

*State of Rhode Island*  
***Comprehensive Annual Financial Report***

*fiscal year ended June 30, 2014*



**Lincoln D. Chafee, Governor**

Department of Administration – Steven T. Hartford, Director of Administration

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

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**2014**



**Introductory Section**  
***Comprehensive Annual Financial Report***  
**State of Rhode Island**



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

***Marc A. Leonetti, State Controller***

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December 18, 2014

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, 2014.

## **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; assisting 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 (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.

There is a State Budget Reserve Account (Reserve) which is maintained within the General Fund. According to the State's Constitution, general revenue appropriations in the general fund cannot exceed 97% of available general revenue sources. These sources consist of the current fiscal year's budgeted general revenue plus the general fund available fund balance from the prior fiscal year. Excess revenue is transferred to the Reserve. If the balance in the Reserve exceeds five percent of the total general revenues and opening surplus, the excess is transferred to the Rhode Island 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 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 2014 was 7.4 percent, a decrease from October 2013's rate of 9.4 percent. The State's unemployment rate continued to remain above the U.S. unemployment rate of 5.8 percent in October 2014. Rhode Island's unemployment rate is declining at a faster rate than that of the U.S., resulting in a decrease in the gap between the U.S. unemployment rate and the Rhode Island unemployment rate. In October 2014, Rhode Island's unemployment rate was 127.6 percent greater than that of the U.S., with the comparable number in October 2013 being 130.6 percent. In testimony to the principals of the November 2014 Revenue Estimating Conference, Moody's Analytics (Moody's) noted that the State took a first step in overcoming its reputation as a state with high business costs and taxes by cutting the state corporate tax rate from 9.0 percent to 7.0 percent for all C-corporations. In addition, Moody's economic analyst mentioned that well-directed business investment in Rhode Island's comparative advantage areas of higher education, healthcare and biotechnology will be essential to the achievement of sustained economic growth in the state. The economic analyst noted that spillover growth in the financial services sector fueled by increased commercial rent costs in the Boston metro area have resulted in payrolls

increasing by 4.4 percent in Rhode Island's financial sector since the start of the year, or 3.0 percentage points higher than total payroll growth for the same time period. In addition, Moody's expects education-related construction to spur economic growth in the near term. Their optimism is tempered by the fact that Rhode Island's lack of dynamic and high-skill industries will detract from the rate of economic expansion in the next few years. The Rhode Island Department of Labor and Training (DLT) testified at the November 2014 Revenue Estimating Conference that the U.S. Bureau of Labor Statistics official job numbers for June 2014 would likely be revised upward by an estimated 1,200 jobs based on job counts derived from the state's unemployment insurance records through June of 2014. According to DLT, the other services sector of the state's labor market recorded the largest increase in jobs based on this analysis, a total of 1,000. The November 2014 Consensus Economic Forecast, which was adopted at the November 2014 Revenue Estimating Conference, projects that Rhode Island's non-farm employment will surpass pre-recession peak levels in calendar year 2016.

The November 2014 Consensus Economic Forecast indicates that the state will need to direct resources into retraining displaced workers as the economy moves from a low value added manufacturing base economy to a services-oriented economy. Investment in retraining displaced workers will mitigate the economic impacts associated with shrinkage in the labor force from the state's demographic trends, the lack of employment opportunities and persistent structural unemployment. According to Moody's, the void felt in the economy from this transition to a service based economy may be filled in the long term by growth in the biotechnology, medical device manufacturing and pharmaceuticals industries which currently employ a small percentage of the total workforce. Moody's stated that the housing market in Rhode Island has begun to take a step back as the pace of homebuilding and construction activity has declined since accelerating in the first half of 2014. Home price appreciation in Rhode Island is still trending upward albeit at a slower pace than the national average. Moody's noted that some of the conditions weighing down the housing market include increased foreclosures and the weak labor market, translating into a delayed release of pent-up household formation. A key risk to the November 2014 Consensus Economic Forecast is the role of the housing market. Growth in the housing market depends on projected wage growth triggering the release of pent-up demand for household formation which, if unachieved, will make the forecast overly optimistic. On a positive note, Moody's stated that mortgage delinquency rates are almost back to prerecession levels. Stringent credit conditions have resulted in improved mortgage delinquency rates and the recent spike in foreclosure inventory should not be a cause for concern as Rhode Island consumers are in a stronger financial position to borrow. Additionally, Moody's reports that factory job gains earlier in the year as well as the previously noted recent hiring in the financial services sector, have kept wage growth on par with the national average, an encouraging development given the uncertainty of the potential abatement in federal spending levels for defense and other grants.

*Major Initiatives:* The following section highlights several notable initiatives that will likely impact revenue and expenditure trends:

- The reduction of the corporate income tax rate from nine percent (9.0%) to seven percent (7.0%), the implementation of combined reporting for business corporations, the elimination of the franchise tax, and the conversion of the current estate tax threshold from approximately \$922,000 to \$1.5 million.
- The creation of a Graduate Medical Education Funding pool in support of Rhode Island's academic hospitals to educate future medical professionals, the allocation of Rhode Island Capital Plan Funds to make Fort Adams State Park a state-of-the-art sailing venue, and the approval of a debt resolution that starts the process to build and lease a joint Nursing Education Center at the South Street Landing Property.
- Proposal of several general obligation bond referenda items that were put before the voters in November 2014, including \$125.0 million for a new College of Engineering building at the University of Rhode Island, \$30.0 million for grants to performance and cultural arts centers throughout the State, \$53.0 million for environmental and recreational projects, and \$35.0 million for Mass Transit Hub Infrastructure. All of these referenda were approved by voters in the November 2014 elections.
- The creation of the Transportation Infrastructure Fund (TIF) to provide a sustainable source of financing for the maintenance and repair of Rhode Island's roads and bridges which is vital for

economic recovery and for the safety of the local and regional traffic. The new TIF redirects certain departmental revenues associated with vehicles, adds Rhode Island Capital Plan Funds and residual bond proceeds to the TIF. The TIF is estimated to provide a steadily increasing financing resource for these projects many years into the future.

## **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, 2013. This is the third consecutive year that Rhode Island has achieved this prestigious award. 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.

