase in the investment return assumption from 3.566% to 5.00%, a change in the medical trend assumption from 10% decreasing to 4.5% in 7 years to 9% decreasing to 4.5% in 9 years. In addition, the wage inflation assumption was changed to 0% for two years before reverting to 4.5% to reflect the current economic environment.

State of Rhode Island  
Fiscal Year Ended June 30, 2012

# Combining Financial Statements



## Nonmajor Governmental Funds

**Special Revenue Funds** - account for the proceeds of specific revenue sources that are legally restricted to expenditure for specified purposes and where a separate fund is mandated.

**Coastal Resources Management Council Dredge Fund** – accounts for fees in excess of the base rate per cubic yard for the disposal of dredge materials. These funds must be used to create additional dredging and disposal options.

**R.I. Temporary Disability Insurance Fund** – accounts for the employee tax on wages that is levied to pay benefits to covered employees who are out of work for an extended period of time due to a non-job-related illness.

**Historic Tax Credit** - accounts for application fees relating to historic tax credit eligible projects, proceeds from the issuance of Revenue Bonds under the Historic Structures Tax Credit Financing Program as well as related expenditures and transfers.

**Tobacco Settlement Financing Corporation (TFSC)** - created to securitize the tobacco settlement revenues from the State.

**R.I. Public Rail Corporation** - accounts for activity of this entity which includes state appropriations, insurance and other administrative expenses and property rental related activities.

**Capital Project Funds** - account for resources obtained and used for the acquisition, construction or improvement of capital facilities not reported in other governmental or proprietary funds.

**Bond Capital** – accounts for the proceeds of the bonds issued and the related capital expenditures not required to be accounted for in another capital projects fund.

**R.I. Capital Plan** – accounts for the portion of the payment into the budget reserve account that causes the balance in the budget reserve account to be in excess of the legal requirement and proceeds as designated by statute. The fund is to be used solely for funding capital projects.

**R.I. Clean Water Act Environmental Trust** – accounts for the proceeds of certain bonds issued of which the proceeds are restricted to providing grants and loans to local governmental entities and the required State share or related expenses for the Narragansett Bay study.

**Certificates of Participation** – accounts for the proceeds of the sale of certificates of participation which provide funding for the acquisition, construction or improvement of public facilities and equipment.

**Permanent Funds** – are used to report resources that are legally restricted to the extent that only earnings, and not principal, may be used for the purposes that support the State's programs.

**Permanent School** – accounts for certain appropriations of the General Assembly and the earnings thereon, which are to be used for the promotion and support of public education.

**State of Rhode Island and Providence Plantations**  
**Combining Balance Sheet**  
**Nonmajor Governmental Funds**  
**June 30, 2012**  
**(Expressed in Thousands)**

	<b>Special Revenue</b>					<b>Total Special Revenue Funds</b>
	<b>Coastal Resources Management Council Dredge</b>	<b>R.I. Temporary Disability</b>	<b>Historic Tax Credit Financing</b>	<b>Tobacco Settlement Financing Corporation</b>	<b>R.I. Public Rail Corporation</b>	
<b>Assets</b>						
Cash and cash equivalents	\$ 381	\$ 112,424	\$ 1,258	\$ 1,558	\$ 28	\$ 115,649
Funds on deposit with fiscal agent			22,200			22,200
Restricted investments				69,668		69,668
Receivables (net)		41,644			24	41,668
Due from other funds			32			32
Total assets	<u>381</u>	<u>\$ 154,068</u>	<u>\$ 23,490</u>	<u>\$ 71,226</u>	<u>\$ 52</u>	<u>\$ 249,217</u>
<b>Liabilities and Fund Balances</b>						
<b>Liabilities</b>						
Accounts payable		52				52
Due to other funds		320				320
Due to component units						
Loans from other funds						
Other liabilities						
Total liabilities		<u>372</u>				<u>372</u>
<b>Fund balances</b>						
Nonspendable						
Restricted	381	153,696	23,490	71,077		248,644
Unrestricted						
Assigned				149	52	201
Total fund balances	<u>381</u>	<u>153,696</u>	<u>23,490</u>	<u>71,226</u>	<u>52</u>	<u>248,845</u>
Total Liabilities and fund balances	<u>\$ 381</u>	<u>\$ 154,068</u>	<u>\$ 23,490</u>	<u>\$ 71,226</u>	<u>\$ 52</u>	<u>\$ 249,217</u>

(Continued)

**State of Rhode Island and Providence Plantations**  
**Combining Balance Sheet**  
**Nonmajor Governmental Funds**  
**June 30, 2012**  
**(Expressed in Thousands)**

	<u>Capital Project</u>				<u>Total Capital Project Funds</u>	<u>Permanent</u>	<u>Total Nonmajor Governmental Funds</u>
	<u>Bond Capital</u>	<u>R.I. Capital Plan</u>	<u>R.I. Clean Water Act Environmental Trust</u>	<u>Certificates of Participation</u>		<u>Permanent School</u>	
<b>Assets</b>							
Cash and cash equivalents	\$ 102,555	\$ 137,165	\$ 5,346	\$	\$ 245,066	\$ 2,015	\$ 362,730
Funds on deposit with fiscal agent				28,636	28,636		50,836
Restricted investments							69,668
Receivables (net)							41,668
Due from other funds				227	227		259
Total assets	<u>\$ 102,555</u>	<u>\$ 137,165</u>	<u>\$ 5,346</u>	<u>\$ 28,863</u>	<u>\$ 273,929</u>	<u>\$ 2,015</u>	<u>\$ 525,161</u>
<b>Liabilities and Fund Balances</b>							
<b>Liabilities</b>							
Accounts payable	7,564	9,284		5,696	22,544		22,596
Due to other funds	7,242	88			7,330		7,650
Due to component units	920	1,281			2,201		2,201
Loans from other funds	6,500	240		69	6,809		6,809
Other liabilities	67	725			792		792
Total liabilities	<u>22,293</u>	<u>11,618</u>		<u>5,765</u>	<u>39,676</u>		<u>40,048</u>
<b>Fund balances</b>							
Nonspendable						174	174
Restricted	80,262	125,547	5,346	23,098	234,253	1,841	484,738
Unrestricted							
Assigned							201
Total fund balances	<u>80,262</u>	<u>125,547</u>	<u>5,346</u>	<u>23,098</u>	<u>234,253</u>	<u>2,015</u>	<u>485,113</u>
Total Liabilities and fund balances	<u>\$ 102,555</u>	<u>\$ 137,165</u>	<u>\$ 5,346</u>	<u>\$ 28,863</u>	<u>\$ 273,929</u>	<u>\$ 2,015</u>	<u>\$ 525,161</u>

(Concluded)

**State of Rhode Island and Providence Plantations**  
**Combining Statement of Revenues, Expenditures, and Changes in Fund Balances**  
**Nonmajor Governmental Funds**  
**For the Fiscal Year Ended June 30, 2012**  
**(Expressed in Thousands)**

	<b>Special Revenue</b>					<b>Total Special Revenue Funds</b>
	<b>Coastal Resources Management Council Dredge</b>	<b>R.I. Temporary Disability</b>	<b>Historic Tax Credit</b>	<b>Tobacco Settlement Financing Corporation</b>	<b>R.I. Public Rail Corporation</b>	
<b>Revenues:</b>						
Taxes	\$	\$ 165,794	\$	\$	\$	\$ 165,794
Licenses, fines, sales, and services	155		(287)		23	(109)
Income from investments		144	4	3,234		3,382
Other revenues				49,030		49,030
<b>Total revenues</b>	<b>155</b>	<b>165,938</b>	<b>(283)</b>	<b>52,264</b>	<b>23</b>	<b>218,097</b>
<b>Expenditures:</b>						
Current:						
General government		161,345		74		161,419
Education						
Natural resources	15					15
Transportation					1,897	1,897
Capital outlays						
Debt service:						
Principal				15,735		15,735
Interest and other charges				37,029		37,029
<b>Total expenditures</b>	<b>15</b>	<b>161,345</b>		<b>52,838</b>	<b>1,897</b>	<b>216,095</b>
Excess (deficiency) of revenues over (under) expenditures	140	4,593	(283)	(574)	(1,874)	2,002
<b>Other financing sources (uses)</b>						
Bonds and notes issued						
Refunding bonds issued						
Proceeds from the sale of Certificates of Participation						
Premium and accrued interest						
Transfers in					1,882	1,882
Payment to refunded bonds escrow agent						
Transfers out		(1,811)	(6,558)			(8,369)
<b>Total other financing sources (uses)</b>		<b>(1,811)</b>	<b>(6,558)</b>		<b>1,882</b>	<b>(6,487)</b>
<b>Net change in fund balances</b>	<b>140</b>	<b>2,782</b>	<b>(6,841)</b>	<b>(574)</b>	<b>8</b>	<b>(4,485)</b>
Fund balances - beginning	241	150,914	30,331	71,800	44	253,330
Fund balances - ending	\$ 381	\$ 153,696	\$ 23,490	\$ 71,226	\$ 52	\$ 248,845

(Continued)

**State of Rhode Island and Providence Plantations**  
**Combining Statement of Revenues, Expenditures, and Changes in Fund Balances**  
**Nonmajor Governmental Funds**  
**For the Fiscal Year Ended June 30, 2012**  
**(Expressed in Thousands)**

	<u>Capital Projects</u>				<u>Total Capital Project Funds</u>	<u>Permanent</u>	<u>Total Nonmajor Governmental Funds</u>
	<u>Bond Capital</u>	<u>R.I. Capital Plan</u>	<u>R.I. Clean Water Act Environmental Trust</u>	<u>Certificates of Participation</u>		<u>Permanent School</u>	
<b>Revenues:</b>							
Taxes	\$	\$	\$	\$	\$	\$	\$ 165,794
Licenses, fines, sales, and services						378	269
Income from investments	84	179	4	1	268	2	3,652
Other revenues		1			1		49,031
Total revenues	<u>84</u>	<u>180</u>	<u>4</u>	<u>1</u>	<u>269</u>	<u>380</u>	<u>218,746</u>
<b>Expenditures:</b>							
Current:							
General government							161,419
Education						184	184
Natural resources							15
Transportation							1,897
Capital outlays	40,094	52,021	1,813	17,116	111,044		111,044
Debt service:							
Principal				1,585	1,585		17,320
Interest and other charges	2,221		14	919	3,154		40,183
Total expenditures	<u>42,315</u>	<u>52,021</u>	<u>1,827</u>	<u>19,620</u>	<u>115,783</u>	<u>184</u>	<u>332,062</u>
Excess (deficiency) of revenues over (under) expenditures	(42,231)	(51,841)	(1,823)	(19,619)	(115,514)	196	(113,316)
<b>Other financing sources (uses)</b>							
Bonds and notes issued	139,775		5,260		145,035		145,035
Refunding bonds issued	146,730				146,730		146,730
Proceeds from the sale of Certificates of Participation				31,980	31,980		31,980
Premium and accrued interest	44,454		466	517	45,437		45,437
Transfers in		82,817		2,186	85,003		86,885
Payment to refunded bonds escrow agent	(172,094)				(172,094)		(172,094)
Transfers out	(70,486)	(3)			(70,489)		(78,858)
Total other financing sources (uses)	<u>88,379</u>	<u>82,814</u>	<u>5,726</u>	<u>34,683</u>	<u>211,602</u>		<u>205,115</u>
Net change in fund balances	46,148	30,973	3,903	15,064	96,088	196	91,799
Fund balances - beginning	34,114	94,574	1,443	8,034	138,165	1,819	393,314
Fund balances - ending	<u>\$ 80,262</u>	<u>\$ 125,547</u>	<u>\$ 5,346</u>	<u>\$ 23,098</u>	<u>\$ 234,253</u>	<u>\$ 2,015</u>	<u>\$ 485,113</u>

(Concluded)

**State of Rhode Island and Providence Plantations**  
**Schedule of Revenues, Expenditures, and Changes in Fund Balance**  
**Budget and Actual**  
**Rhode Island Temporary Disability Insurance Fund**  
**For the Fiscal Year Ended June 30, 2012**  
**(Expressed in Thousands)**

	<b>Original Budget</b>	<b>Final Budget</b>	<b>Actual Amounts</b>	<b>Variance With Final Budget</b>
<b>* Revenues:</b>				
Taxes	\$ 165,794	\$ 165,794	\$ 165,794	\$
Other Revenues	144	144	144	
Total Revenues	<u>165,938</u>	<u>165,938</u>	<u>165,938</u>	
<b>Expenditures:</b>				
Department of Labor and Training Income Support	172,307	171,324	162,947	8,377
Treasury Department	228	250	209	41
Total Expenditures	<u>172,535</u>	<u>171,574</u>	<u>163,156</u>	<u>8,418</u>
Net change in fund balance			2,782	
* Fund balance - beginning			150,914	
Fund balance - ending			<u>\$ 153,696</u>	

\* Revenues are not legislatively adopted, budgeted revenues and opening surplus are assumed to equal actual amounts.

## Internal Service Funds

**Internal Service Funds** are used to account for the financing and providing of specified goods and services, on a centralized basis, for other departments and agencies.

**Assessed Fringe Benefits** – accounts for the biweekly assessment of a percentage applied to salaries and wages to pay for certain fringe benefits, including workers' compensation to State employees injured on the job.

**Central Utilities** – processes all electric bills for the State and charges the expending department/agency.

**Central Mail** – provides for the delivery of mail services for the State.

**State Telecommunications** – provides the telecommunication services for the State and processes all of the telephone bills for the State and charges the expending department/agency. (Formerly Centrex and Pastore Communications).

**Automotive Maintenance** – approves work orders, pays the corresponding bills for the State fleet and bills the user department/agency.

**Central Warehouse** – provides a low-cost centralized distribution center for food for State institutions and local public school districts.

**Correctional Industries** – provides job training for inmates through prison industries.

**Surplus Property** – accounts for the revenues received and expenses incurred from the disposition of State surplus property.

**Records Center** – provides a centralized location for the archival of State documents.

**Health Insurance-Active** – pays active employee health benefits.

**Vehicle Replacement Revolving Loan** – this fund was seeded with \$6,500,000 to purchase State vehicles, with the intent of not needing to issue debt for the purchase of vehicles.