The audited financial statements within the CAFR have received an unmodified opinion. We are proud of this as well as the GFOA award as they are not guaranteed from year to year. 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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Marc A. Leonetti, CPA  
State Controller



Government Finance Officers Association

**Certificate of  
Achievement  
for Excellence  
in Financial  
Reporting**

Presented to

**State of Rhode Island  
and Providence Plantations**

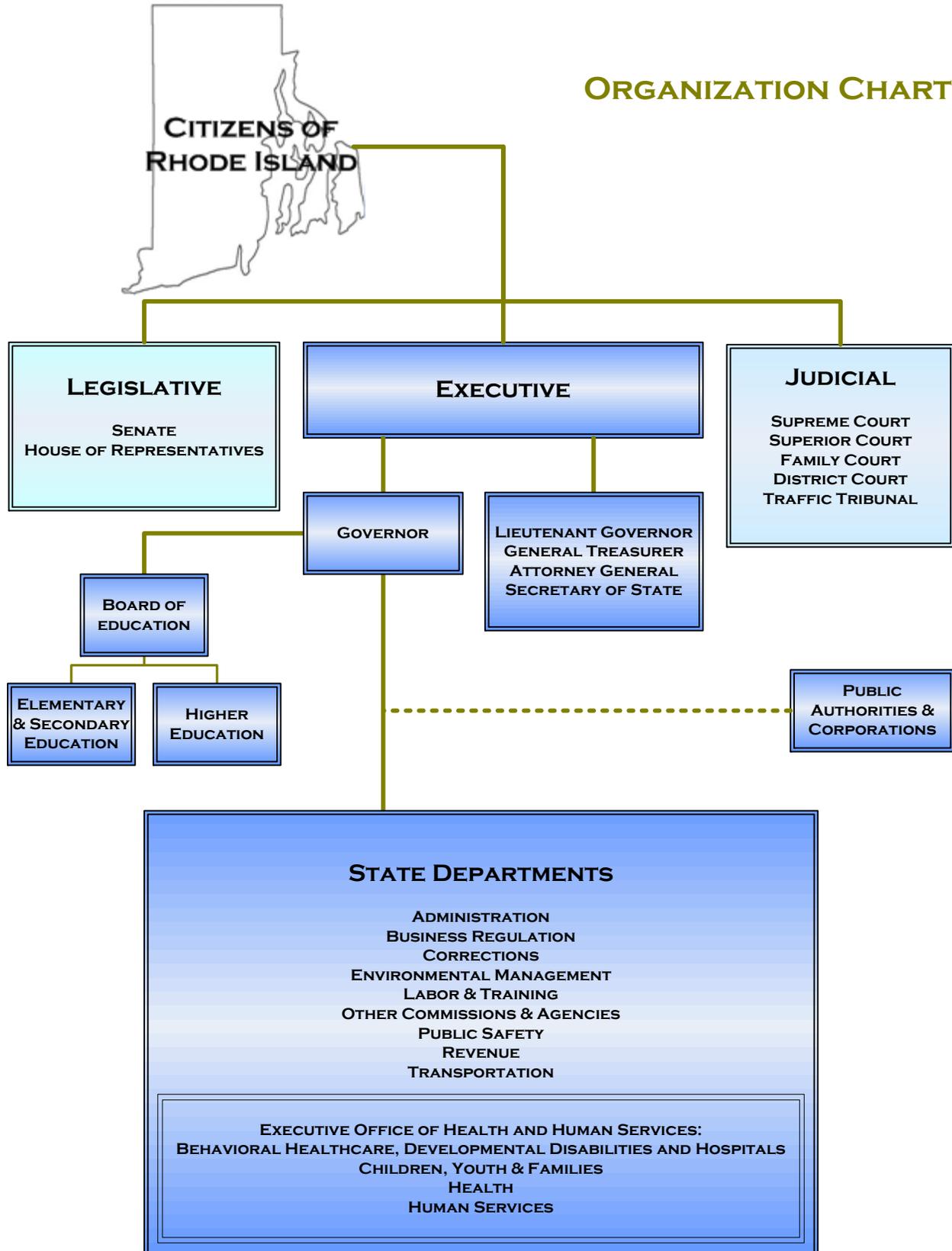
For its Comprehensive Annual  
Financial Report  
for the Fiscal Year Ended

**June 30, 2013**

Executive Director/CEO

# STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS

## ORGANIZATION CHART



AS OF JUNE 30, 2014

***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**

Nicholas A. Mattiello

**JUDICIAL BRANCH**

**Chief Justice of the Supreme Court**

Paul A. Suttell

**2014**



## **Financial Section**

***Comprehensive Annual Financial Report***

**State of Rhode Island**



# Office of the Auditor General

State of Rhode Island and Providence Plantations - General Assembly  
Dennis E. Hoyle, CPA - Auditor General

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## 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:

### *Report on the Financial Statements*

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, 2014, and the related notes to the financial statements, which collectively comprise the State's basic financial statements as listed in the table of contents.

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

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

### *Auditor's Responsibility*

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of:

- the Tobacco Settlement Financing Corporation, a blended component unit which represents 2% of the assets and deferred outflows and 1% of the revenues of the governmental activities and 1% of the assets and 2% of the revenues of the aggregate remaining fund information;
- the Convention Center Authority, a major fund, which also represents 63% of the assets and deferred outflows and 2% of the revenues of the business-type activities;
- the HealthSource RI Trust, an agency fund, and the Ocean State Investment Pool, an external investment trust, which collectively represent less than 1% of the assets and revenues of the aggregate remaining fund information; and
- all the component units comprising the aggregate discretely presented component units.

The financial statements for these entities were audited by other auditors whose reports have been furnished to us, and our opinions, insofar as they relate to the amounts included for the governmental activities, the business-type activities, the aggregate discretely presented component units, the Convention Center Authority major fund, and the aggregate remaining fund information, are based solely on the reports of the other auditors.

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

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 from material misstatement.

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

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

### ***Opinions***

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above 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, 2014, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Matters of Emphasis***

As described in Notes 1(S) and 18(F), the State implemented Governmental Accounting Standards Board (GASB) Statement No. 65, *Items Previously Reported as Assets and Liabilities*. This resulted in adjustments to beginning net position and changes in financial statement presentation.

As described in Note 1(S), the State will adopt GASB Statement No. 68, *Accounting and Financial Reporting for Pension Plans – an amendment to GASB Statement No. 27* in fiscal 2015. Implementation of this standard in the next fiscal year will result in a significant restatement of beginning governmental activities net position at July 1, 2014.

As described in Note 13, various lawsuits have been filed challenging legislatively enacted pension reforms, which are pending in Superior Court. An adverse judgment to the State resulting from these challenges could significantly increase both the unfunded liability of the defined benefit plans included within the pension trust funds and the State's annual actuarially determined contribution.

Our opinions are not modified with respect to these matters.

### ***Other Matters***

#### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 13 through 33, the Budgetary Comparison Schedules on pages 124 through 127, and the Schedules of Funding Progress on pages 128 through 129 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental

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

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.

*Other Information*

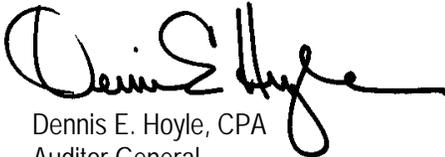
Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the State's basic financial statements. The supplementary information, such as combining and individual nonmajor fund financial statements on pages 135 through 159 which includes the budgetary comparison schedule for the Temporary Disability Insurance (TDI) Fund on page 139, and the other information, such as the introductory and statistical sections on pages 3 through 9 and pages 161 through 180, respectively, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining and individual nonmajor fund financial statements and the budgetary comparison schedule for the TDI Fund are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America by us and other auditors. In our opinion, based on our audit, the procedures performed as described above, and the reports of the other auditors, the combining and individual nonmajor fund 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.