**Capitol Police** – provides security for certain State buildings.

**State of Rhode Island and Providence Plantations**  
**Combining Statement of Net Assets**  
**Internal Service Funds**  
**June 30, 2012**  
**(Expressed in Thousands)**

	<b>Assessed Fringe Benefits</b>	<b>Central Utilities</b>	<b>Central Mail</b>	<b>State Tele- communications</b>	<b>Automotive Maintenance</b>	<b>Central Warehouse</b>	<b>Correctional Industries</b>
<b>Assets:</b>							
Current assets:							
Cash and cash equivalents	\$ 1,727	\$ 1,283	\$	\$ 1,022	\$ 823	\$ 2,404	\$ 529
Receivables (net)		153	388	108	395	56	1,035
Due from other funds			133			23	210
Inventories			327		410	432	543
Other assets			1				
Total current assets	<u>1,727</u>	<u>1,436</u>	<u>849</u>	<u>1,130</u>	<u>1,628</u>	<u>2,915</u>	<u>2,317</u>
Noncurrent assets:							
Capital assets (net)			2		124	2,190	152
Total noncurrent assets			<u>2</u>		<u>124</u>	<u>2,190</u>	<u>152</u>
Total assets	<u>1,727</u>	<u>1,436</u>	<u>851</u>	<u>1,130</u>	<u>1,752</u>	<u>5,105</u>	<u>2,469</u>
<b>Liabilities:</b>							
Current liabilities:							
Accounts payable	251		24	41	347	473	637
Due to other funds	444	5		1,194	168		
Loans from other funds		1,679	481		200		
Other liabilities	2,705	2	134	83	51	77	201
Total current liabilities	<u>3,400</u>	<u>1,686</u>	<u>639</u>	<u>1,318</u>	<u>766</u>	<u>550</u>	<u>838</u>
<b>Net Assets:</b>							
Invested in capital assets, net of related debt			2		124	2,190	152
Unrestricted	(1,673)	(250)	210	(188)	862	2,365	1,479
Total net assets	<u>\$ (1,673)</u>	<u>\$ (250)</u>	<u>\$ 212</u>	<u>\$ (188)</u>	<u>\$ 986</u>	<u>\$ 4,555</u>	<u>\$ 1,631</u>

(Continued)

**State of Rhode Island and Providence Plantations**  
**Combining Statement of Net Assets**  
**Internal Service Funds**  
**June 30, 2012**  
**(Expressed in Thousands)**

	<b>Surplus Property</b>	<b>Records Center</b>	<b>Health Insurance Active</b>	<b>Vehicle Replacement Revolving Loan</b>	<b>Capitol Police</b>	<b>Total</b>
<b>Assets:</b>						
Current assets:						
Cash and cash equivalents	\$ 74	\$ 194	\$ 21,319	\$ 1,262	\$ 40	\$ 30,677
Receivables (net)		72		1,900		4,107
Due from other funds					27	393
Inventories						1,712
Other assets			5,824			5,825
Total current assets	<u>74</u>	<u>266</u>	<u>27,143</u>	<u>3,162</u>	<u>67</u>	<u>42,714</u>
Noncurrent assets:						
Capital assets (net)						2,468
Total noncurrent assets						<u>2,468</u>
Total assets	<u>74</u>	<u>266</u>	<u>27,143</u>	<u>3,162</u>	<u>67</u>	<u>45,182</u>
<b>Liabilities:</b>						
Current liabilities:						
Accounts payable		23	13,780			15,576
Due to other funds		15				1,826
Loans from other funds		300				2,660
Other liabilities		44			39	3,336
Total current liabilities		<u>382</u>	<u>13,780</u>		<u>39</u>	<u>23,398</u>
<b>Net Assets:</b>						
Invested in capital assets, net of related debt						2,468
Unrestricted	74	(116)	13,363	3,162	28	19,316
Total net assets	<u>\$ 74</u>	<u>\$ (116)</u>	<u>\$ 13,363</u>	<u>\$ 3,162</u>	<u>\$ 28</u>	<u>\$ 21,784</u>

(Concluded)

**State of Rhode Island and Providence Plantations**  
**Combining Statement of Revenues, Expenses, and Changes in Net Assets**  
**Internal Service Funds**  
**For the Fiscal Year Ended June 30, 2012**  
**(Expressed in Thousands)**

	<u>Assessed Fringe Benefits</u>	<u>Central Utilities</u>	<u>Central Mail</u>	<u>State Tele- communications</u>	<u>Automotive Maintenance</u>	<u>Central Warehouse</u>	<u>Correctional Industries</u>
<b>Operating revenues:</b>							
Charges for services	\$ 31,387	\$ 12,948	\$ 4,994	\$ 3,609	\$ 12,461	\$ 5,487	\$ 3,643
Total operating revenues	<u>31,387</u>	<u>12,948</u>	<u>4,994</u>	<u>3,609</u>	<u>12,461</u>	<u>5,487</u>	<u>3,643</u>
<b>Operating expenses:</b>							
Personal services	5,853	150	840	767	652	897	1,536
Supplies, materials, and services	26,657	12,795	4,010	2,790	11,783	4,477	2,506
Depreciation			18	7	54	89	52
Total operating expenses	<u>32,510</u>	<u>12,945</u>	<u>4,868</u>	<u>3,564</u>	<u>12,489</u>	<u>5,463</u>	<u>4,094</u>
Operating income (loss)	<u>(1,123)</u>	<u>3</u>	<u>126</u>	<u>45</u>	<u>(28)</u>	<u>24</u>	<u>(451)</u>
<b>Nonoperating revenues (expenses):</b>							
Interest revenue	4						
Other nonoperating revenues and (expenses)	13				1		
Income (loss) before transfers	<u>(1,106)</u>	<u>3</u>	<u>126</u>	<u>45</u>	<u>(27)</u>	<u>24</u>	<u>(451)</u>
Transfers (out)	<u>(2,040)</u>						
Change in net assets	<u>(3,146)</u>	<u>3</u>	<u>126</u>	<u>45</u>	<u>(27)</u>	<u>24</u>	<u>(451)</u>
Total net assets - beginning	<u>1,473</u>	<u>(253)</u>	<u>86</u>	<u>(233)</u>	<u>1,013</u>	<u>4,531</u>	<u>2,082</u>
Total net assets - ending	<u>\$ (1,673)</u>	<u>\$ (250)</u>	<u>\$ 212</u>	<u>\$ (188)</u>	<u>\$ 986</u>	<u>\$ 4,555</u>	<u>\$ 1,631</u>

(Continued)

**State of Rhode Island and Providence Plantations**  
**Combining Statement of Revenues, Expenses, and Changes in Net Assets**  
**Internal Service Funds**  
**For the Fiscal Year Ended June 30, 2012**  
**(Expressed in Thousands)**

	<u>Surplus Property</u>	<u>Records Center</u>	<u>Health Insurance Active</u>	<u>Vehicle Replacement Revolving Loan</u>	<u>Capitol Police</u>	<u>Total</u>
<b>Operating revenues:</b>						
Charges for services	\$	\$ 806	\$ 197,548	\$ 75	\$ 890	\$ 273,848
Total operating revenues		806	197,548	75	890	273,848
<b>Operating expenses:</b>						
Personal services		470			852	12,017
Supplies, materials, and services	1	348	203,563			268,930
Depreciation						220
Total operating expenses	1	818	203,563		852	281,167
Operating income (loss)	(1)	(12)	(6,015)	75	38	(7,319)
<b>Nonoperating revenues (expenses):</b>						
Interest revenue			20	1		25
Other nonoperating revenues and (expenses)						14
Income (loss) before transfers	(1)	(12)	(5,995)	76	38	(7,280)
Transfers (out)						(2,040)
Change in net assets	(1)	(12)	(5,995)	76	38	(9,320)
Total net assets - beginning	75	(104)	19,358	3,086	(10)	31,104
Total net assets - ending	\$ 74	\$ (116)	\$ 13,363	\$ 3,162	\$ 28	\$ 21,784

(Concluded)

**State of Rhode Island and Providence Plantations**  
**Combining Statement of Cash Flows**  
**Internal Service Funds**  
**For the Fiscal Year Ended June 30, 2012**  
**(Expressed in Thousands)**

	Assessed Fringe Benefits	Central Utilities	Central Mail	State Tele- communications	Automotive Maintenance	Central Warehouse	Correctional Industries
<b>Cash flows from operating activities:</b>							
Cash received from customers	\$ 31,284	\$ 12,786	\$ 5,433	\$ 4,785	\$ 12,588	\$ 5,618	\$ 2,719
Cash payments to suppliers for goods and services	(26,458)	(12,795)	(4,164)	(2,798)	(11,927)	(4,374)	(2,209)
Cash payments to employees	(4,469)	(153)	(841)	(762)	(657)	(898)	(1,542)
Other operating revenue (expense)	13				1		
Net cash provided by (used for) operating activities	<u>370</u>	<u>(162)</u>	<u>428</u>	<u>1,225</u>	<u>5</u>	<u>346</u>	<u>(1,032)</u>
<b>Cash flows from noncapital financing activities:</b>							
Loans from other funds		806			700		
Loans to other funds							
Repayment of loans to other funds							
Repayment of loans from other funds			(428)	(298)	(500)		
Operating transfers out	(2,040)						
Net cash provided by (used for) noncapital financing activities	<u>(2,040)</u>	<u>806</u>	<u>(428)</u>	<u>(298)</u>	<u>200</u>		
<b>Cash flows from capital and related financing activities:</b>							
Acquisition of capital assets					(35)	(48)	(40)
Net cash provided by (used for) capital and related financing activities					<u>(35)</u>	<u>(48)</u>	<u>(40)</u>
<b>Cash flows from investing activities:</b>							
Interest on investments	4						
Net cash provided by (used for) investing activities	<u>4</u>						
Net increase (decrease) in cash and cash equivalents	(1,666)	644		927	170	298	(1,072)
Cash and cash equivalents - July 1	3,393	639		95	653	2,106	1,601
Cash and cash equivalents - June 30	<u>\$ 1,727</u>	<u>\$ 1,283</u>	<u>\$</u>	<u>\$ 1,022</u>	<u>\$ 823</u>	<u>\$ 2,404</u>	<u>\$ 529</u>

(Continued)

**State of Rhode Island and Providence Plantations**  
**Combining Statement of Cash Flows**  
**Internal Service Funds**  
**For the Fiscal Year Ended June 30, 2012**  
**(Expressed in Thousands)**

	<u>Assessed Fringe Benefits</u>	<u>Central Utilities</u>	<u>Central Mail</u>	<u>State Tele- communications</u>	<u>Automotive Maintenance</u>	<u>Central Warehouse</u>	<u>Correctional Industries</u>
<b>Reconciliation of operating income (loss) to net cash provided by (used for) operating activities:</b>							
Operating income (loss)	\$ (1,123)	\$ 3	\$ 126	\$ 45	\$ (28)	\$ 24	\$ (451)
<b>Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:</b>							
Depreciation	\$	\$	\$ 18	\$ 7	\$ 54	\$ 89	\$ 52
Other revenue (expense) and operating transfer in (out)	13				1		
(Increase) decrease in assets:							
Receivables		(153)	439	15	150	131	(923)
Inventory			(107)		13	46	55
Prepaid items	22						
Increase (decrease) in liabilities:							
Accounts payable	74	(9)	(47)	1,153	(180)	57	241
Accrued expenses	1,384	(3)	(1)	5	(5)	(1)	(6)
Total adjustments	1,493	(165)	302	1,180	33	322	(581)
Net cash provided by (used for) operating activities	<u>\$ 370</u>	<u>\$ (162)</u>	<u>428</u>	<u>\$ 1,225</u>	<u>\$ 5</u>	<u>\$ 346</u>	<u>\$ (1,032)</u>

(Continued)

**State of Rhode Island and Providence Plantations**  
**Combining Statement of Cash Flows**  
**Internal Service Funds**  
**For the Fiscal Year Ended June 30, 2012**  
**(Expressed in Thousands)**

	<b>Surplus Property</b>	<b>Records Center</b>	<b>Health Insurance Active</b>	<b>Vehicle Replacement Revolving Loan</b>	<b>Capitol Police</b>	<b>Total</b>
<b>Cash flows from operating activities:</b>						
Cash received from customers	\$	\$ 815	\$ 197,691	\$ 75	\$ 977	\$ 274,771
Cash payments to suppliers for goods and services	(1)	(347)	(205,854)			(270,927)
Cash payments to employees		(460)			(857)	(10,639)
Other operating revenue (expense)						14
Net cash provided by (used for) operating activities	(1)	8	(8,163)	75	120	(6,781)
<b>Cash flows from noncapital financing activities:</b>						
Loans from other funds				968		2,474
Loans to other funds			(27)	(367)		(394)
Repayment of loans to other funds			952	834		1,786
Repayment of loans from other funds				(1,680)	(80)	(2,986)
Operating transfers out						(2,040)
Net cash provided by (used for) noncapital financing activities			925	(245)	(80)	(1,160)
<b>Cash flows from capital and related financing activities:</b>						
Acquisition of capital assets						(123)
Net cash provided by (used for) capital and related financing activities						(123)
<b>Cash flows from investing activities:</b>						
Interest on investments			20	1		25
Net cash provided by (used for) investing activities			20	1		25
Net increase (decrease) in cash and cash equivalents	(1)	8	(7,218)	(169)	40	(8,039)
Cash and cash equivalents - July 1	75	186	28,537	1,431		38,716
Cash and cash equivalents - June 30	<u>\$ 74</u>	<u>\$ 194</u>	<u>\$ 21,319</u>	<u>\$ 1,262</u>	<u>\$ 40</u>	<u>\$ 30,677</u>

(Continued)

**State of Rhode Island and Providence Plantations**  
**Combining Statement of Cash Flows**  
**Internal Service Funds**  
**For the Fiscal Year Ended June 30, 2012**  
**(Expressed in Thousands)**

	<u>Surplus Property</u>	<u>Records Center</u>	<u>Health Insurance Active</u>	<u>Vehicle Replacement Revolving Loan</u>	<u>Capitol Police</u>	<u>Total</u>
<b>Reconciliation of operating income (loss) to net cash provided by (used for) operating activities:</b>						
Operating income (loss)	\$ (1)	\$ (12)	\$ (6,015)	\$ 75	\$ 38	\$ (7,319)
<b>Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:</b>						
Depreciation	\$	\$	\$	\$	\$	\$ 220
Other revenue (expense) and operating transfer in (out)						14
(Increase) decrease in assets:						
Receivables		6			86	(249)
Inventory						7
Prepaid items						22
Increase (decrease) in liabilities:						
Accounts payable		3	(2,148)			(856)
Accrued expenses		11			(4)	1,380
Total adjustments		20	(2,148)		82	538
Net cash provided by (used for) operating activities	<u>\$ (1)</u>	<u>\$ 8</u>	<u>\$ (8,163)</u>	<u>\$ 75</u>	<u>\$ 120</u>	<u>\$ (6,781)</u>

(Concluded)

## Trust Funds

### Pension Trust Funds

**Pension Trust Funds** – used to report resources that are required to be held in trust for the members and beneficiaries of the State sponsored defined benefit pension plans.

**Employees' Retirement System** – a multiple-employer, cost-sharing, public employee retirement plan for State employees, teachers and certain employees of local school districts.

**State Police Benefit Trust** – a single-employer public employee retirement plan for State police hired after July 1, 1987.

**Judicial Benefit Trust** – a single-employer public employee retirement plan for State judges appointed after December 31, 1989.

**Municipal Employees' Retirement System** – an agent multiple-employer public employee retirement plan for municipal police, firemen and employees of municipalities, housing authorities and water and sewer districts that have elected to participate.

### OPEB Trust Funds

**OPEB Trust Funds** - established for the purpose of providing and administering OPEB benefits for retired employees of the State of Rhode Island and their dependents for the classes listed below.