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

In accordance with *Government Auditing Standards*, we will issue our report 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. That report will be included in the State's 2014 *Single Audit Report*. 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* in considering the State's internal control over financial reporting and compliance.



Dennis E. Hoyle, CPA  
Auditor General

December 18, 2014



# Management's Discussion and Analysis



State of  
Rhode Island

**CAFR**  
**2014**

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, 2014. 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 Position:** The total assets plus deferred outflows of resources of the State exceeded total liabilities plus deferred inflows of resources on June 30, 2014 by \$1,971.4 million. This amount is presented as "net position" on the Statement of Net Position for the Total Primary Government. Of this amount, (\$1,505.8) million was reported as unrestricted net position (deficit), \$833.1 million as restricted net position, and \$2,644.1 million as net investment in capital assets.
- **Changes in Net Position:** In the Statement of Activities, the State's total net position increased by \$291.3 million in fiscal year 2014. Net position of governmental activities increased by \$181.0 million compared to an increase of \$284.8 million in fiscal year 2013.

This year to year reduction in the change in net position for governmental activities is primarily attributable to a greater rate of increase in net expenses for governmental activities which increased by \$191.1 million as compared with an increase in general revenues and transfers of \$70.8 million. Expenses in the general government and human services areas rose due in part to programs initiated as a result of the Affordable Care Act and the recognition of a liability relating to a moral obligation of the State under the Job Creation Guaranty Program as discussed in Note 7 H. Net position of the business-type activities increased by \$110.3 million due primarily to the significant operating surplus of the Employment Security Fund. The fund was positively impacted by a declining unemployment rate, changes in benefits and measures implemented that were successful in increasing the financial strength of the fund.

### Fund Financial Statements

#### Governmental Funds

- The State's governmental funds reported a combined ending fund balance of \$1,011.3 million, a decrease of \$46.5 million in comparison with the previous fiscal year. This is primarily a result of the Intermodal Surface Transportation Fund and capital projects funds included in Other Governmental Funds expending debt proceeds from prior years' debt issuances.
- As of June 30, 2014, the State's General Fund reported an ending fund balance of \$395.4 million, a decrease of \$5.8 million as compared to the prior year. This change was caused by a number of factors including a significant reduction in the assigned category resulting from a decrease in fund balance carried forward to fund subsequent year operations.
- As of June 30, 2014, the State's Intermodal Surface Transportation Fund reported an ending fund balance of \$118.4 million, a decrease of \$23.3 million as compared to the prior year. The decrease was mainly due to spending bond proceeds from prior years' issuances for road and bridge construction and rehabilitation projects.

## Proprietary Funds

- The Rhode Island State Lottery transferred \$376.3 million to the General Fund in support of general revenue expenditures during the fiscal year, a decrease of \$2.9 million in comparison with the previous fiscal year.
- The Employment Security Fund ended the fiscal year with a net position of \$27.9 million, an increase of \$109.2 million from fiscal year 2013. This favorable change is primarily attributable to a significant reduction in benefits paid due to the improving employment level in the State.
- The R.I. Convention Center Authority ended the fiscal year with a net position deficiency of (\$57.6) million, a deficit decrease of \$0.4 million compared with the prior year. The Authority has historically had a net position deficiency, because the amount of debt related to capital assets has exceeded the net book value of the capital assets and the repayment term for the debt is generally 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 Position** presents all of the government's assets, deferred outflows of resources, liabilities, and deferred inflows of resources with the difference reported as "net position." Over time, increases and decreases in the government's net position 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 position changed during the fiscal year. All changes in net position 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 position and change in net position 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, debt service, 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.

- **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 discussed 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 Position

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. The State's combined net position (governmental and business-type activities) totaled \$1,971.4 million at the end of fiscal year 2014, compared to \$1,680.1 million (as restated) at the end of the prior fiscal year. Governmental activities reported unrestricted net position (deficit) of (\$1,498.7) million.

A portion of the State's net position 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 position represents resources that are subject to external restrictions on how they may be used.

State of Rhode Island's Net Position as of June 30, 2014  
(Expressed in Thousands)

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2014	2013 *	2014	2013 *	2014	2013 *
Current and other assets	\$ 1,914,572	\$ 2,045,690	\$ 118,971	\$ 124,171	\$ 2,033,543	\$ 2,169,861
Capital assets	3,683,740	3,490,408	162,001	169,267	3,845,741	3,659,675
Total assets	5,598,312	5,536,098	280,972	293,438	5,879,284	5,829,536
Deferred outflows of resources	26,723		6,819		33,542	
Long-term liabilities outstanding	2,580,071	2,621,233	225,965	386,108	2,806,036	3,007,341
Other liabilities	1,010,133	1,062,240	97,159	52,955	1,107,292	1,115,195
Total liabilities	3,590,204	3,683,473	323,124	439,063	3,913,328	4,122,536
Deferred inflows of resources	28,076	26,883			28,076	26,883
Net position (deficit):						
Net investment in capital assets	2,706,209	2,486,783	(62,060)	(67,394)	2,644,149	2,419,389
Restricted	799,274	775,758	33,795	8,340	833,069	784,098
Unrestricted	(1,498,728)	(1,436,799)	(7,068)	(86,571)	(1,505,796)	(1,523,370)
Total net position (deficit) as restated	\$ 2,006,755	\$ 1,825,742	\$ (35,333)	\$ (145,625)	\$ 1,971,422	\$ 1,680,117

\* Restated

As indicated above, the State reported a balance in unrestricted net position (deficit) of (\$1,505.8) million as of June 30, 2014 in the Statement of Net Position. 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, 2014 approximately \$592.0 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, 2014 approximately \$744.8 million of principal and \$101.7 million of accreted interest are included in the State's debt.
- Historic Tax Credit Bonds - In fiscal year 2009 the R.I. Commerce Corporation (RICC), 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, 2014, approximately \$74.4 million is outstanding.
- The State has entered into certain capital lease agreements, Certificates of Participation (COPS), the proceeds of which are to be used, for example, 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, 2014, approximately \$207.6 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 position results from financing these types of projects through the years.

### Changes in Net Position

The State's overall net position for the primary government improved by \$291.3 million during fiscal year 2014. Total revenues of \$7,486.3 million increased by \$263.7 million compared to fiscal year 2013. The favorable results were aided by increased general revenues due primarily to greater tax collections due to the improving economy and rising operating grants which, in part, related to federal assistance provided to begin or expand programs under the Affordable Care Act (ACA). The State's expenses, which cover a wide range of services, increased by \$342.8 million. This net increase, which occurred primarily in the general government and human services categories, was caused by a number of factors including significant expenditures for initiatives under the ACA and the recognition of a liability relating to a moral obligation of the State under the Job Creation Guaranty Program as discussed in Note 7 H. Offsetting these costs were significant savings in employment insurance costs attributable to a decline in unemployment levels in the State.

A more detailed analysis of changes in revenues and program expenses for both governmental activities and business-type activities is presented after each of the following pie charts.

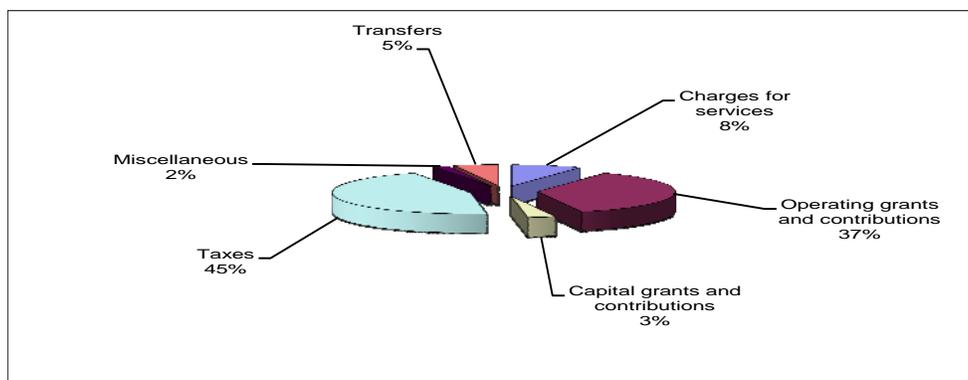
State of Rhode Island's Changes in Net Position  
For the Fiscal Year Ended June 30, 2014  
(Expressed in Thousands)

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2014	2013	2014	2013	2014	2013
<b>Revenues:</b>						
Program revenues:						
Charges for services	\$ 547,589	\$ 551,500	\$ 1,127,206	\$ 1,055,070	\$ 1,674,795	\$ 1,606,570
Operating grants and contributions	2,403,772	2,211,800	53,146	166,164	2,456,918	2,377,964
Capital grants and contributions	228,649	190,551			228,649	190,551
General revenues:						
Taxes	2,980,387	2,870,969			2,980,387	2,870,969
Interest and investment earnings	4,852	4,893	109	117	4,961	5,010
Miscellaneous	109,351	146,997	31,208	24,490	140,559	171,487
<b>Total revenues</b>	<b>6,274,600</b>	<b>5,976,710</b>	<b>1,211,669</b>	<b>1,245,841</b>	<b>7,486,269</b>	<b>7,222,551</b>
<b>Program expenses:</b>						
General government	736,911	625,081			736,911	625,081
Human services	3,302,590	3,038,841			3,302,590	3,038,841
Education	1,399,347	1,364,575			1,399,347	1,364,575
Public safety	478,826	473,580			478,826	473,580
Natural resources	80,690	76,730			80,690	76,730
Transportation	298,626	300,639			298,626	300,639
Interest and other charges	129,421	129,714			129,421	129,714
Lottery			462,153	397,625	462,153	397,625
Convention Center			49,255	48,437	49,255	48,437
Employment insurance			257,145	396,909	257,145	396,909
<b>Total expenses</b>	<b>6,426,411</b>	<b>6,009,160</b>	<b>768,553</b>	<b>842,971</b>	<b>7,194,964</b>	<b>6,852,131</b>
Excess (deficiency) before transfers	(151,811)	(32,450)	443,116	402,870	291,305	370,420
Transfers	332,824	333,804	(332,824)	(333,804)		
<b>Change in net position</b>	<b>181,013</b>	<b>301,354</b>	<b>110,292</b>	<b>69,066</b>	<b>291,305</b>	<b>370,420</b>
Net position (deficit) - Beginning	1,842,302	1,418,495	(143,514)	(212,580)	1,698,788	1,205,915
Cumulative effect of prior period adjustments	(16,560)	122,453	(2,111)		(18,671)	122,453
Net position (deficit) - Beginning, as restated	1,825,742	1,540,948	(145,625)	(212,580)	1,680,117	1,328,368
<b>Net position (deficit) - Ending</b>	<b>\$ 2,006,755</b>	<b>\$ 1,842,302</b>	<b>\$ (35,333)</b>	<b>\$ (143,514)</b>	<b>\$ 1,971,422</b>	<b>\$ 1,698,788</b>

See Note 18 F for an explanation of the restatement.

Chart 1 depicts the State's sources of revenues from Governmental Activities for the fiscal year ended June 30, 2014.

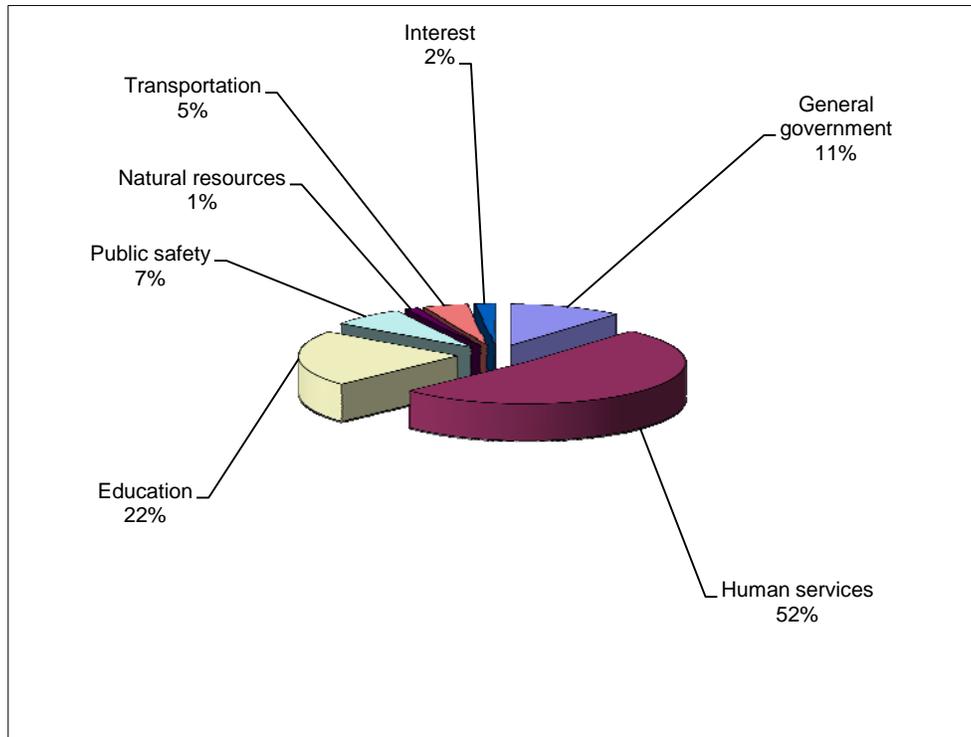
**Chart 1 - Revenues and Transfers - Governmental Activities**



The relative mix of revenue and transfers by source for governmental activities remained fairly constant in fiscal year 2014 versus the prior fiscal year. Taxes continued to represent the largest source of revenue at 45% of the total while operating grants and contributions represented 37% of the total in fiscal year 2014.

**Chart 2** depicts the purposes that program expenses related to Governmental Activities were expended for during the fiscal year ended June 30, 2014.