**State Employees** - covers State employees and certain employees of the Narragansett Bay Commission, RI Airport Corporation, and RI Economic Development Corporation.

**Teachers** - covers certified public school teachers electing to participate.

**Judicial** - covers judges and magistrates.

**State Police** - covers retired State police officers.

**Legislators** - covers retired and former members of the General Assembly.

**Board of Governors for Higher Education** - covers certain members of the University and Colleges, primarily faculty.

**State of Rhode Island and Providence Plantations**  
**Combining Statement of Fiduciary Net Assets**  
**Pension and Other Postemployment Benefits Trust Funds**  
**June 30, 2012**  
**(Expressed in Thousands)**

	<b>Pension Trust</b>	<b>Other Postemployment Benefits Trust</b>	<b>Totals</b>
<b>Assets</b>			
Cash and cash equivalents	\$ 3,092	\$ 4,852	\$ 7,944
Advance held by claims processing agent		1,171	1,171
Receivables			
Contributions	41,433		41,433
Due from state for teachers	16,350		16,350
Miscellaneous	2,903		2,903
Total receivables	60,686		60,686
Investments, at fair value			
Equity in Pooled Trusts	7,225,026	41,143	7,266,169
Property and equipment, at cost, net of accumulated depreciation	472		472
Total assets	7,289,276	47,166	7,336,442
<b>Liabilities</b>			
Accounts payable	4,801	1,380	6,181
Incurred but not reported claims		2,859	2,859
Deferred revenue		6,065	6,065
Total liabilities	4,801	10,304	15,105
Net assets held in trust for pension and other postemployment benefits	\$ 7,284,475	\$ 36,862	\$ 7,321,337

**State of Rhode Island and Providence Plantations**  
**Combining Statement of Changes in Fiduciary Net Assets**  
**Pension and Other Post Employment Benefits Trust Funds**  
**For the Fiscal Year Ended June 30, 2012**  
**(Expressed in Thousands)**

	<b>Pension Trust</b>	<b>Other Postemployment Benefits Trust</b>	<b>Totals</b>
<b>Additions</b>			
Contributions			
Member contributions	\$ 175,739	\$ 19,306	\$ 195,045
Employer contributions	325,638	56,841	382,479
State contributions for teachers	80,386		80,386
Interest on service credits purchased	974		974
Total contributions	<u>582,737</u>	<u>76,147</u>	<u>658,884</u>
Other income		1,958	1,958
Investment income			
Net appreciation in fair value of investments	22,792	1,589	24,381
Interest	79,088	573	79,661
Dividends	1,192	98	1,290
Other investment income	25,221		25,221
	<u>128,293</u>	<u>2,260</u>	<u>130,553</u>
Less investment expense	12,667	45	12,712
Net income from investing activities	<u>115,626</u>	<u>2,215</u>	<u>117,841</u>
Total additions	<u>698,363</u>	<u>80,320</u>	<u>778,683</u>
<b>Deductions</b>			
Benefits			
Retirement benefits	655,847		655,847
Cost of living adjustment	197,183		197,183
SRA Plus option	23,634		23,634
Supplemental benefits	1,061		1,061
Death benefits	3,411		3,411
OPEB benefits		58,266	58,266
Total benefits	<u>881,136</u>	<u>58,266</u>	<u>939,402</u>
Refund of contributions	12,937		12,937
Administrative expense	8,718	129	8,847
Total deductions	<u>902,791</u>	<u>58,395</u>	<u>961,186</u>
Change in net assets	<u>(204,428)</u>	<u>21,925</u>	<u>(182,503)</u>
Net assets held in trust for pension and other postemployment benefits			
Net assets - beginning	7,488,903	14,937	7,503,840
Net assets - ending	<u>\$ 7,284,475</u>	<u>\$ 36,862</u>	<u>\$ 7,321,337</u>

**State of Rhode Island and Providence Plantations**  
**Combining Statement of Fiduciary Net Assets**  
**Pension Trust Funds**  
**June 30, 2012**  
**(Expressed in Thousands)**

	<b>Employees' Retirement System</b>	<b>Municipal Employees' Retirement</b>	<b>State Police Retirement Benefits Trust</b>	<b>Judicial Retirement Benefits Trust</b>	<b>Totals</b>
<b>Assets</b>					
Cash and cash equivalents	\$ 1,870	\$ 725	\$ 433	\$ 64	\$ 3,092
Receivables					
Contributions	35,655	5,445	240	93	41,433
Due from state for teachers	16,350				16,350
Miscellaneous	2,845	58			2,903
Total receivables	54,850	5,503	240	93	60,686
Investments, at fair value					
Equity in Pooled Trust	5,944,743	1,159,397	79,827	41,059	7,225,026
Property and equipment, at cost, net of accumulated depreciation	408	61	2	1	472
Total assets	6,001,871	1,165,686	80,502	41,217	7,289,276
<b>Liabilities</b>					
Accounts payable	3,889	869	29	14	4,801
Total liabilities	3,889	869	29	14	4,801
Net assets held in trust for pension benefits	\$ 5,997,982	\$ 1,164,817	\$ 80,473	\$ 41,203	\$ 7,284,475

**State of Rhode Island and Providence Plantations**  
**Combining Statement of Changes in Fiduciary Net Assets**  
**Pension Trust Funds**  
**For the Fiscal Year Ended June 30, 2012**  
**(Expressed in Thousands)**

	<b>Employees' Retirement System</b>	<b>Municipal Employees' Retirement</b>	<b>State Police Retirement Benefits Trust</b>	<b>Judicial Retirement Benefits Trust</b>	<b>Totals</b>
<b>Additions</b>					
Contributions					
Member contributions	\$ 149,683	\$ 23,547	\$ 1,700	\$ 809	\$ 175,739
Employer contributions	282,589	35,998	5,333	1,718	325,638
State contributions for teachers	80,386				80,386
Interest on service credits purchased	613	325	36		974
Total contributions	<u>513,271</u>	<u>59,870</u>	<u>7,069</u>	<u>2,527</u>	<u>582,737</u>
Investment income					
Net appreciation in fair value of investments	17,883	4,294	432	183	22,792
Interest	65,297	12,542	817	432	79,088
Dividends	983	190	12	7	1,192
Other investment income	20,804	4,013	265	139	25,221
	<u>104,967</u>	<u>21,039</u>	<u>1,526</u>	<u>761</u>	<u>128,293</u>
Less investment expense	10,447	2,017	133	70	12,667
Net income from investing activities	<u>94,520</u>	<u>19,022</u>	<u>1,393</u>	<u>691</u>	<u>115,626</u>
Total additions	<u>607,791</u>	<u>78,892</u>	<u>8,462</u>	<u>3,218</u>	<u>698,363</u>
<b>Deductions</b>					
Benefits					
Retirement benefits	589,546	64,631	375	1,295	655,847
Cost of living adjustment	184,957	12,109	29	88	197,183
SRA Plus option	20,985	2,649			23,634
Supplemental benefits	1,061				1,061
Death benefits	2,825	586			3,411
Total benefits	<u>799,374</u>	<u>79,975</u>	<u>404</u>	<u>1,383</u>	<u>881,136</u>
Refund of contributions	10,166	2,771			12,937
Administrative expense	7,334	1,283	64	37	8,718
Total deductions	<u>816,874</u>	<u>84,029</u>	<u>468</u>	<u>1,420</u>	<u>902,791</u>
Change in net assets	<u>(209,083)</u>	<u>(5,137)</u>	<u>7,994</u>	<u>1,798</u>	<u>(204,428)</u>
Net assets held in trust for pension benefits					
Net assets - beginning	6,207,065	1,169,954	72,479	39,405	7,488,903
Net assets - ending	<u>\$ 5,997,982</u>	<u>\$ 1,164,817</u>	<u>\$ 80,473</u>	<u>\$ 41,203</u>	<u>\$ 7,284,475</u>

**State of Rhode Island and Providence Plantations**  
**Combining Statement of Fiduciary Net Assets**  
**Other Postemployment Benefits Trust Funds**  
**June 30, 2012**  
**(expressed in thousands)**

	<u>State Employees</u>	<u>Teachers</u>	<u>Judicial</u>	<u>State Police</u>	<u>Legislators</u>	<u>Board of Governors</u>	<u>Totals</u>
<b>Assets</b>							
Cash and cash equivalents	\$ 3,558	\$ 562	\$ 63	\$ 352	\$ 52	\$ 265	\$ 4,852
Advance held by claims processing agent	1,171						1,171
Receivables							
Due from other funds	114						114
Total receivables	114						114
Investments at fair value - equity in pooled trust	24,164	3,125	1,166	5,196	2,175	5,317	41,143
Total assets	29,007	3,687	1,229	5,548	2,227	5,582	47,280
<b>Liabilities</b>							
Accounts payable	1,045	167	11	61	16	80	1,380
Incurred but not reported claims	2,195	319	57	141	38	109	2,859
Due to other funds			4	69	41		114
Deferred revenue	4,148	956				961	6,065
Total liabilities	7,388	1,442	72	271	95	1,150	10,418
Net assets held in trust for other postemployment benefits	\$ 21,619	\$ 2,245	\$ 1,157	\$ 5,277	\$ 2,132	\$ 4,432	\$ 36,862

**State of Rhode Island and Providence Plantations**  
**Combining Statement of Changes in Fiduciary Net Assets**  
**Other Postemployment Benefits Trust Funds**  
**For the Fiscal Year Ended June 30, 2012**  
**(expressed in thousands)**

	<b>State Employees</b>	<b>Teachers</b>	<b>Judicial</b>	<b>State Police</b>	<b>Legislators</b>	<b>Board of Governors</b>	<b>Totals</b>
<b>Additions</b>							
Contributions							
Member contributions	\$ 11,167	\$ 5,416	\$ 465	\$ 296	\$ 525	\$ 1,437	\$ 19,306
Employer contributions	44,235	2,321	782	5,841	778	2,884	56,841
Total contributions	<u>55,402</u>	<u>7,737</u>	<u>1,247</u>	<u>6,137</u>	<u>1,303</u>	<u>4,321</u>	<u>76,147</u>
Other income	<u>1,741</u>	<u>125</u>	<u>13</u>	<u>59</u>	<u>11</u>	<u>9</u>	<u>1,958</u>
Investment income							
Net appreciation in in fair value of investments	885	118	64	190	101	231	1,589
Interest	333	48	20	59	35	78	573
Dividends	57	9	4	8	6	14	98
	<u>1,275</u>	<u>175</u>	<u>88</u>	<u>257</u>	<u>142</u>	<u>323</u>	<u>2,260</u>
Less investment expense	<u>26</u>	<u>4</u>	<u>1</u>	<u>5</u>	<u>3</u>	<u>6</u>	<u>45</u>
Net investment income	<u>1,249</u>	<u>171</u>	<u>87</u>	<u>252</u>	<u>139</u>	<u>317</u>	<u>2,215</u>
Total additions	<u>58,392</u>	<u>8,033</u>	<u>1,347</u>	<u>6,448</u>	<u>1,453</u>	<u>4,647</u>	<u>80,320</u>
<b>Deductions</b>							
Benefits	44,361	6,907	1,043	2,679	782	2,494	58,266
Administrative expense	66	10	7	13	13	20	129
Total deductions	<u>44,427</u>	<u>6,917</u>	<u>1,050</u>	<u>2,692</u>	<u>795</u>	<u>2,514</u>	<u>58,395</u>
Net increase	13,965	1,116	297	3,756	658	2,133	21,925
Net assets held in trust for other postemployment benefits							
Net assets - beginning	7,654	1,129	860	1,521	1,474	2,299	14,937
Net assets - ending	<u>\$ 21,619</u>	<u>\$ 2,245</u>	<u>\$ 1,157</u>	<u>\$ 5,277</u>	<u>\$ 2,132</u>	<u>\$ 4,432</u>	<u>\$ 36,862</u>

## Agency Funds

**Agency Funds** – used to report resources held by the State in a purely custodial capacity (assets equal liabilities).

**RIPTA Health** – accounts for the contributions on behalf of the employees and retirees from the Rhode Island Public Transit Authority.

**Statutory Deposits** – accounts for deposits required from financial institutions, principally insurance companies, doing business within the State.

**Court Deposits** – accounts for deposits held by various state courts pending resolution of litigation between two or more parties.

**State of Rhode Island and Providence Plantations**  
**Combining Statement of Changes in Fiduciary Assets and Liabilities**  
**Agency Funds**  
**For the Fiscal Year Ended June 30, 2012**  
**(Expressed in Thousands)**

**RIPTA Health Fund**

	<b>Balance July 1, 2011</b>	<b>Additions</b>	<b>Deductions</b>	<b>Balance June 30, 2012</b>
<b>Assets</b>				
Cash and cash equivalents	\$ 2,242	\$ 13,143	\$ 14,172	\$ 1,213
Receivables	1,517	2,246	2,132	1,631
<b>Total assets</b>	<b>\$ 3,759</b>	<b>\$ 15,389</b>	<b>\$ 16,304</b>	<b>\$ 2,844</b>
<b>Liabilities</b>				
Deposits held for others	\$ 273	\$ 51	\$ 15,213	\$ 324
Accounts payable	3,486	14,247	15,213	2,520
<b>Total liabilities</b>	<b>\$ 3,759</b>	<b>\$ 14,298</b>	<b>\$ 15,213</b>	<b>\$ 2,844</b>

**Statutory Deposits**

	<b>Balance July 1, 2011</b>	<b>Additions</b>	<b>Deductions</b>	<b>Balance June 30, 2012</b>
<b>Assets</b>				
Deposits held as security for entities doing business in the State	\$ 85,841	\$ 31,482	\$ 31,050	\$ 86,273
<b>Total assets</b>	<b>\$ 85,841</b>	<b>\$ 31,482</b>	<b>\$ 31,050</b>	<b>\$ 86,273</b>
<b>Liabilities</b>				
Deposits held for others	\$ 85,841	\$ 31,482	\$ 31,050	\$ 86,273
<b>Total liabilities</b>	<b>\$ 85,841</b>	<b>\$ 31,482</b>	<b>\$ 31,050</b>	<b>\$ 86,273</b>

**Court Deposits**

	<b>Balance July 1, 2011</b>	<b>Additions</b>	<b>Deductions</b>	<b>Balance June 30, 2012</b>
<b>Assets</b>				
Cash and cash equivalents	\$ 12,259	\$ 3,796	\$	\$ 16,055
<b>Total assets</b>	<b>\$ 12,259</b>	<b>\$ 3,796</b>	<b>\$</b>	<b>\$ 16,055</b>
<b>Liabilities</b>				
Deposits held for others	\$ 12,259	\$ 3,796	\$	\$ 16,055
<b>Total liabilities</b>	<b>\$ 12,259</b>	<b>\$ 3,796</b>	<b>\$</b>	<b>\$ 16,055</b>

**Total - All Agency Funds**

	<b>Balance July 1, 2011</b>	<b>Additions</b>	<b>Deductions</b>	<b>Balance June 30, 2012</b>
<b>Assets</b>				
Cash and cash equivalents	\$ 14,501	\$ 16,939	\$ 14,172	\$ 17,268
Deposits held as security for entities doing business in the State	85,841	31,482	31,050	86,273
Receivables	1,517	2,246	2,132	1,631
<b>Total assets</b>	<b>\$ 101,859</b>	<b>\$ 50,667</b>	<b>\$ 47,354</b>	<b>\$ 105,172</b>
<b>Liabilities</b>				
Deposits held for others	\$ 98,373	\$ 35,329	\$ 31,050	\$ 102,652
Accounts payable	3,486	14,247	15,213	2,520
<b>Total liabilities</b>	<b>\$ 101,859</b>	<b>\$ 49,576</b>	<b>\$ 46,263</b>	<b>\$ 105,172</b>

**State of Rhode Island**  
**Combining Statement of Net Assets**  
**Nonmajor Component Units**  
**June 30, 2012**  
**(Expressed in Thousands)**

	<u>RISLA</u>	<u>RITBA</u>	<u>NBC</u>	<u>RIHEBC</u>	<u>RIHEAA</u>	<u>RIIFC</u>	<u>RICWFA</u>
<b>Assets</b>							
Current Assets:							
Cash and cash equivalents	\$ 2,684	\$ 1,997	\$ 15,448	\$ 1,084	\$ 11,119	\$ 359	\$ 30,612
Investments	1,083	2,686		5,820	11,806		
Receivables (net)	86,472	135	13,953	800	2,077	4	1,320
Restricted assets:							
Cash and cash equivalents	71,997	4,277			392		155,541
Investments	8,080	10,825					134,750
Other assets		525					58,518
Due from primary government							
Due from other governments					806		
Due from other component units			40,887		5,931	84	
Inventories		79					
Other assets	23,903	79	665	37	192	13	8,445
Total current assets	<u>194,219</u>	<u>20,603</u>	<u>70,953</u>	<u>7,741</u>	<u>32,323</u>	<u>460</u>	<u>389,186</u>
Noncurrent Assets:							
Investments		16,168		580	1,036		
Receivables (net)	826,784			1,364	21		
Restricted assets:							
Cash and cash equivalents			57,106		625	697	
Investments		13,013					
Other assets							964,567
Capital assets - nondepreciable		4,463	292,537		194		
Capital assets - depreciable (net)	98	131,516	466,313	24	591		30
Due from other component units					1,242		
Other assets, net of amortization	3,089	975	5,842				7,471
Total noncurrent assets	<u>829,971</u>	<u>166,135</u>	<u>821,798</u>	<u>1,968</u>	<u>3,709</u>	<u>697</u>	<u>972,068</u>
Total assets	<u>1,024,190</u>	<u>186,738</u>	<u>892,751</u>	<u>9,709</u>	<u>36,032</u>	<u>1,157</u>	<u>1,361,254</u>
<b>Liabilities</b>							
Current liabilities:							
Cash overdraft							
Accounts payable	570	12,658	16,296		675		943
Due to primary government							
Due to other component units	5,931					30	40,886
Accrued liabilities	2,033						
Other liabilities		2,799	7,380	259			118,379
Current portion of long-term debt	54,789	2,475	22,334		818	13	38,091
Total current liabilities	<u>63,323</u>	<u>17,932</u>	<u>46,010</u>	<u>259</u>	<u>1,493</u>	<u>43</u>	<u>198,299</u>
Noncurrent liabilities:							
Due to primary government							
Due to other governments	267,464						
Due to other component units	1,242					697	
Deferred revenue	9,805				857	68	
Loans payable			320,787				
Obligations under capital leases			116				
Net OPEB obligation							
Other liabilities	409				1,200		1,284
Compensated absences			70		122		
Bonds payable	559,726	63,634	149,569				701,649
Total noncurrent liabilities	<u>838,646</u>	<u>63,634</u>	<u>470,542</u>	<u>259</u>	<u>2,179</u>	<u>765</u>	<u>702,933</u>
Total liabilities	<u>901,969</u>	<u>81,566</u>	<u>516,552</u>	<u>259</u>	<u>3,672</u>	<u>808</u>	<u>901,232</u>
<b>Net assets</b>							
Invested in capital assets, net of related debt	98	58,838	298,407	24	785		30
Restricted for:							
Debt	118,159	14,248					
Other			88		31,575		425,209
Unrestricted	3,964	32,086	77,704	9,426		349	34,783
Total net assets	<u>\$ 122,221</u>	<u>\$ 105,172</u>	<u>\$ 376,199</u>	<u>\$ 9,450</u>	<u>\$ 32,360</u>	<u>\$ 349</u>	<u>\$ 460,022</u>

(Continued)

**State of Rhode Island**  
**Combining Statement of Net Assets**  
**Nonmajor Component Units**  
**June 30, 2012**  
**(Expressed in Thousands)**

	<u>RIIRBA</u>	<u>RIWRBC</u>	<u>RIPTCA</u>	<u>TCCRI</u>	<u>CFSD</u>	<u>Totals</u>
<b>Assets</b>						
Current Assets:						
Cash and cash equivalents	\$ 3,956	\$ 576	\$ 97	\$ 82	3,334	\$ 71,348
Investments				4,101		25,496
Receivables (net)	12	342	563	659	487	106,824
Restricted assets:						
Cash and cash equivalents						232,207
Investments				2,607		156,262
Other assets						59,043
Due from primary government					2,494	2,494
Due from other governments						806
Due from other component units						46,902
Inventories			19			98
Other assets		36	53			33,423
Total current assets	<u>3,968</u>	<u>954</u>	<u>732</u>	<u>7,449</u>	<u>6,315</u>	<u>734,903</u>
Noncurrent Assets:						
Investments		1,211				18,995
Receivables (net)						828,169
Restricted assets:						
Cash and cash equivalents						58,428
Investments						13,013
Other assets						964,567
Capital assets - nondepreciable						297,194
Capital assets - depreciable (net)			1,982		3,912	604,466
Due from other component units	697					1,939
Other assets, net of amortization		35	51			17,463
Total noncurrent assets	<u>697</u>	<u>1,246</u>	<u>2,033</u>		<u>3,912</u>	<u>2,804,234</u>
Total assets	<u>4,665</u>	<u>2,200</u>	<u>2,765</u>	<u>7,449</u>	<u>10,227</u>	<u>3,539,137</u>
<b>Liabilities</b>						
Current liabilities:						
Cash overdraft						36,833
Accounts payable	20	11	300	340	5,020	36,833
Due to primary government			107			107
Due to other component units	186					47,033
Accrued liabilities		56				2,089
Other liabilities			313	1,012		130,142
Current portion of long-term debt	496	930	265	70	133	120,414
Total current liabilities	<u>702</u>	<u>997</u>	<u>985</u>	<u>1,422</u>	<u>5,153</u>	<u>336,618</u>
Noncurrent liabilities:						
Due to primary government						267,464
Due to other governments						2,636
Due to other component units	697					10,783
Deferred revenue	53					320,787
Loans payable						151
Obligations under capital leases					35	4,996
Net OPEB obligation					4,996	4,369
Other liabilities	1,476					1,465
Compensated absences					1,273	1,476,837
Bonds payable		2,259				2,226
Total noncurrent liabilities	<u>2,226</u>	<u>2,259</u>			<u>6,304</u>	<u>2,089,488</u>
Total liabilities	<u>2,928</u>	<u>3,256</u>	<u>985</u>	<u>1,422</u>	<u>11,457</u>	<u>2,426,106</u>
<b>Net assets</b>						
Invested in capital assets, net of related debt			1,982		3,849	364,013
Restricted for:						
Debt						132,407
Other				2,607	818	460,297
Unrestricted	1,737	(1,056)	(202)	3,420	(5,897)	156,314
Total net assets	<u>\$ 1,737</u>	<u>\$ (1,056)</u>	<u>\$ 1,780</u>	<u>\$ 6,027</u>	<u>\$ (1,230)</u>	<u>\$ 1,113,031</u>

(Concluded)

**State of Rhode Island and Providence Plantations**  
**Combining Statement of Activities**  
**Nonmajor Component Units**  
**For the Fiscal Year Ended June 30, 2012**  
**(Expressed in Thousands)**

	<u>RISLA</u>	<u>RITBA</u>	<u>NBC</u>	<u>RIHEBC</u>	<u>RIHEAA</u>	<u>RIIFC</u>	<u>RICWFA</u>	<u>RIIRBA</u>	<u>RIWRBC</u>	<u>RIPTCA</u>	<u>TCCRI</u>	<u>CFSD</u>	<u>Totals</u>
<b>Expenses</b>	\$ 33,526	\$ 15,897	\$ 57,146	\$ 1,615	\$ 26,399	\$ 98	\$ 34,772	\$ 2,394	\$ 189	\$ 5,167	\$ 4,297	\$ 54,163	\$ 235,663
<b>Program revenues:</b>													
Charges for services	39,765	19,314	78,549	2,267	22,281	73	64,585	302	991	3,724	3,857	13,036	248,744
Operating grants and contributions					5,911					928	475	39,162	46,476
Capital grants and contributions			1,551									93	1,644
Total program revenues	<u>39,765</u>	<u>19,314</u>	<u>80,100</u>	<u>2,267</u>	<u>28,192</u>	<u>73</u>	<u>64,585</u>	<u>302</u>	<u>991</u>	<u>4,652</u>	<u>4,332</u>	<u>52,291</u>	<u>296,864</u>
Net (Expenses) Revenues	6,239	3,417	22,954	652	1,793	(25)	29,813	(2,092)	802	(515)	35	(1,872)	61,201
<b>General revenues:</b>													
Interest and investment earnings		1,005	11	45	337			4	54			4	1,460
Miscellaneous revenue	5,620												5,620
Total general revenue	<u>5,620</u>	<u>1,005</u>	<u>11</u>	<u>45</u>	<u>337</u>			<u>4</u>	<u>54</u>			<u>4</u>	<u>7,080</u>
Change in net assets	11,859	4,422	22,965	697	2,130	(25)	29,813	(2,088)	856	(515)	35	(1,868)	68,281
Total net assets - beginning as restated	<u>110,362</u>	<u>100,750</u>	<u>353,234</u>	<u>8,753</u>	<u>30,230</u>	<u>374</u>	<u>430,209</u>	<u>3,825</u>	<u>(1,912)</u>	<u>2,295</u>	<u>5,992</u>	<u>638</u>	<u>1,044,750</u>
Total net assets - ending	<u>\$ 122,221</u>	<u>\$ 105,172</u>	<u>\$ 376,199</u>	<u>\$ 9,450</u>	<u>\$ 32,360</u>	<u>\$ 349</u>	<u>\$ 460,022</u>	<u>\$ 1,737</u>	<u>\$ (1,056)</u>	<u>\$ 1,780</u>	<u>\$ 6,027</u>	<u>\$ (1,230)</u>	<u>\$ 1,113,031</u>

# State of Rhode Island



2012

**STATISTICAL SECTION**  
**COMPREHENSIVE ANNUAL FINANCIAL REPORT**  
**FISCAL YEAR ENDED JUNE 30, 2012**

IWAY Bridge (under construction) - photo: Rhode Island Department of Transportation

## Statistical Section

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These schedules contain trend information to help the reader understand how the State's financial performance and well-being have changed over time.

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Sources: Unless otherwise noted, the information in these schedules is derived from the comprehensive annual financial reports of the relevant year. The State implemented GASB Statement 34 in 2002.

*Note: When applicable, financial data has been reported at restated amounts in the Statistical Section.*

**State of Rhode Island and Providence Plantations**  
**Schedule of Net Assets by Components**  
**Last Ten Fiscal Years**  
(accrual basis of accounting)  
(expressed in thousands)

	Fiscal Year									
	2012	2011	2010	2009	2008	2007	2006	2005	2004	2003
<b>Governmental activities</b>										
Invested in capital assets, net of related debt	\$ 2,232,121	\$ 2,115,001	\$ 2,064,231	\$ 1,958,718	\$ 1,877,872	\$ 1,691,793	\$ 1,591,074	\$ 816,578	\$ 675,696	\$ 481,460
Restricted	552,863	462,751	483,931	420,215	427,588	373,788	369,137	315,370	301,346	273,559
Unrestricted	(1,366,489)	(1,439,322)	(1,590,106)	(1,534,512)	(1,429,272)	(1,082,664)	(929,476)	(936,437)	(981,605)	(860,310)
<b>Total governmental activities net assets</b>	<b>\$ 1,418,495</b>	<b>\$ 1,138,430</b>	<b>\$ 958,056</b>	<b>\$ 844,421</b>	<b>\$ 876,188</b>	<b>\$ 982,917</b>	<b>\$ 1,030,735</b>	<b>\$ 195,511</b>	<b>\$ (4,563)</b>	<b>\$ (105,291)</b>
<b>Business-type activities</b>										
Invested in capital assets, net of related debt	\$ (64,492)	\$ (63,156)	\$ (61,806)	\$ (59,453)	\$ (60,902)	\$ (109,435)	\$ (131,941)	\$ (71,413)	\$ (84,910)	\$ (83,896)
Restricted	9,308	11,036	13,161	20,130	198,928	294,395	302,689	233,476	251,596	283,944
Unrestricted	(157,396)	(159,388)	(122,955)	(7,251)	(15,345)	(16,616)	(10,691)	(10,183)	(14,351)	(12,455)
<b>Total business-type activities net assets</b>	<b>\$ (212,580)</b>	<b>\$ (211,508)</b>	<b>\$ (171,600)</b>	<b>\$ (46,574)</b>	<b>\$ 122,681</b>	<b>\$ 168,344</b>	<b>\$ 160,057</b>	<b>\$ 151,880</b>	<b>\$ 152,335</b>	<b>\$ 187,593</b>
<b>Primary government</b>										
Invested in capital assets, net of related debt	\$ 2,167,629	\$ 2,051,845	\$ 2,002,425	\$ 1,899,265	\$ 1,816,970	\$ 1,582,358	\$ 1,459,133	\$ 745,165	\$ 590,786	\$ 397,564
Restricted	562,171	473,787	497,092	440,345	626,516	668,183	671,826	548,846	552,942	557,503
Unrestricted	(1,523,885)	(1,598,710)	(1,713,061)	(1,541,763)	(1,444,617)	(1,099,280)	(940,167)	(946,620)	(995,956)	(872,765)
<b>Total primary government net assets</b>	<b>\$ 1,205,915</b>	<b>\$ 926,922</b>	<b>\$ 786,456</b>	<b>\$ 797,847</b>	<b>\$ 998,869</b>	<b>\$ 1,151,261</b>	<b>\$ 1,190,792</b>	<b>\$ 347,391</b>	<b>\$ 147,772</b>	<b>\$ 82,302</b>

( a ) The increase in total primary government net assets between fiscal years 2005 and 2006 is attributable to the recording of retroactive infrastructure assets for fiscal years 1981 – 2001 in accordance with GASB Statement No. 34.