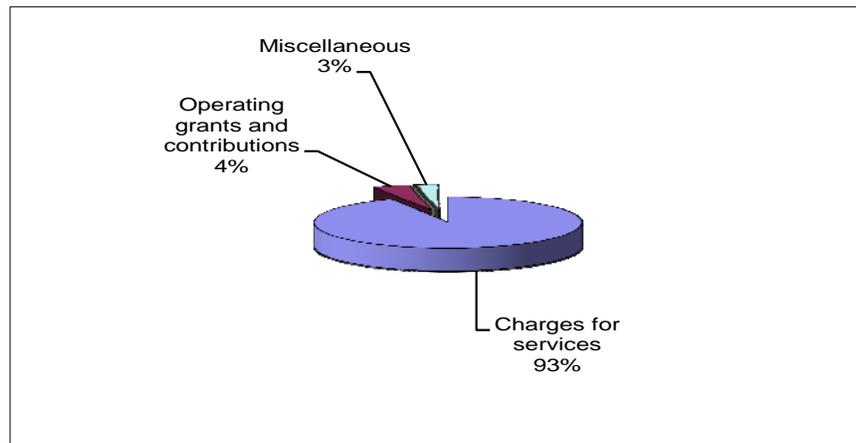
**Chart 2 - Program Expenses - Governmental Activities**



The relative mix of program expenses - governmental activities remained about the same in fiscal year 2014 as the prior fiscal year. A slight increase from 51% to 52% occurred in the percent of total spending that is directed towards human services programs due, in part, to expansion of programs under the Affordable Care Act.

**Chart 3** depicts the State's sources of revenues from Business Type Activities for the fiscal year ended June 30, 2014.

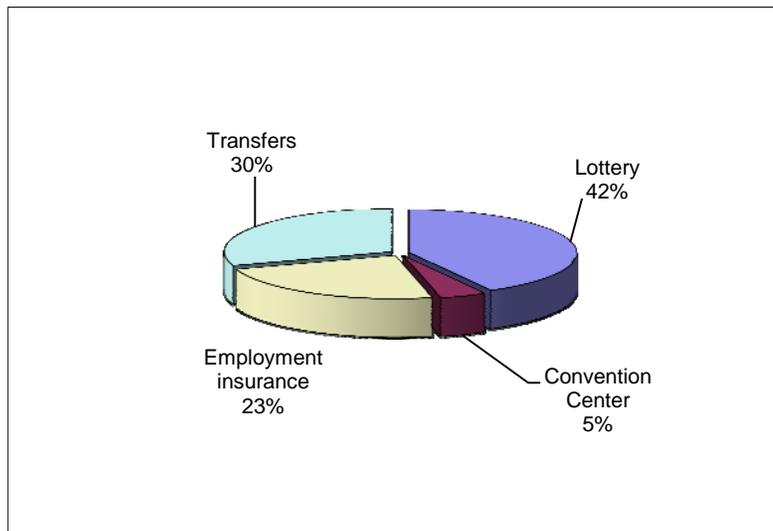
**Chart 3 - Revenues – Business Type Activities**



Operating grants and contributions declined from 13% to 4% of total revenues - business type activities in fiscal year 2014 when compared to the prior fiscal year because of a significant reduction in spending on the employment insurance program.

**Chart 4** depicts the expenses and transfers related to Business Type Activities that were expended during the fiscal year ended June 30, 2014.

**Chart 4 - Expenses and Transfers – Business Type Activities**



The relative mix of expenses and transfers – business type activities changed significantly due to a reduction in the amount of benefits paid under the employment insurance program. In fiscal year 2014 such payments represented 23% of total business type expenses and transfers as compared to 34% in fiscal year 2013.

## 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 \$1,011.3 million, a decrease of \$46.5 million from June 30, 2013. A breakdown of the components follows (expressed in thousands):

	2014	2013	Increase (decrease) from 2013	
			Change	Percent
Governmental Funds				
Nonspendable	\$ 174	\$ 174	\$	
Restricted	913,284	942,335	(29,051)	-3.08%
Unrestricted				
Committed	22,682	4,198	18,484	440.30%
Assigned	72,005	105,894	(33,889)	-32.00%
Unassigned	3,165	5,210	(2,045)	-39.25%
Total	<u>\$ 1,011,310</u>	<u>\$ 1,057,811</u>	<u>\$ (46,501)</u>	<u>-4.40%</u>

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.
- 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 significant decrease in the assigned portion of the unrestricted fund balance is primarily attributable to a reduction in the amount of the year end fund balance earmarked by the legislature as a resource in the subsequent fiscal year's budget. At June 30, 2013 this amount was approximately \$94,797,000 compared to approximately \$60,614,000 at June 30, 2014.
- The increase in the committed portion of the unrestricted fund balance is primarily a result of a significant increase from approximately \$169,000 at June 30, 2013 to approximately \$13,795,000 at June 30, 2014 in the excess of actual revenues over estimated revenues transferred to the Employees' Retirement System pursuant to the General Laws. See Note 8 for more information.

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):

	2014	2013	Increase (decrease) from 2013	
			Change	Percent
Restricted	\$ 297,617	\$ 282,137	\$ 15,480	5.49%
Unrestricted				
Committed	18,564	4,035	14,529	360.07%
Assigned	72,005	105,639	(33,634)	-31.84%
Unassigned	7,193	9,323	(2,130)	-22.85%
Total	\$ 395,379	\$ 401,134	\$ (5,755)	-1.43%

Revenues and transfers of the General Fund totaled \$6,051.7 million in fiscal year 2014, an increase of \$314.5 million or 5.48%, 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):

	2014	2013	Increase (decrease) from 2013	
			Amount	Percent
Taxes:				
Personal income	\$ 1,109,702	\$ 1,083,011	\$ 26,691	2.46%
Sales and use	1,126,729	1,073,428	53,301	4.97%
General business	377,361	375,014	2,347	0.63%
Other	52,731	37,060	15,671	42.29%
Subtotal	2,666,523	2,568,513	98,010	3.82%
Federal grants	2,345,942	2,129,847	216,095	10.15%
Restricted revenues	216,142	220,983	(4,841)	-2.19%
Licenses, fines, sales, and services	330,565	323,308	7,257	2.24%
Other general revenues	60,458	57,537	2,921	5.08%
Subtotal	2,953,107	2,731,675	221,432	8.11%
Total revenues	5,619,630	5,300,188	319,442	6.03%
Transfer from Lottery	376,327	379,225	(2,898)	-0.76%
Other transfers	55,722	57,787	(2,065)	-3.57%
Total revenue and other sources	\$ 6,051,679	\$ 5,737,200	\$ 314,479	5.48%

Personal income taxes increased modestly between fiscal year 2013 and fiscal year 2014. Final payments, payments made with a return and extension payments, decreased by 15.0%. This decrease was due primarily to federal tax law changes that occurred at the end of tax year 2012 and induced taxpayers to shift the realization of capital gains from tax year 2013 into tax year 2012. As a result, final payments were stimulated in fiscal year 2013 and depressed in fiscal year 2014. Personal income tax withholding payments showed solid growth of 3.9% in fiscal year 2014 while personal income tax estimated payments experienced a minimal gain of 1.0%. The increase in withholding tax payments was coincidental with the State's improving economy.