**State of Rhode Island and Providence Plantations**  
**Schedule of Changes in Net Assets**  
**Last Ten Fiscal Years**  
(accrual basis of accounting)  
(expressed in thousands)

	Fiscal Year									
	2012	2011	2010	2009	2008	2007	2006	2005	2004	2003
<b>Expenses</b>										
Governmental activities:										
General government	\$ 653,003	\$ 644,194	\$ 741,329	\$ 754,386	\$ 894,766	\$ 858,729	\$ 527,841	\$ 503,659	\$ 474,640	\$ 459,989
Human services	2,970,269	3,013,081	2,900,673	2,719,346	2,736,956	2,519,745	2,622,935	2,512,628	2,420,998	2,244,980
Education	1,334,355	1,332,453	1,273,985	1,278,391	1,361,310	1,320,384	287,119	264,385	75,654	103,476
Public safety	468,098	436,940	418,485	414,830	428,351	391,354	370,706	336,069	321,015	309,569
Natural resources	85,039	80,360	73,551	75,103	90,087	91,758	74,695	65,913	61,839	67,597
Transportation	268,523	300,366	305,460	324,007	240,644	281,518	323,517	226,529	173,935	170,082
Intergovernmental							1,213,050	1,127,496	1,047,537	947,792
Grants									299,381	291,208
Interest and other charges	145,964	148,850	142,924	136,737	133,298	107,211	92,121	116,171	104,760	98,831
Total governmental activities	<u>5,925,251</u>	<u>5,956,244</u>	<u>5,856,407</u>	<u>5,702,800</u>	<u>5,885,412</u>	<u>5,570,699</u>	<u>5,511,984</u>	<u>5,152,850</u>	<u>4,979,759</u>	<u>4,693,524</u>
Business-type activities:										
Lottery	399,421	368,870	358,127	356,046	365,333	342,662	355,444	334,732	327,703	318,054
Convention Center	49,439	32,986	50,732	48,764	41,007	42,859	37,862	35,746	62,622	59,372
Employment insurance	559,440	645,979	783,878	573,288	259,246	210,060	197,724	209,018	238,220	262,585
Total business-type activities	<u>1,008,300</u>	<u>1,047,835</u>	<u>1,192,737</u>	<u>978,098</u>	<u>665,586</u>	<u>595,581</u>	<u>591,030</u>	<u>579,496</u>	<u>628,545</u>	<u>640,011</u>
Total primary government expenses	<u>\$ 6,933,551</u>	<u>\$ 7,004,079</u>	<u>\$ 7,049,144</u>	<u>\$ 6,680,898</u>	<u>\$ 6,550,998</u>	<u>\$ 6,166,280</u>	<u>\$ 6,103,014</u>	<u>\$ 5,732,346</u>	<u>\$ 5,608,304</u>	<u>\$ 5,333,535</u>
<b>Program Revenues</b>										
Governmental activities:										
Charges for services:										
General government	\$ 212,750	\$ 185,918	\$ 179,646	\$ 168,210	\$ 178,590	\$ 132,152	\$ 146,575	\$ 141,290	\$ 137,913	\$ 108,369
Human services	204,287	210,905	198,555	187,973	167,241	125,901	127,738	122,212	124,716	113,247
Education	26,044	22,022	18,263	8,335	36,241	11,180	5,638	3,469	3,320	2,877
Public safety	37,339	34,389	35,272	32,770	36,194	49,821	53,851	46,216	43,487	60,341
Natural resources	26,060	29,046	29,746	31,385	31,753	31,932	27,487	30,340	31,191	25,807
Transportation	1,660	372	744	181	(207)	875	(561)	8,257	1,739	3,092
Operating grants and contributions	2,194,892	2,387,540	2,361,446	2,114,821	1,827,704	1,716,318	1,821,134	1,794,965	1,703,526	1,452,834
Capital grants and contributions	210,720	162,032	162,090	103,515	112,712	151,528	156,828	97,681	156,372	191,993
Total governmental activities program revenues	<u>2,913,752</u>	<u>3,032,224</u>	<u>2,985,762</u>	<u>2,647,190</u>	<u>2,390,228</u>	<u>2,219,707</u>	<u>2,338,690</u>	<u>2,244,430</u>	<u>2,202,264</u>	<u>1,958,560</u>
Business-type activities:										
Charges for services	1,056,285	985,556	947,825	913,333	923,694	883,893	894,042	839,945	812,229	737,013
Operating grants and contributions	278,671	358,932	418,270	194,857	3,285	4,607	2,342	2,633	29,492	45,712
Total business-type activities program revenues	<u>1,334,956</u>	<u>1,344,488</u>	<u>1,366,095</u>	<u>1,108,190</u>	<u>926,979</u>	<u>888,500</u>	<u>896,384</u>	<u>842,578</u>	<u>841,721</u>	<u>782,725</u>
Total primary government program revenues	<u>\$ 4,248,708</u>	<u>\$ 4,376,712</u>	<u>\$ 4,351,857</u>	<u>\$ 3,755,380</u>	<u>\$ 3,317,207</u>	<u>\$ 3,108,207</u>	<u>\$ 3,235,074</u>	<u>\$ 3,087,008</u>	<u>\$ 3,043,985</u>	<u>\$ 2,741,285</u>
<b>Net (Expenses)/Revenues</b>										
Governmental activities	(3,011,499)	(2,924,020)	(2,870,645)	(3,055,610)	(3,495,184)	(3,350,992)	(3,173,294)	(2,908,420)	(2,777,495)	(2,734,964)
Business-type activities	326,656	296,653	173,358	130,092	261,393	292,919	305,354	263,082	213,176	142,714
Total primary government net expenses	<u>\$ (2,684,843)</u>	<u>\$ (2,627,367)</u>	<u>\$ (2,697,287)</u>	<u>\$ (2,925,518)</u>	<u>\$ (3,233,791)</u>	<u>\$ (3,058,073)</u>	<u>\$ (2,867,940)</u>	<u>\$ (2,645,338)</u>	<u>\$ (2,564,319)</u>	<u>\$ (2,592,250)</u>

(continued)

**State of Rhode Island and Providence Plantations**  
**Schedule of Changes in Net Assets**  
**Last Ten Fiscal Years**  
(accrual basis of accounting)  
(expressed in thousands)

	Fiscal Year									
	2012	2011	2010	2009	2008	2007	2006	2005	2004	2003
<b>General Revenue and Other Changes in Net Assets</b>										
Governmental activities:										
Taxes	\$ 2,824,368	\$ 2,665,169	\$ 2,577,519	\$ 2,588,417	\$ 2,820,709	\$ 2,842,828	\$ 2,794,230	\$ 2,687,684	\$ 2,477,453	\$ 2,335,329
Interest and investment earnings	4,304	5,561	4,309	9,435	32,466	37,539	25,644	14,443	9,812	7,668
Miscellaneous	118,506	102,478	91,110	95,758	121,273	106,543	114,362	104,411	136,122	160,547
Gain on sale of capital assets				1,656	3,026			853		
Special items										1,511
Transfers	344,386	331,186	318,772	315,408	324,928	304,906	312,755	293,993	266,886	235,064
Payments from component units			7,228	13,569	39,284	10,108	14,715	18,503		
Total governmental activities	<u>3,291,564</u>	<u>3,104,394</u>	<u>2,998,938</u>	<u>3,024,243</u>	<u>3,341,686</u>	<u>3,301,924</u>	<u>3,261,706</u>	<u>3,119,887</u>	<u>2,890,273</u>	<u>2,740,119</u>
Business-type activities:										
Interest and investment earnings	94	79	164	4,279	9,531	12,137	8,826	10,875	12,884	17,336
Miscellaneous	16,564	(5,454)	20,224	11,782	8,341	8,137	6,752	7,633	5,568	5,354
Special items								11,948		
Transfers	(344,386)	(331,186)	(318,772)	(315,408)	(324,928)	(304,906)	(312,755)	(293,993)	(266,886)	(235,064)
Total business-type activities	<u>(327,728)</u>	<u>(336,561)</u>	<u>(298,384)</u>	<u>(299,347)</u>	<u>(307,056)</u>	<u>(284,632)</u>	<u>(297,177)</u>	<u>(263,537)</u>	<u>(248,434)</u>	<u>(212,374)</u>
Total primary government	<u>2,963,836</u>	<u>2,767,833</u>	<u>2,700,554</u>	<u>2,724,896</u>	<u>3,034,630</u>	<u>3,017,292</u>	<u>2,964,529</u>	<u>2,856,350</u>	<u>2,641,839</u>	<u>2,527,745</u>
<b>Changes in Net Assets</b>										
Governmental activities	280,065	180,374	128,293	(31,367)	(153,498)	(49,068)	88,412	211,467	112,778	5,155
Business-type activities	(1,072)	(39,908)	(125,026)	(169,255)	(45,663)	8,287	8,177	(455)	(35,258)	(69,660)
Total primary government	<u>\$ 278,993</u>	<u>\$ 140,466</u>	<u>\$ 3,267</u>	<u>\$ (200,622)</u>	<u>\$ (199,161)</u>	<u>\$ (40,781)</u>	<u>\$ 96,589</u>	<u>\$ 211,012</u>	<u>\$ 77,520</u>	<u>\$ (64,505)</u>

(Concluded)

**State of Rhode Island and Providence Plantations**  
**Schedule of Fund Balances of Governmental Funds**  
**Last Ten Fiscal Years**  
(modified accrual basis of accounting)  
(expressed in thousands)

	Fiscal Year		
	2012	2011	2010
General Fund			
Nonspendable	\$	\$ 53,353	\$ 49,302
Restricted	232,348	197,885	161,904
Unrestricted			
Committed	22,793	5,956	4,285
Assigned	97,639	8,425	
Unassigned	20,374	5,281	(30,041)
<b>Total General Fund</b>	<b>\$ 373,154</b>	<b>\$ 270,900</b>	<b>\$ 185,450</b>
All Other Governmental Funds			
Nonspendable	\$ 174	\$ 174	\$ 174
Restricted	596,275	528,251	681,782
Unrestricted			
Committed	1,742	1,448	3,366
Assigned	318	284	19,704
Unassigned	(4,717)	(5,043)	(6,160)
<b>Total All Other Governmental Funds</b>	<b>\$ 593,792</b>	<b>\$ 525,114</b>	<b>\$ 698,866</b>

	Fiscal Year						
	2009	2008	2007	2006	2005	2004	2003
General Fund							
Reserved	\$ 132,245	\$ 149,605	\$ 144,166	\$ 164,866	\$ 146,103	\$ 131,843	\$ 129,205
Unreserved	(62,286)	(42,950)		38,331	38,699	24,451	42,634
<b>Total General Fund</b>	<b>\$ 69,959</b>	<b>\$ 106,655</b>	<b>\$ 144,166</b>	<b>\$ 203,197</b>	<b>\$ 184,802</b>	<b>\$ 156,294</b>	<b>\$ 171,839</b>
All Other Governmental Funds							
Reserved	\$ 274,180	\$ 264,727	\$ 260,607	\$ 220,612	\$ 224,483	\$ 217,048	\$ 189,911
Unreserved, reported in:							
Special Revenue Funds	93,498	7,805	155,482	22,759	32,588	36,458	25,403
Permanent Funds	1,368	2,173	1,186	988	917	875	837
Capital Projects Funds	459,489	303,965	360,026	469,018	388,829	298,920	70,153
<b>Total All Other Governmental Funds</b>	<b>\$ 828,535</b>	<b>\$ 578,670</b>	<b>\$ 777,301</b>	<b>\$ 713,377</b>	<b>\$ 646,817</b>	<b>\$ 553,301</b>	<b>\$ 286,304</b>

Beginning in fiscal year 2010, the fund balance categories were reclassified as a result of implementing GASB Statement 54. Fund Balance has not been reclassified for prior years.

**State of Rhode Island and Providence Plantations**  
**Schedule of Changes in Fund Balances of Governmental Funds**  
**Last Ten Fiscal Years**  
(modified accrual basis of accounting)  
(expressed in thousands)

	Fiscal Year									
	2012	2011	2010	2009	2008	2007	2006	2005	2004	2003
<b>Revenues:</b>										
Taxes	\$ 2,814,331	\$ 2,664,420	\$ 2,577,406	\$ 2,589,751	\$ 2,818,085	\$ 2,848,284	\$ 2,792,961	\$ 2,687,482	\$ 2,477,878	\$ 2,330,076
Licenses, fines, sales, and services	313,724	308,564	311,040	295,662	323,329	242,743	253,857	238,344	242,280	230,917
Departmental restricted revenue	194,279	174,563	150,357	134,029	125,883	110,059	105,181	113,589	107,407	78,126
Federal grants	2,411,262	2,541,335	2,518,048	2,218,816	1,936,610	1,869,336	1,962,375	1,884,104	1,847,200	1,597,545
Income from investments	4,280	5,537	4,207	9,014	31,522	36,068	24,941	13,770	10,310	7,808
Other revenues	121,202	100,164	93,687	104,665	122,723	103,099	107,475	115,955	118,442	132,627
Total operating revenues	5,859,078	5,794,583	5,654,745	5,351,937	5,358,152	5,209,589	5,246,790	5,053,244	4,803,517	4,377,099
<b>Expenditures:</b>										
Current:										
General government	635,554	620,110	714,861	755,366	803,561	806,865	515,677	512,896	461,741	445,497
Human services	2,969,166	3,009,097	2,884,419	2,711,167	2,727,534	2,512,286	2,616,608	2,506,929	2,409,774	2,232,252
Education	1,282,063	1,287,733	1,239,258	1,216,208	1,289,687	1,267,255	284,294	265,001	72,838	101,270
Public safety	459,114	428,687	394,860	401,976	410,605	396,029	361,647	328,839	311,701	297,070
Natural resources	75,156	71,818	67,435	68,941	72,984	81,518	71,539	64,138	59,678	53,207
Transportation	399,512	367,496	306,730	299,881	244,638	310,019	247,248	209,470	161,974	143,635
Capital outlays	111,044	138,843	250,653	215,600	264,713	269,550	300,404	241,306	200,880	195,611
Intergovernmental Grants							1,213,050	1,127,496	1,047,537	947,791
Debt service:									6,145	
Principal	164,245	154,475	163,063	157,817	143,368	115,752	117,663	116,322	75,892	58,161
Interest and other charges	135,806	138,066	139,723	132,813	131,575	128,527	105,264	110,243	107,720	100,628
Total operating expenditures	6,231,660	6,216,325	6,161,002	5,959,769	6,088,665	5,887,801	5,833,394	5,482,640	4,915,880	4,575,122
Excess (deficiency) of revenues over (under) expenditures	(372,582)	(421,742)	(506,257)	(607,832)	(730,513)	(678,212)	(586,604)	(429,396)	(112,363)	(198,023)

(Continued)

**State of Rhode Island and Providence Plantations**  
**Schedule of Changes in Fund Balances of Governmental Funds**  
**Last Ten Fiscal Years**  
(modified accrual basis of accounting)  
(expressed in thousands)

	Fiscal Year									
	2012	2011	2010	2009	2008	2007	2006	2005	2004	2003
<b>Other financing sources (uses):</b>										
Bonds and notes issued	145,035		155,665	427,180	131,755	314,852	320,820	87,095	415,435	139,905
Refunding bonds issued	146,730		78,960	12,445	46,570	74,835		117,010		
Proceeds from the sale of Certificates of Participation	31,980			54,610	59,185	45,325	6,000	139,410		3,890
Premium and accrued interest	45,437		9,839	8,100	7,241	9,930	16,298	17,602	30,097	10,881
Transfers in	581,679	545,229	586,025	622,212	724,428	828,885	593,902	537,618	513,356	625,085
Payments from component units			7,228	13,568	39,284	10,108	14,715	18,503	15,568	18,770
Payment to refunded bonds escrow agent	(172,094)		(84,769)	(12,697)	(111,253)	(78,198)		(123,300)	(72,160)	(85,358)
Discount on issuance of debt				(66)	(4)					
Transfers out	(235,253)	(211,789)	(261,473)	(304,351)	(403,012)	(522,631)	(280,176)	(242,515)	(245,246)	(388,351)
Transfers out to component units									(293,236)	(291,208)
<b>Total other financing sources (uses)</b>	<b>543,514</b>	<b>333,440</b>	<b>491,475</b>	<b>821,001</b>	<b>494,194</b>	<b>683,106</b>	<b>671,559</b>	<b>551,423</b>	<b>363,814</b>	<b>33,614</b>
<b>Net change in fund balances</b>	<b>\$ 170,932</b>	<b>\$ (88,302)</b>	<b>\$ (14,782)</b>	<b>\$ 213,169</b>	<b>\$ (236,319)</b>	<b>\$ 4,894</b>	<b>\$ 84,955</b>	<b>\$ 122,027</b>	<b>\$ 251,451</b>	<b>\$ (162,899)</b>
<b>Debt Service as a Percentage of Noncapital Expenditures</b>	5.3%	5.1%	5.5%	5.3%	4.9%	4.6%	4.3%	4.5%	4.1%	3.7%

The capital outlay amount used to calculate the percentage is from the Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of the Governmental Funds to the Statement of Activities.

Certain prior year amounts have been reclassified to conform to the current year presentation.

(Concluded)

**State of Rhode Island and Providence Plantations**  
**Schedule of Taxable Sales by Selected Industry**  
**Prior Ten Calendar Years**  
(expressed in millions)

Taxable Sales By Industry	Calendar Year									
	2011	2010	2009	2008	2007	2006	2005	2004	2003	2002
Grocery, Food Stores, Delis, Bakeries	\$ 1,091.81	\$ 1,093.34	\$ 1,084.78	\$ 1,080.13	\$ 1,073.75	\$ 1,052.45	\$ 1,065.10	\$ 879.14	\$ 818.60	\$ 708.51
Restaurants and Bars	1,983.05	1,939.09	1,874.93	1,860.96	1,912.54	1,803.19	1,651.39	1,616.72	1,425.54	1,363.23
Room Rentals - Motels, Hotels	388.82	407.15	491.30	587.55	574.25	450.46	412.93	345.85	280.21	311.45
Utilities - Telephone, Electric, Gas, Water	583.28	588.48	589.94	641.09	636.72	668.28	549.40	582.11	570.53	553.80
<b>Total</b>	<b>\$ 4,046.96</b>	<b>\$ 4,028.06</b>	<b>\$ 4,040.95</b>	<b>\$ 4,169.73</b>	<b>\$ 4,197.26</b>	<b>\$ 3,974.37</b>	<b>\$ 3,678.82</b>	<b>\$ 3,423.82</b>	<b>\$ 3,094.89</b>	<b>\$ 2,936.99</b>
Direct sales tax rate	7%	7%	7%	7%	7%	7%	7%	7%	7%	7%

Data is presented only for taxable sales of industries tracked by the Division of Taxation.

**State of Rhode Island and Providence Plantations**  
**Schedule of Personal Income by Industry**  
**Prior Ten Calendar Years**  
(expressed in millions)

	Calendar Year									
	2011	2010	2009	2008	2007	2006	2005	2004	2003	2002
Farm Earnings	\$ 15	\$ 18	\$ 17	\$ 18	\$ 23	\$ 23	\$ 23	\$ 25	\$ 24	\$ 22
<b><u>Private Earnings</u></b>										
Forestry, Fishing and Other	(D)	(D)	41	41	42	43	40	42	39	(D)
Mining	(D)	(D)	13	18	24	24	20	16	14	(D)
Utilities	165	160	151	165	155	171	133	138	143	(D)
Construction	1,575	1,568	1,562	1,732	1,851	1,905	1,787	1,704	1,625	(D)
Manufacturing	2,822	2,706	2,701	3,038	3,185	3,154	3,167	3,182	3,122	3,167
Wholesale Trade	1,394	1,343	1,310	1,404	1,420	1,312	1,268	1,198	1,149	1,092
Retail Trade	1,786	1,782	1,717	1,792	1,902	1,839	1,843	1,824	1,778	1,663
Transportation and Warehousing	558	525	504	521	510	509	491	476	463	(D)
Information	1,087	1,024	926	947	867	911	930	908	827	753
Finance and Insurance	2,702	2,588	2,357	2,313	2,266	2,233	2,087	2,014	1,937	1,830
Real Estate and Rental and Leasing	380	371	363	390	417	475	492	481	425	404
Professional, scientific, and technical services	2,305	2,251	2,189	2,408	2,297	2,282	1,986	1,893	1,725	1,661
Management of companies and enterprises	1,247	1,164	1,052	1,196	1,131	1,068	939	862	854	552
Administrative and waste services	1,046	1,000	944	980	971	955	914	856	757	738
Educational services	1,239	1,203	1,201	1,134	1,068	1,003	935	897	818	775
Health care and social assistance	4,594	4,532	4,339	4,207	4,015	3,895	3,707	3,559	3,339	3,145
Arts, entertainment, and recreation	296	286	278	286	319	292	269	252	245	227
Accommodation and food services	995	951	901	942	960	913	906	892	845	795
Other services, except public administration	1,060	1,027	1,000	1,030	1,070	1,054	1,040	978	932	919
<b><u>Government and Government Enterprises</u></b>										
Federal/Civilian	1,200	1,193	1,126	1,067	1,044	1,013	959	941	870	849
Military	636	633	609	578	541	497	505	486	469	431
State and Local	3,931	3,856	3,829	3,869	3,730	3,586	3,413	3,268	3,204	2,968
<b>Total Personal Income by Industry*</b>	<b>\$ 31,097</b>	<b>\$ 30,242</b>	<b>\$ 29,131</b>	<b>\$ 30,075</b>	<b>\$ 29,807</b>	<b>\$ 29,157</b>	<b>\$ 27,853</b>	<b>\$ 26,893</b>	<b>\$ 25,604</b>	<b>\$ 24,045</b>

\* Total Personal Income by Industry may not sum due to inclusion of non-disclosed data in total amount.

*Various calendar years may differ from the amounts presented in the same tables in the June 30, 2011 CAFR, as a result of revised data.*

Source: US Bureau of Economic Analysis accessed on 11-14-2012

(D) Not shown to avoid disclosure of confidential information.

**Schedule of Personal Income Tax Revenue as a Percent of Personal Income  
Prior Ten Fiscal Years  
(expressed in millions)**

	Fiscal Year									
	2011	2010	2009	2008	2007	2006	2005	2004	2003	2002
Personal Income Tax (PIT) Revenue	\$ 1,021	\$ 898	\$ 941	\$ 1,074	\$ 1,065	\$ 997	\$ 979	\$ 870	\$ 813	\$ 808
Personal Income	46,125	44,207	42,631	44,122	42,661	40,664	38,570	37,585	35,866	34,282
PIT Revenue as a Percent of Personal Income	2.20%	2.00%	2.20%	2.40%	2.50%	2.50%	2.50%	2.30%	2.30%	2.40%

*Various calendar years may differ from the amounts presented in the same tables in the June 30, 2011 CAFR, as a result of revised data.*

Source: Office of Revenue Analysis  
Includes wages, interest, dividends, rents,  
pensions and transfer payments.

**State of Rhode Island and Providence Plantations  
Schedule of Personal Income Tax Rates  
Prior Ten Calendar Years**

Tax Rates on the Portion of Taxable Income in Ranges

Tax Rates on the Portion of Taxable Income in Ranges						
Tax Year 2011 All Filing Status Types	Tax Rate Income Bracket	3.75% \$ 0 - 55,000	4.75% \$ 55,000 - 125,000	5.99% over \$125,000		
Alternative Flat Tax	Repealed for tax years beginning after December 31, 2010.					
Tax Year 2010 Single Filing Status	Tax Rate Income Bracket	3.75% \$ 0 - 34,000	7.00% \$34,000 - 82,400	7.75% \$82,400 - 171,850	9.00% \$171,850 - 373,650	9.90% over \$ 373,650
Married Filing Joint Filing Status	Tax Rate Income Bracket	3.75% \$ 0 - 56,800	7.00% \$ 56,800 - 137,300	7.75% \$ 137,300 - 209,250	9.00% \$ 209,250 - 373,650	9.90% over \$ 373,650
Married Filing Separate Filing Status	Tax Rate Income Bracket	3.75% \$ 0 - 28,400	7.00% \$ 28,400 - 68,650	7.75% \$ 68,650 - 104,625	9.00% \$104,625 - 186,825	9.90% over \$ 186,825
Head of Household Filing Status	Tax Rate Income Bracket	3.75% \$ 0 - 45,550	7.00% \$ 45,550 - 117,650	7.75% \$ 117,650 - 190,550	9.00% \$ 190,550 - 373,650	9.90% over \$373,650
Alternative Flat Tax	Tax Rate	6.00% on modified federal adjusted gross income over \$ 0				
Tax Year 2009 Single Filing Status	Tax Rate Income Bracket	3.75% \$ 0 - 33,950	7.00% \$ 33,950 - 82,250	7.75% \$ 82,250 - 171,550	9.00% \$ 171,550 - 372,950	9.90% over \$ 372,950
Married Filing Joint Filing Status	Tax Rate Income Bracket	3.75% \$ 0 - 56,700	7.00% \$ 56,700 - 137,050	7.75% \$ 137,050 - 208,850	9.00% \$ 208,850 - 372,950	9.90% over \$ 372,950
Married Filing Separate Filing Status	Tax Rate Income Bracket	3.75% \$ 0 - 28,350	7.00% \$ 28,350 - 68,525	7.75% \$ 68,525 - 104,425	9.00% \$104,425 - 186,475	9.90% over \$ 186,475
Head of Household Filing Status	Tax Rate Income Bracket	3.75% \$ 0 - 45,500	7.00% \$ 45,500 - 117,450	7.75% \$ 117,450 - 190,200	9.00% \$ 190,200 - 372,950	9.90% over \$372,950
Alternative Flat Tax	Tax Rate	6.50% on modified federal adjusted gross income over \$ 0				
Tax Year 2008 Single Filing Status	Tax Rate Income Bracket	3.75% \$ 0 - 32,550	7.00% \$32,550 - 78,850	7.75% \$ 78,850 - 164,550	9.00% \$ 164,550 - 357,700	9.90% over \$ 357,700
Married Filing Joint Filing Status	Tax Rate Income Bracket	3.75% \$ 0 - 54,400	7.00% \$ 54,400 - 131,450	7.75% \$ 131,450 - 200,300	9.00% \$ 200,300 - 357,700	9.90% over \$ 357,700
Married Filing Separate Filing Status	Tax Rate Income Bracket	3.75% \$ 0 - 27,200	7.00% \$ 27,200 - 65,725	7.75% \$ 65,725 - 100,150	9.00% \$100,150 - 178,850	9.90% over \$ 178,850
Head of Household Filing Status	Tax Rate Income Bracket	3.75% \$ 0 - 43,650	7.00% \$ 43,650 - 112,650	7.75% \$ 112,650 - 182,400	9.00% \$ 182,400 - 357,700	9.90% over \$357,700
Alternative Flat Tax	Tax Rate	7.00% on modified federal adjusted gross income over \$ 0				
Tax Year 2007 Single Filing Status	Tax Rate Income Bracket	3.75% \$ 0 - 31,850	7.00% \$31,850 - 77,100	7.75% \$ 77,100 - 160,850	9.00% \$ 160,850 - 349,700	9.90% over \$ 349,700
Married Filing Joint Filing Status	Tax Rate Income Bracket	3.75% \$ 0 - 53,150	7.00% \$ 53,150 - 128,500	7.75% \$ 128,500 - 195,850	9.00% \$ 195,850 - 349,700	9.90% over \$ 349,700
Married Filing Separate Filing Status	Tax Rate Income Bracket	3.75% \$ 0 - 26,575	7.00% \$ 26,575 - 64,250	7.75% \$ 64,250 - 97,925	9.00% \$ 97,925 - 174,850	9.90% over \$ 174,850
Head of Household Filing Status	Tax Rate Income Bracket	3.75% \$ 0 - 42,650	7.00% \$ 42,650 - 110,100	7.75% \$ 110,100 - 178,350	9.00% \$ 178,350 - 349,700	9.90% over \$ 349,700
Alternative Flat Tax	Tax Rate	7.50% on modified federal adjusted gross income over \$ 0				

(continued)

**State of Rhode Island and Providence Plantations  
Schedule of Personal Income Tax Rates  
Prior Ten Calendar Years**

Tax Rates on the Portion of Taxable Income in Ranges

Tax Rates on the Portion of Taxable Income in Ranges						
Tax Year 2006						
Single Filing Status	Tax Rate	3.75%	7.00%	7.75%	9.00%	9.90%
	Income Bracket	\$ 0 - 30,650	\$30,650 - 74,200	\$ 74,200 - 154,800	\$ 154,800 - 336,550	over \$ 336,550
Married Filing Joint Filing Status	Tax Rate	3.75%	7.00%	7.75%	9.00%	9.90%
	Income Bracket	\$ 0 - 51,200	\$ 51,200 - 123,700	\$ 123,700 - 188,450	\$ 188,450 - 336,550	over \$ 336,550
Married Filing Separate Filing Status	Tax Rate	3.75%	7.00%	7.75%	9.00%	9.90%
	Income Bracket	\$ 0 - 25,600	\$ 25,600 - 61,850	\$ 61,850 - 94,225	\$ 94,225 - 168,275	over \$ 168,275
Head of Household Filing Status	Tax Rate	3.75%	7.00%	7.75%	9.00%	9.90%
	Income Bracket	\$ 0 - 41,050	\$ 41,050 - 106,000	\$ 106,000 - 171,650	\$ 171,650 - 336,550	over \$ 336,550
Alternative Flat Tax	Tax Rate	8.00% on modified federal adjusted gross income over \$ 0				