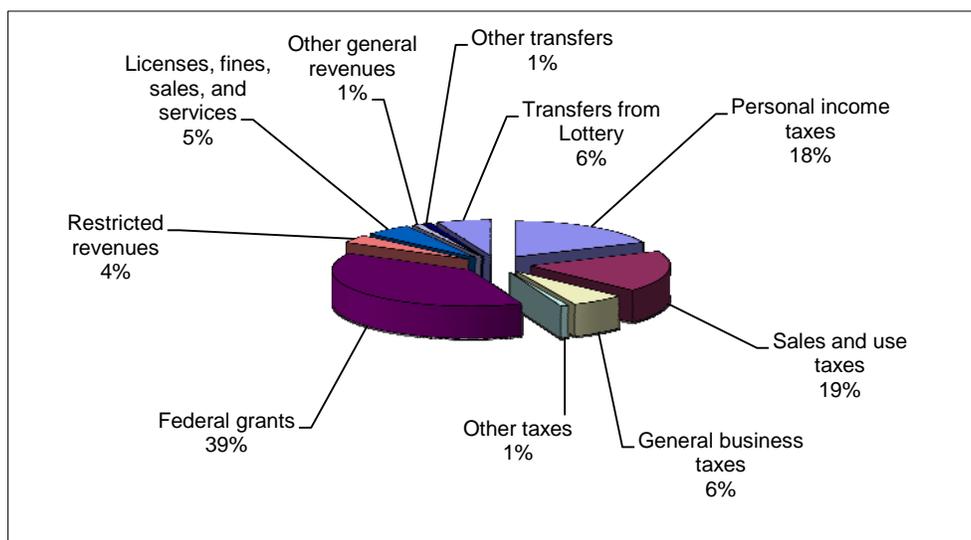
The State's unemployment rate continued its downward trajectory which, according to Moody's Analytics, fell from 9.8% in fiscal year 2013 to 9.0% in fiscal year 2014. Personal income tax refunds and adjustments fell by 2.5% in fiscal year 2014 compared to fiscal year 2013, helping to bolster net personal income tax revenues received by the State. Sales and use taxes exhibited strong year-over-year growth at 5.0%, a further indication of the State's improving economy, particularly in the housing sector and consumer durables such as motor vehicles.

General business taxes grew modestly, aided in part by increased insurance company gross premiums tax revenues that resulted from the implementation of the Affordable Care Act in the state, including the expansion of Medicaid to childless adults with incomes above 138% of the federal poverty level. In addition, fiscal year 2014 financial institutions tax revenues were up 74.5% over fiscal year 2013 amounts. Other taxes showed exceptional growth in fiscal year 2014 led by estate and transfer tax revenues which were \$15.1 million more than in fiscal year 2013, an increase of 53.0%.

Finally, R.I. Lottery's transfer to the General Fund was down 0.8% in fiscal year 2014 from fiscal year 2013 due to declines in sales of traditional lottery products and a downturn in gross gaming revenue from video lottery terminals installed at the State's two casino type gaming facilities. The latter may be reflective of increased competition in the northeast gaming market during fiscal year 2014.

Chart 5 depicts the General Fund's revenues and other sources for the fiscal year ended June 30, 2014.

**Chart 5 – Revenues and Other Sources – General Fund**



Expenditures and other uses totaled \$6,057.4 million in fiscal year 2014, an increase of \$348.2 million, or 6.10%, 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):

	2014	2013	Increase (decrease) from 2013	
			Amount	Percent
General government	\$ 488,707	\$ 470,328	\$ 18,379	3.91%
Human services	3,325,538	3,042,705	282,833	9.30%
Education	1,357,630	1,330,128	27,502	2.07%
Public safety	478,108	463,734	14,374	3.10%
Natural resources	76,118	70,145	5,973	8.52%
Debt Service:				
Principal	117,975	125,148	(7,173)	-5.73%
Interest	67,113	68,295	(1,182)	-1.73%
Total expenditures	5,911,189	5,570,483	340,706	6.12%
Transfers	146,245	138,737	7,508	5.41%
Total expenditures and other uses	\$ 6,057,434	\$ 5,709,220	\$ 348,214	6.10%

The significant increase in the Human Services function is primarily attributable to the implementation of the Affordable Care Act and the new HealthSource RI health benefits exchange. Within the Medicaid program, new enrollees resulted in a significant increase in federally funded expenses. In addition, there were increases in costs under the regular Medicaid program due to caseload increases and also in the Managed Care and Rhody Health Partners programs.

The primary driver of increases in the Education function is the continued transition to the new Education Funding Formula, which required over \$33.0 million in additional funding in fiscal year 2014.

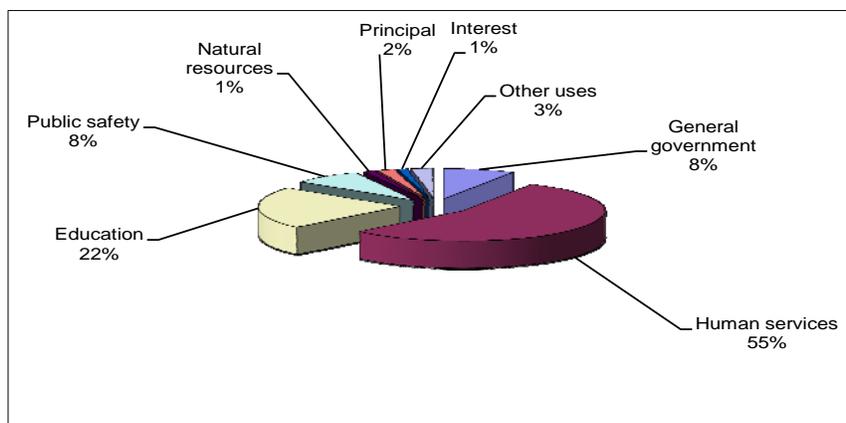
Within the General Government function, the HealthSource RI program, which falls under the Department of Administration, expended over \$25.5 million more in fiscal year 2014 as they continued the development of the health benefits exchange and provided funding for the Unified Health Infrastructure Project (UHIP).

Within the Public Safety function, the Department of Public Safety expended about \$5.0 million from the Google Settlement received through the US Department of Justice. In addition, expenditures for the Department of Corrections were higher due to additional overtime costs.

Debt service expenditures decreased due to savings from a refinancing of prior debt issuances and due to lower new debt issuances in recent years than in the past.

Chart 6 depicts the General Fund's Expenditures and Other Uses for the fiscal year ended June 30, 2014.