Tax Year 2005						
Single Filing Status	Tax Rate	3.75%	7.00%	7.75%	9.00%	9.90%
	Income Bracket	\$ 0 - 29,700	\$ 29,700 - 71,950	\$ 71,950 - 150,150	\$ 150,150 - 326,450	over \$ 326,450
Married Filing Joint Filing Status	Tax Rate	3.75%	7.00%	7.75%	9.00%	9.90%
	Income Bracket	\$ 0 - 49,650	\$ 49,650 - 119,950	\$ 119,950 - 182,800	\$ 182,800 - 326,450	over \$ 326,450
Married Filing Separate Filing Status	Tax Rate	3.75%	7.00%	7.75%	9.00%	9.90%
	Income Bracket	\$ 0 - 24,825	\$ 24,825 - 59,975	\$ 59,975 - 91,400	\$ 91,400 - 163,225	over \$ 163,225
Head of Household Filing Status	Tax Rate	3.75%	7.00%	7.75%	9.00%	9.90%
	Income Bracket	\$ 0 - 39,800	\$ 39,800 - 102,800	\$ 102,800 - 166,450	\$ 166,450 - 326,450	over \$ 326,450

Tax Year 2004						
Single Filing Status	Tax Rate	3.75%	7.00%	7.75%	9.00%	9.90%
	Income Bracket	\$ 0 - 29,050	\$ 29,050 - 70,350	\$ 70,350 - 146,750	\$ 146,750 - 319,100	over \$ 319,100
Married Filing Joint Filing Status	Tax Rate	3.75%	7.00%	7.75%	9.00%	9.90%
	Income Bracket	\$ 0 - 48,500	\$ 48,500 - 117,250	\$ 117,250 - 178,650	\$ 178,650 - 319,100	over \$ 319,100
Married Filing Separate Filing Status	Tax Rate	3.75%	7.00%	7.75%	9.00%	9.90%
	Income Bracket	\$ 0 - 24,250	\$ 24,250 - 58,625	\$ 58,625 - 89,325	\$ 89,325 - 159,550	over \$ 159,550
Head of Household Filing Status	Tax Rate	3.75%	7.00%	7.75%	9.00%	9.90%
	Income Bracket	\$ 0 - 38,900	\$ 38,900 - 100,500	\$ 100,500 - 162,700	\$ 162,700 - 319,100	over \$ 319,100

Tax Year 2003						
Single Filing Status	Tax Rate	3.75%	7.00%	7.75%	9.00%	9.90%
	Income Bracket	\$ 0 - 28,400	\$ 28,400 - 68,800	\$ 68,800 - 143,500	\$ 143,500 - 311,950	over \$ 311,950
Married Filing Joint Filing Status	Tax Rate	3.75%	7.00%	7.75%	9.00%	9.90%
	Income Bracket	\$ 0 - 47,450	\$ 47,450 - 114,650	\$ 114,650 - 174,700	\$ 174,700 - 311,950	over \$ 311,950
Married Filing Separate Filing Status	Tax Rate	3.75%	7.00%	7.75%	9.00%	9.90%
	Income Bracket	\$ 0 - 23,725	\$ 23,725 - 57,325	\$ 57,325 - 87,350	\$ 87,350 - 155,975	over \$ 155,975
Head of Household Filing Status	Tax Rate	3.75%	7.00%	7.75%	9.00%	9.90%
	Income Bracket	\$ 0 - 38,050	\$ 38,050 - 98,250	\$ 98,250 - 159,100	\$ 159,100 - 311,950	over \$ 311,950

Tax Year 2002						
Single Filing Status	Tax Rate	3.75%	7.00%	7.75%	9.00%	9.90%
	Income Bracket	\$ 0 - 27,950	\$ 27,950 - 67,700	\$ 67,700 - 141,250	\$ 141,250 - 307,050	over \$ 307,050
Married Filing Joint Filing Status	Tax Rate	3.75%	7.00%	7.75%	9.00%	9.90%
	Income Bracket	\$ 0 - 46,700	\$ 46,700 - 112,850	\$ 112,850 - 171,950	\$ 171,950 - 307,050	over \$ 307,050
Married Filing Separate Filing Status	Tax Rate	3.75%	7.00%	7.75%	9.00%	9.90%
	Income Bracket	\$ 0 - 23,350	\$ 23,350 - 56,425	\$ 56,425 - 85,975	\$ 85,975 - 153,525	over \$ 153,525
Head of Household Filing Status	Tax Rate	3.75%	7.00%	7.75%	9.00%	9.90%
	Income Bracket	\$ 0 - 37,450	\$ 37,450 - 96,700	\$ 96,700 - 156,600	\$ 156,600 - 307,050	over \$ 307,050

Source: Department of Revenue - Division of Taxation

(concluded)

**State of Rhode Island and Providence Plantations**  
**Schedule of Resident Personal Income Tax Filers & Liability by AGI**  
Tax Years 2003 through 2010

Tax Year 2010				
Federal AGI	Number of Filers	Percentage of Total	Personal Income Tax Liability	Percentage of Total
\$0 - \$25,000	179,885	38.65%	\$ 20,705,060	2.32%
\$25,001 - \$50,000	112,371	24.14%	86,321,200	9.65%
\$50,001 - \$75,000	66,255	14.24%	111,244,636	12.44%
\$75,001 - \$100,000	41,956	9.01%	109,185,357	12.21%
\$100,001 - \$200,000	52,857	11.36%	271,103,111	30.32%
\$200,001 - \$500,000	10,147	2.18%	146,038,132	16.33%
\$500,001 - \$1,000,000	1,337	0.29%	46,337,234	5.18%
\$1,000,001 and greater	626	0.13%	103,258,427	11.55%
	<u>465,434</u>	<u>100.00%</u>	<u>\$ 894,193,156</u>	<u>100.00%</u>

Tax Year 2009				
Federal AGI	Number of Filers	Percentage of Total	Personal Income Tax Liability	Percentage of Total
\$0 - \$25,000	183,393	38.55%	\$ 21,961,360	2.34%
\$25,001 - \$50,000	115,125	24.20%	90,541,402	9.63%
\$50,001 - \$75,000	68,636	14.43%	114,674,809	12.20%
\$75,001 - \$100,000	43,504	9.14%	113,195,561	12.05%
\$100,001 - \$200,000	52,290	10.99%	265,674,573	28.28%
\$200,001 - \$500,000	10,588	2.23%	160,823,729	17.11%
\$500,001 - \$1,000,000	1,541	0.32%	63,650,231	6.77%
\$1,000,001 and greater	682	0.14%	109,196,985	11.62%
	<u>475,759</u>	<u>100.00%</u>	<u>\$ 939,718,650</u>	<u>100.00%</u>

Tax Year 2008				
Federal AGI	Number of Filers	Percentage of Total	Personal Income Tax Liability	Percentage of Total
\$0 - \$25,000	181,203	38.51%	\$ 21,745,670	2.36%
\$25,001 - \$50,000	113,942	24.22%	89,681,972	9.73%
\$50,001 - \$75,000	67,994	14.45%	113,636,913	12.33%
\$75,001 - \$100,000	43,135	9.17%	112,257,494	12.18%
\$100,001 - \$200,000	51,738	11.00%	262,885,354	28.55%
\$200,001 - \$500,000	10,362	2.20%	157,222,123	17.06%
\$500,001 - \$1,000,000	1,471	0.31%	60,830,316	6.60%
\$1,000,001 and greater	639	0.14%	103,054,792	11.19%
	<u>470,484</u>	<u>100.00%</u>	<u>\$ 921,314,634</u>	<u>100.00%</u>

Tax Year 2007				
Federal AGI	Number of Filers	Percentage of Total	Personal Income Tax Liability	Percentage of Total
\$0 - \$25,000	188,813	39.06%	\$ 23,474,554	2.31%
\$25,001 - \$50,000	117,159	24.23%	93,066,232	9.14%
\$50,001 - \$75,000	69,086	14.29%	115,072,079	11.30%
\$75,001 - \$100,000	43,392	8.98%	113,148,145	11.11%
\$100,001 - \$200,000	51,045	10.56%	257,934,287	25.33%
\$200,001 - \$500,000	11,187	2.31%	169,393,520	16.64%
\$500,001 - \$1,000,000	1,769	0.37%	72,958,570	7.17%
\$1,000,001 and greater	981	0.20%	173,123,590	17.00%
	<u>483,432</u>	<u>100.00%</u>	<u>\$ 1,018,170,977</u>	<u>100.00%</u>

(continued)

**State of Rhode Island and Providence Plantations**  
**Schedule of Resident Personal Income Tax Filers & Liability by AGI**  
Tax Years 2003 through 2010

Tax Year 2006				
Federal AGI	Number of Filers	Percentage of Total	Personal Income Tax Liability	Percentage of Total
\$0 - \$25,000	186,777	39.29%	\$ 24,824,956	2.41%
\$25,001 - \$50,000	117,943	24.81%	95,815,612	9.30%
\$50,001 - \$75,000	68,647	14.45%	115,882,393	11.25%
\$75,001 - \$100,000	42,285	8.90%	112,897,362	10.96%
\$100,001 - \$200,000	46,714	9.83%	242,469,428	23.55%
\$200,001 - \$500,000	10,339	2.17%	163,620,232	15.89%
\$500,001 - \$1,000,000	1,735	0.36%	77,989,258	7.57%
\$1,000,001 and greater	917	0.19%	196,446,444	19.07%
	<u>475,357</u>	<u>100.00%</u>	<u>\$ 1,029,945,685</u>	<u>100.00%</u>

Tax Year 2005				
Federal AGI	Number of Filers	Percentage of Total	Personal Income Tax Liability	Percentage of Total
\$0 - \$25,000	191,229	40.42%	\$ 26,586,050	2.73%
\$25,001 - \$50,000	117,944	24.92%	97,782,614	10.05%
\$50,001 - \$75,000	68,732	14.53%	117,073,474	12.03%
\$75,001 - \$100,000	40,758	8.62%	111,028,948	11.41%
\$100,001 - \$200,000	42,311	8.94%	222,774,255	22.88%
\$200,001 - \$500,000	9,644	2.04%	157,005,466	16.13%
\$500,001 - \$1,000,000	1,655	0.35%	76,436,571	7.85%
\$1,000,001 and greater	828	0.18%	164,689,396	16.92%
	<u>473,101</u>	<u>100.00%</u>	<u>\$ 973,376,774</u>	<u>100.00%</u>

Tax Year 2004				
Federal AGI	Number of Filers	Percentage of Total	Personal Income Tax Liability	Percentage of Total
\$0 - \$25,000	189,685	40.73%	\$ 27,587,679	2.95%
\$25,001 - \$50,000	117,704	25.28%	99,789,134	10.66%
\$50,001 - \$75,000	68,652	14.74%	119,176,017	12.73%
\$75,001 - \$100,000	39,892	8.57%	111,753,322	11.94%
\$100,001 - \$200,000	39,187	8.42%	211,965,822	22.65%
\$200,001 - \$500,000	8,440	1.81%	140,618,508	15.02%
\$500,001 - \$1,000,000	1,397	0.30%	66,373,763	7.09%
\$1,000,001 and greater	695	0.15%	158,789,344	16.96%
	<u>465,652</u>	<u>100.00%</u>	<u>\$ 936,053,589</u>	<u>100.00%</u>

Tax Year 2003				
Federal AGI	Number of Filers	Percentage of Total	Personal Income Tax Liability	Percentage of Total
\$0 - \$25,000	194,616	41.66%	\$ 29,266,575	3.46%
\$25,001 - \$50,000	120,459	25.80%	103,175,468	12.21%
\$50,001 - \$75,000	68,669	14.71%	119,334,886	14.13%
\$75,001 - \$100,000	38,272	8.20%	107,970,871	12.78%
\$100,001 - \$200,000	35,845	7.68%	194,686,587	23.05%
\$200,001 - \$500,000	7,390	1.58%	125,658,653	14.88%
\$500,001 - \$1,000,000	1,169	0.25%	55,571,047	6.58%
\$1,000,001 and greater	543	0.12%	109,019,775	12.91%
	<u>466,963</u>	<u>100.00%</u>	<u>\$ 844,683,862</u>	<u>100.00%</u>

This information was not available prior to 2003.

(concluded)

**State of Rhode Island and Providence Plantations**  
**Schedule of Ratios of Outstanding Debt by Type**  
**Last Ten Fiscal Years**  
(expressed in thousands)

	Fiscal Year									
	2012	2011	2010	2009	2008	2007	2006	2005	2004	2003
<b>Governmental Activities</b>										
General obligation bonds	\$ 1,110,585	\$ 1,049,400	\$ 1,118,030	\$ 1,036,189	\$ 997,398	\$ 916,531	\$ 848,666	\$ 810,485	\$ 770,070	\$ 728,644
Revenue bonds (blended component units)	779,426	795,161	807,731	828,481	867,776	902,871	729,695	749,445	766,410	786,095
Capital leases	233,800	224,045	244,805	269,340	236,060	256,865	226,755	232,464	102,885	113,446
Special purpose bonds (a)	519,060	567,190	613,355	658,550	358,065	390,110	418,300	228,305	264,210	
<b>Total governmental activities</b>	<u>2,642,871</u>	<u>2,635,796</u>	<u>2,783,921</u>	<u>2,792,560</u>	<u>2,459,299</u>	<u>2,466,377</u>	<u>2,223,416</u>	<u>2,020,699</u>	<u>1,903,575</u>	<u>1,628,185</u>
<b>Business-type Activities</b>										
Revenue bonds	250,510	259,620	268,280	275,810	270,960	279,935	287,185	202,855	302,320	310,005
Other debt									153	153
<b>Total business-type activities</b>	<u>250,510</u>	<u>259,620</u>	<u>268,280</u>	<u>275,810</u>	<u>270,960</u>	<u>279,935</u>	<u>287,185</u>	<u>202,855</u>	<u>302,473</u>	<u>310,158</u>
<b>Total primary government</b>	<u>\$ 2,893,381</u>	<u>\$ 2,895,416</u>	<u>\$ 3,052,201</u>	<u>\$ 3,068,370</u>	<u>\$ 2,730,259</u>	<u>\$ 2,746,312</u>	<u>\$ 2,510,601</u>	<u>\$ 2,223,554</u>	<u>\$ 2,206,048</u>	<u>\$ 1,938,343</u>
Debt as a Percentage of Personal Income	6.1%	6.3%	7.1%	7.1%	6.9%	6.2%	6.3%	5.9%	6.0%	5.7%
Amount of Debt Per Capita	\$ 3	\$ 3	\$ 3	\$ 3	\$ 3	\$ 3	\$ 2	\$ 2	\$ 2	\$ 2

(a) Special purpose bonds were first sold in 2004.