**Chart 6 – 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 surface transportation systems. It also accounts for the proceeds of the Grant Anticipation Revenue Vehicle (GARVEE) and the RI Motor Fuel Tax (RIMFT) revenue bonds, the I-195 Redevelopment District Commission bonds, and related expenditures. The components of fund balance of the IST fund are as follows (expressed in thousands):

	2014	2013	Increase (decrease)	
			Change	Percent
Restricted	\$ 118,426	\$ 145,473	\$ (27,047)	-18.59%
Unrestricted				
Committed	4,039	95	3,944	4151.58%
Assigned		255	(255)	-100.00%
Unassigned (deficit)	(4,028)	(4,113)	85	2.07%
<b>Total</b>	<b>\$ 118,437</b>	<b>\$ 141,710</b>	<b>\$ (23,273)</b>	<b>-16.42%</b>

The decrease in fund balance for the IST Fund at June 30, 2014 is primarily attributable to the use of bond proceeds from prior years' issuances for various road and bridge construction and rehabilitation projects.

**General Fund Budgetary Highlights – General Revenue Sources**

According to the State's Constitution, general revenue appropriations in the general fund cannot exceed 97% 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 is transferred to the State Budget Reserve Account. If the balance in the Reserve exceeds five percent of the total general revenues and opening surplus, the excess is transferred to the R.I. Capital Plan Fund to be used for capital projects. 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.

Adjustments to general revenue receipt estimates resulted in an increase of \$35.0 million between the original budget and the final budget. General revenue appropriations decreased from the original budget by \$7.4 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.

General Fund Budgetary Highlights				
General Revenue Sources				
	Original Budget	Final Budget	Actual	Final Budget vs. Actual Variance
Revenues and sources:				
Taxes:				
Personal income	\$ 1,109,155	\$ 1,103,200	\$ 1,115,513	\$ 12,313
General business	384,426	388,800	379,168	(9,632)
Sales and use	1,088,875	1,116,500	1,126,729	10,229
Other taxes	40,500	47,300	52,731	5,431
Departmental revenue	348,708	359,161	360,679	1,518
Other sources:				
Lottery transfer	394,100	380,700	376,327	(4,373)
Unclaimed property	9,700	11,900	12,724	824
Miscellaneous	5,545	8,480	6,392	(2,088)
Total revenues and other sources	<u>3,381,009</u>	<u>3,416,041</u>	<u>3,430,263</u>	<u>14,222</u>
Expenditures and other uses:				
General government	440,356	437,761	427,858	9,903
Human services	1,317,927	1,320,800	1,311,791	9,009
Education	1,152,557	1,147,020	1,146,888	132
Public safety	411,984	410,523	413,191	(2,668)
Natural resources	36,931	36,295	36,695	(400)
Total expenditures and other uses	<u>3,359,755</u>	<u>3,352,399</u>	<u>3,336,423</u>	<u>15,976</u>
Excess of revenues and other sources over expenditures and other uses	<u>\$ 21,254</u>	<u>\$ 63,642</u>	<u>\$ 93,840</u>	<u>\$ 30,198</u>

The strong positive variance between the fiscal year 2014 actual revenues to the fiscal year 2014 original budget for personal income taxes was due to two factors: \$26.3 million less in personal income tax refunds actually being paid out in fiscal year 2014 vs. what was estimated when the original fiscal year 2014 budget was enacted in July 2013 and a significant change in the actual personal income tax net accrual posted for fiscal year 2014 vs. the estimated personal income tax net accrual for fiscal year 2014, a swing of \$12.9 million in revenues. These two positive changes in fiscal year 2014 actual revenues relative to the fiscal year 2014 original budget were offset in part by actual personal income tax final payments falling short of the original budget amount by 15.4%. Actual fiscal year 2014 general business taxes also came in below the estimate contained in the original budget and was due primarily to actual business corporation tax revenues coming in well below the estimated amount included in the original budget. Sales and use tax revenues actually received in fiscal year 2014 outperformed estimated sales and use tax revenues included in the fiscal year 2014 original budget due to stronger than anticipated cigarette and other tobacco products excise tax revenues and general sales and use tax revenues exceeding the estimated general sales and use tax revenues included in the original budget. Finally, the actual fiscal year 2014 Lottery transfer to the General Fund lagged the estimated Lottery transfer to the General Fund contained in the fiscal year 2014 original budget as both actual traditional lottery products revenues and video lottery net terminal income fell nearly \$23.0 million short of the estimated revenues included in the fiscal year 2014 original budget. This shortfall was offset in part by actual net table game revenues transferred to the General Fund exceeding the estimate included in the original budget.

The positive expenditure variance in the General Government function of approximately \$9.9 million was primarily in two agencies, Administration and the Legislature. Within Administration, the majority of the positive variance, \$2.4 million, was due to the General Assembly budgeting funding for the two percent

(2.0%) cost of living adjustment provided to most state employees in April 2014 centrally in the Administration budget instead of allocating these funds to each agency. In addition, several programs had surpluses due to funding enacted for specific projects remaining unspent at year end, which was subsequently approved by the Governor for reappropriation to fiscal year 2015. These included, \$280,000 for a classification and compensation study; \$527,000 for the implementation of an e-permitting system; \$615,900 for the I-195 Commission; and \$223,000 for the Housing Rental Subsidy program. In the Legislature's budget, the positive variance was primarily in the grants category, where funds may be committed but not fully expended within the fiscal year. Under Rhode Island law, the entire surplus for the Legislature is reappropriated to fiscal year 2015.

The positive variance in the Human Services function of approximately \$9.0 million was due to a positive variance of \$8.0 million in the Office of Health and Human Services (OHHS) and a \$3.2 million surplus in the Department of Behavioral Healthcare, Developmental Disabilities and Hospitals (BHDDH), offset by a \$2.5 million deficit in the Department of Children, Youth and Families (DCYF). The OHHS positive variance was primarily in the Medicaid program due to final caseloads being lower than estimated by the Caseload Estimating Conference in May 2014. The BHDDH positive variance was due to underspending in the Medicaid program and better than anticipated federal reimbursements in the Hospital program.

The DCYF deficit was primarily due to the System of Care Networks exceeding their contracts due to additional children being placed in settings outside the home and in out-of-state placements, which are much more costly than in-state. Often the determination of a placement is made by the Courts and is outside the control of the Department.

The negative variance in the Public Safety function is primarily due to deficits in the Department of Corrections (\$1.5 million) and in the Department of Public Safety (\$1.8 million). The Corrections deficit was primarily in overtime expenses in the Institutional Custody and Security program due to staffing shortages in the Correctional Officer ranks, that are the result of the Department delaying a new training class due to a Department of Justice lawsuit on hiring practices. The Department of Public Safety deficit was primarily in overtime expenses in the State Police program. Federal rules and laws mandate overtime, namely the "Garcia Rule," which dictates how police officers are paid overtime if they exceed a certain number of hours in a given work cycle.

## 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, 2014, amounts to \$3,845.7 million, net of accumulated depreciation of \$2,503.6 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 5.08% of net book value (as restated). This increase is primarily caused by investments in the construction and rehabilitation of highways and bridges as well as other infrastructure.

Actual expenditures to purchase or construct capital assets were \$362.0 million for the year. Of this amount \$228.6 million was used to construct or reconstruct highways. Depreciation charges for the year totaled \$181.0 million.