**State of Rhode Island and Providence Plantations**  
**Schedule of Pledged Revenue Coverage**  
**Last Ten Fiscal Years**  
(expressed in thousands)

	Current Debt Service as Reported in the Prior Year Financial Statements									
	2012	2011	2010	2009	2008	2007	2006	2005	2004	2003
<b>Revenue Bonds-Tobacco Settlement Finance Corporation</b>										
Revenue - Tobacco Settlement Revenue	\$ 49,944	\$ 50,166	\$ 48,620	\$ 58,039	\$ 53,247	\$ 44,025	\$ 41,546	\$ 45,831	\$ 45,644	\$ 52,749
Less: operating expenses	74	74	69	99	33	54	40	65	80	32
Net available revenue	<u>\$ 49,870</u>	<u>\$ 50,092</u>	<u>\$ 48,551</u>	<u>\$ 57,940</u>	<u>\$ 53,214</u>	<u>\$ 43,971</u>	<u>\$ 41,506</u>	<u>\$ 45,766</u>	<u>\$ 45,564</u>	<u>\$ 52,717</u>
Debt service										
Principal (b)	\$ 15,735	\$ 12,570	\$ 14,710	\$ 16,620	\$ 16,620	\$	\$	\$	\$	\$
Interest	37,029	37,783	38,614	40,918	40,918	41,287	41,609	42,015	42,234	
Coverage (a)	95.00%	99.00%	91.05%	100.70%	92.48%	106.50%	99.75%	108.93%	107.88%	
<b>Revenue Bonds-GARVEE (Federal Highway)</b>										
Revenue - FHWA participation	\$ 48,382	\$ 48,389	\$ 48,391	\$ 43,646	\$ 44,147	\$ 44,182	\$ 41,801	\$ 41,809	\$	\$
Net available revenue	<u>\$ 48,382</u>	<u>\$ 48,389</u>	<u>\$ 48,391</u>	<u>\$ 43,646</u>	<u>\$ 44,147</u>	<u>\$ 44,182</u>	<u>\$ 41,801</u>	<u>\$ 41,809</u>	<u>\$ 0</u>	<u>\$ 0</u>
Debt service										
Principal	\$ 29,590	\$ 28,205	\$ 26,910	\$ 28,315	\$ 28,315	\$ 24,560	\$ 32,290	\$ 30,755	\$	\$
Interest	18,792	20,184	21,481	15,895	15,895	19,650	9,517	11,054	6,141	
Coverage (a)	100.00%	100.00%	100.00%	98.72%	99.86%	99.94%	99.99%	100.00%	0.00%	
<b>Revenue Bonds-GARVEE (Gas Tax)</b>										
Revenue - 2 cents per gallon of the gasoline tax	\$ 8,412	\$ 8,421	\$ 8,579	\$ 8,656	\$ 9,028	\$ 9,409	\$ 9,496	\$ 9,513	\$ 9,499	\$
Net available revenue	<u>\$ 8,412</u>	<u>\$ 8,421</u>	<u>\$ 8,579</u>	<u>\$ 8,656</u>	<u>\$ 9,028</u>	<u>\$ 9,409</u>	<u>\$ 9,496</u>	<u>\$ 9,513</u>	<u>\$ 9,499</u>	<u>\$ 0</u>
Debt service										
Principal	\$ 3,710	\$ 3,585	\$ 3,480	\$ 3,730	\$ 3,730	\$ 3,630	\$ 5,150	\$ 5,150	\$ 5,625	\$
Interest	3,439	3,561	3,667	3,241	3,241	3,335	2,105	1,653	981	
Coverage (a)	117.67%	117.84%	120.04%	124.17%	129.51%	135.09%	130.89%	139.84%	143.79%	
<b>Division of Motor Vehicles Capital Lease</b>										
Revenue - \$1.50 surcharge per transaction	\$ 2,181	\$ 2,098	\$ 2,602							
Net available revenue	<u>\$ 2,181</u>	<u>\$ 2,098</u>	<u>\$ 2,602</u>							
Debt service										
Principal	\$ 1,440	1,385								
Interest	405	409								
Coverage (a)	118.21%	116.95%	NA							

(a) Coverage equals net available revenue divided by debt service.

(b) Debt service principal represents "Turbo Maturity" redemptions, whereby TSFC is required to apply 100% of all collections that are in excess of current funding requirements to the early redemption of the bonds. Annual revenues have been sufficient to meet scheduled debt service requirements.

**Source:** Department of Administration

**State of Rhode Island and Providence Plantations**

**Schedule of Personal Income and Per Capita Personal Income  
Prior Ten Calendar Years**

**Resident Population (expressed in thousands)  
Prior Ten Fiscal Years**

	<b>Personal Income</b>				<b>Per Capita Personal Income</b>				<b>Change in Population</b>			
	<i>(in billions)</i>				<i>(in dollars)</i>							
	<b>United States</b>		<b>Rhode Island</b>		<b>United States</b>		<b>Rhode Island</b>		<b>United States</b>		<b>Rhode Island</b>	
	<b>Amount</b>	<b>Percent Change</b>	<b>Amount</b>	<b>Percent Change</b>	<b>Amount</b>	<b>Percent Change</b>	<b>Amount</b>	<b>Percent Change</b>	<b>Population</b>	<b>Percent Change</b>	<b>Population</b>	<b>Percent Change</b>
<b>2012</b>	\$ 13,394.8	3.5%	\$ 47.4	2.9%	\$ 42,576	2.5%	\$ 45,020	2.7%	314,600	1.0%	1,051	0.0%
<b>2011</b>	12,947.3	5.1%	46.1	3.6%	41,552	4.3%	43,843	3.8%	311,592	0.7%	1,051	-0.2%
<b>2010</b>	12,321.9	3.7%	44.2	3.3%	39,834	2.8%	42,014	3.4%	309,300	1.5%	1,053	-0.1%
<b>2009</b>	11,867.0	-4.3%	42.6	2.7%	38,683	-5.1%	40,464	2.6%	306,772	0.8%	1,054	-0.1%
<b>2008</b>	12,460.2	4.6%	44.1	3.2%	40,975	3.6%	41,829	3.6%	304,094	1.0%	1,055	-0.2%
<b>2007</b>	11,912.3	5.7%	42.7	4.9%	39,545	4.7%	40,360	5.5%	301,231	1.0%	1,057	-0.5%
<b>2006</b>	11,268.1	7.5%	40.7	5.4%	37,764	6.4%	38,283	5.9%	298,380	0.9%	1,063	-0.5%
<b>2005</b>	10,485.9	5.4%	38.6	2.7%	35,483	4.6%	36,134	3.3%	295,517	0.9%	1,068	-0.6%
<b>2004</b>	9,937.3	6.0%	37.6	4.7%	33,938	5.0%	35,005	4.5%	292,800	0.9%	1,075	0.4%
<b>2003</b>	9,378.2	3.4%	35.9	4.7%	32,326	2.6%	33,456	4.1%	290,100	1.0%	1,071	0.5%

**State of Rhode Island and Providence Plantations  
Schedule of Economic Indicators  
Prior Ten Calendar Years**

	<b>Civilian Labor Force</b>		<b>Unemployment Rate</b>		<b>Existing Single Family Home Sales</b>	
	<i>(in thousands)</i>					
	<b>Number in Labor Force</b>	<b>Percent Change</b>	<b>Rate</b>	<b>Percent Change</b>	<b>Number of Sales</b>	<b>Percent Change</b>
<b>2012</b>	557	-1.3%	10.8%	-4.4%	8,745	-8.9%
<b>2011</b>	564	-1.6%	11.3%	-6.9%	9,596	-10.7%
<b>2010</b>	570	1.8%	11.7%	7.4%	9,954	-10.5%
<b>2009</b>	566	-1.0%	10.9%	40.3%	11,128	14.5%
<b>2008</b>	572	-0.7%	7.7%	45.3%	9,716	-17.9%
<b>2007</b>	574	-0.5%	5.2%	6.0%	11,837	-11.8%
<b>2006</b>	573	2.1%	5.0%	-2.0%	13,422	-5.5%
<b>2005</b>	561	1.2%	5.1%	-1.9%	14,205	1.2%
<b>2004</b>	554	-1.2%	5.2%	-3.7%	14,031	10.4%
<b>2003</b>	561	1.8%	5.4%	5.9%	12,707	-3.6%

**Source:** This information is provided by the State's revenue estimating conference. The 2012 information is estimated. Various calendar years may differ from the amounts presented in the same tables in the June 30, 2011 CAFR, as a result of revised data.

**State of Rhode Island and Providence Plantations  
Principal Employers  
Current Year and Nine Years Ago**

2011				2002			
Rank	Employer	Employed	Percentage	Rank	Employer	Employed	Percentage
1	Lifespan	12,378	2.18%	1	Lifespan	10,036	1.79%
2	Care New England	7,045	1.24%	2	Care New England	5,720	1.02%
3	CVS Corporation	6,200	1.09%	3	CVS Corporation	5,655	0.80%
4	Citizens Financial Group (Royal Bank of Scotland)	5,350	0.94%	4	Stop and Shop Supermarket Co., Inc.	4,500	0.73%
5	Brown University	4,200	0.74%	5	Brown University	4,450	0.71%
6	Roman Catholic Diocese of Providence	3,600	0.63%	6	Citizens Financial Group (Royal Bank of Scotland)	4,100	1.01%
7	Bank of America	3,500	0.62%	7	Fleet Financial Corp	3,958	0.79%
8	CharterCare Health Partners	3,164	0.56%	8	The Jan Companies	3,000	0.53%
9	Fidelity Investments	2,900	0.51%	9	Metropolitan Life Insurance	2,200	0.39%
10	Naval Undersea Warfare Center	2,745	0.48%	10	General Dynamics	2,075	0.37%
Total employment		567,000		Total employment		561,000	

**Source:** Rhode Island Economic Development Corporation.

*Some employers are not listed because they did not wish to participate.*

**Source:** Effective in 2011 information is provided by Providence Business News Book of Lists.

**State of Rhode Island and Providence Plantations  
Full Time State Employees by Function  
Last Ten Fiscal Years**

	Full Time State Employees as of June 30									
	2012	2011	2010	2009	2008	2007	2006	2005	2004	2003
<b>Full-time Employees</b>										
General Government	2,337	2,561	2,533	2,474	2,508	2,479	2,480	2,531	2,528	2,639
Human Services	3,118	3,247	3,125	3,164	3,671	4,144	4,370	4,176	4,269	4,425
Education	354	358	352	343	365	373	373	364	364	368
Public Safety	3,002	2,685	2,693	2,684	2,865	2,952	2,939	2,953	2,851	2,866
Natural Resources	887	865	863	890	905	978	1,015	963	957	928
Transportation	797	802	763	708	719	767	828	813	826	861
<b>State Total</b>	<u>10,495</u>	<u>10,518</u>	<u>10,329</u>	<u>10,263</u>	<u>11,033</u>	<u>11,693</u>	<u>12,005</u>	<u>11,800</u>	<u>11,795</u>	<u>12,087</u>

*Source: Department of Administration*

**State of Rhode Island and Providence Plantations  
Schedule of Operating Indicators by Function  
Prior Ten Fiscal Years**

	Fiscal Year									
	2011	2010	2009	2008	2007	2006	2005	2004	2003	2002
<b>General Government</b>										
Division of Taxation										
Dollars received electronically (expressed in thousands)	\$2,330,068	\$2,242,867	\$2,135,981	\$2,049,159	\$2,047,671	\$1,920,770	\$1,810,045	\$1,672,875	\$1,523,094	\$1,386,651
Number of business transactions electronically	970,394	917,982	857,553	782,659	767,971	719,800	661,209	622,115	548,073	520,643
Personal Income Tax returns filed electronically -Tax Year	451,406	442,383	379,495	349,211	289,346	246,230	217,524	185,154	128,763	92,721
Department of Labor and Training										
Labor force total (expressed in thousands)	560	566	569	568	577	575	565	533	538	528
Unemployment rate (percentage)	11.1%	11.4%	11.6%	7.8%	5.0%	5.1%	5.1%	5.2%	5.4%	5.1%
<b>Human Services</b>										
Department of Children, Youth and Families										
Average number of foster children	2,249	2,201	2,410	2,729	2,436	2,517	2,346	2,331	2,227	2,210
Health Department										
Diagnosed AIDS cases	51	36	62	56	69	89	105	139	98	99
Number of births (expressed in thousands)	12	12	12	13	14	13	13	14	14	14
<b>Education</b>										
Enrollment - Higher Education	43,254	43,224	43,409	42,601	41,503	40,374	40,008	39,920	39,937	38,867
Number of certificates and degrees awarded - Higher Education	6,500	6,516	6,255	5,754	5,518	5,418	5,404	5,567	5,330	5,453
<b>Public Safety</b>										
Department of Corrections										
Incarcerated offenders (male)	3,084	3,154	3,499	3,567	3,542	3,518	3,175	3,354	3,329	3,179
Incarcerated offenders (female)	189	187	190	204	231	242	186	200	208	208
<b>Natural Resources</b>										
Department of Environmental Management										
Hatchery fish raised and restocked (approximated in thousands)	114	119	136	148	140	140	140	140	140	140
Park visitations (expressed in thousands)	5,213	5,386	5,374	5,174	5,928	6,135	6,010	5,861	5,976	7,499
Recreational registrations (boats)	40,525	41,158	42,301	42,999	44,000	41,933	41,366	42,759	41,696	41,024
<b>Transportation</b>										
Department of Transportation										
Vehicle miles traveled (expressed in millions)	7,901	8,280	8,279	8,188	8,679	8,300	8,299	8,472	8,365	8,142

*Various calendar years may differ from the amounts presented in the same tables in the June 30, 2011 CAFR, as a result of revised data*

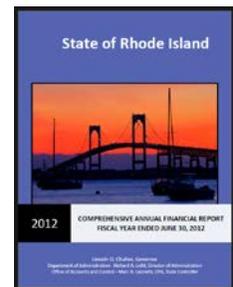
**Source:** Various Agencies

**State of Rhode Island and Providence Plantations  
Schedule of Capital Asset Statistics by Function  
Last Ten Fiscal Years**

	Fiscal Year									
	2012	2011	2010	2009	2008	2007	2006	2005	2004	2003
<b><u>General Government</u></b>										
Buildings	16	15	14	14	15	15	17	17	17	17
Vehicles	251	258	260	271	263	238	104	95	88	n/a
<b><u>Human Services</u></b>										
Buildings	196	197	201	200	199	198	197	197	197	195
Vehicles	304	337	339	365	360	353	335	320	326	n/a
<b><u>Education</u></b>										
Buildings	10	10	9	10	12	12	13	13	13	12
Vehicles	14	19	20	20	20	19	23	26	31	n/a
<b><u>Public Safety</u></b>										
Buildings	62	59	53	52	52	53	54	54	54	54
Vehicles	561	604	586	614	644	580	604	586	574	n/a
<b><u>Natural Resources</u></b>										
Buildings	67	49	47	45	44	44	43	41	37	36
Vehicles	426	428	420	423	414	417	431	398	412	n/a
Number of state parks, beaches, bike paths	21	21	21	21	21	21	21	21	21	21
Area of state parks, beaches (acres)	13,289	13,289	13,289	13,289	13,289	13,289	13,289	13,289	13,289	13,289
<b><u>Transportation</u></b>										
Buildings	21	19	19	19	19	19	23	22	21	21
Vehicles	555	621	611	628	635	708	676	733	742	n/a
Miles of state highway	1,100	1,100	1,100	1,100	1,100	1,100	1,100	1,100	1,100	1,100

**Source:** Department of Administration

# Rhode Island Bridges



Cover - Newport Pell Bridge – photo: Ron Stella

The Rhode Island Council on the Arts assisted in providing photos for use in the State’s 2012 Comprehensive Annual Financial Report.