State of Rhode Island's Capital Assets as of June 30, 2014  
(Expressed in Thousands)

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2014	2013	2014	2013	2014	2013
Capital assets not being depreciated or amortized						
Land	\$ 388,033	\$ 375,225	\$ 45,558	\$ 45,558	\$ 433,591	\$ 420,783
Works of Art	2,389	2,389			2,389	2,389
Intangibles	166,716	161,777			166,716	161,777
Construction in progress*	456,371	591,406	44	445	456,415	591,851
Total capital assets not being depreciated or amortized	1,013,509	1,130,797	45,602	46,003	1,059,111	1,176,800
Capital assets being depreciated or amortized						
Land improvements	3,700	3,700			3,700	3,700
Buildings*	723,688	712,593	234,384	234,384	958,072	946,977
Building improvements*	270,378	270,378			270,378	270,378
Equipment*	265,842	253,088	30,147	27,079	295,989	280,167
Intangibles	14,040	14,040	175	175	14,215	14,215
Infrastructure*	3,747,835	3,295,847			3,747,835	3,295,847
	5,025,483	4,549,646	264,706	261,638	5,290,189	4,811,284
Less: Accumulated depreciation or amortization*	2,355,252	2,190,035	148,307	138,374	2,503,559	2,328,409
Total capital assets being depreciated or amortized	2,670,231	2,359,611	116,399	123,264	2,786,630	2,482,875
Total capital assets (net)	\$ 3,683,740	\$ 3,490,408	\$ 162,001	\$ 169,267	\$ 3,845,741	\$ 3,659,675

\*Certain fiscal year 2013 balances have been restated.

In fiscal year 2014, the State completed several significant capital projects, including new facilities to house The Metropolitan Career and Technical Center in Newport and a number of significant road and bridge infrastructure initiatives.

Additional information on the State's capital assets can be found in Note 6 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 \$2,235.5 million, of which \$1,074.8 million is general obligation debt, \$415.9 million is special obligation debt and \$744.8 million is debt of the blended component units. Additionally, accreted interest of \$101.7 million has been recognized for debt of one blended component unit, which is not scheduled to be paid until 2052. On an overall basis the State's total bonded debt decreased by \$102.5 million during fiscal year 2014. This decrease consists of a \$29.2 million decrease in general obligation debt, a decrease of \$52.8 million in special obligation debt, and a decrease of \$20.5 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 \$349.6 million and are discussed in Note 7.

The State's assigned general obligation bond ratings are as follows: AA (Stable) by Standard & Poor's Ratings Services (S&P), Aa2 (Stable) by Moody's Investor Service, Inc. and AA (Stable) by Fitch Ratings. The State does not have any debt limitation.

Bonds authorized by the voters that remain unissued as of June 30, 2014 amounted to \$191.4 million; other obligations that are authorized but unissued totaled \$358.5 million and are described in Note 7. 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 2015 Budget**

The first quarter report for fiscal year 2015 prepared by the State Budget Office contains estimates of annual expenditures based upon analysis of expenditures through the first quarter of fiscal year 2015, as well as caseload and medical assistance expenditure estimates and revenue estimates adopted at the November 2014 Caseload and Revenue Estimating Conferences. The fiscal year 2015 balance, based upon these assumptions, is estimated to reflect a \$34.5 million general revenue deficit in the General Fund.

The Budget Office continues to review department and agency fiscal year 2015 expenditure plans in conjunction with the fiscal year 2016 budget process. All changes recommended by the Governor in the fiscal year 2015 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 February 2015.

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 \$15.8 million more than enacted for fiscal year 2015. Taxes are expected to exceed enacted estimates by \$18.5 million, while departmental revenues and other sources, including lottery revenues, are expected to be less than enacted estimates by \$2.7 million. The November Revenue Estimating Conference estimates that revenues will be \$3,508.9 million as compared with the enacted estimate of \$3,493.1 million for fiscal year 2015.

The November Caseload Estimating Conference estimates reflect, in comparison to the fiscal year 2015 enacted budget, increased general revenue funding for fiscal year 2015 of \$37 million. This is due to a number of factors including increased costs for hospitals, long term care, managed care and pharmaceuticals.

### **Lottery Revenue**

The General Fund derives more than 6.2% of general revenue from the Rhode Island Lottery.

The Lottery's gaming operations currently compete with casinos in nearby Connecticut. In addition, Massachusetts's law makers passed legislation allowing three resort-style casinos and one slot parlor in the State. Massachusetts has divided the State into three regions and accepted license applications for each. The regions include Eastern Massachusetts (region A), Western Massachusetts (region B), and Southeastern Massachusetts (region C) as category 1 resort-style casino licenses. The Western Massachusetts (region B) category 1 license was awarded in June 2014 and the Eastern Massachusetts (region A- Greater Boston) category 1 license was awarded in September 2014. The category 1 license award in Southeastern Massachusetts (region C) is anticipated to be awarded in August 2015. Additionally, a category 2 slots only license was awarded in February 2014. The Lottery and the State continually monitor the risk to gaming operations resulting from competition in nearby states.

The General Laws delineating the allocation of net table game revenue between Twin River Casino and the State included modification of the commission percentage for Twin River Casino and the Town of Lincoln subsequent to the first full year that video lottery net terminal income decreases after the implementation of table games. For the fiscal year ending June 30, 2014, net terminal income at Twin River decreased from the prior year. This results in the State's share of fiscal year 2015 net table game revenue decreasing by 2% to 16%, and an additional 1% going to Twin River and an additional 1% going to the Town of Lincoln. The additional 1% to the Town of Lincoln is payable through June 30, 2018 when this 1% will be paid to Twin River.

### **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 are 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 13 for information about litigation that has been filed relating to these reforms.

In fiscal year 2015 the State will be implementing GASB Statement No. 68 – *Accounting and Financial Reporting for Pensions - an amendment to GASB Statement No. 27*. This Statement replaces the requirements of Statements No. 27 and No. 50 related to pension plans that are administered through trusts or equivalent arrangements. This Statement will require the State to restate opening net position as of July 1, 2014 to recognize its share of net pension obligation. The restatement is expected to reduce net position of the primary government by approximately \$2.4 billion as of July 1, 2014.

### **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, 2013 has determined the State's net unfunded actuarial liability for all six plans included in the Rhode Island State Employees' and Electing Teachers OPEB System to be \$714.1 million. Based on a discount rate of 5.0%, the State and other participating employers' annual required contribution was \$62.8 million. For fiscal year 2014, the State funded the retiree health care program in accordance with law by contributing the actuarially required contribution. At June 30, 2014 the OPEB Trust's net position was \$109.7 million.

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 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.

### **Transportation Funding Initiatives**

During the 2014 legislative session, the financing mechanism for transportation infrastructure and bridge repairs changed dramatically when the General Assembly enacted Article 21 – Relating to Transportation of the fiscal year 2015 Appropriations Act. This article creates a long-term solution for financing Rhode Island's roads and bridges, along with removal of the authority to toll the Sakonnet River Bridge. As part of this article, the General Assembly expanded the Highway Maintenance Account within the Intermodal Surface Transportation Fund, such that this account will become Rhode Island's primary source for transportation financing by making a number of technical changes to existing law and by implementing various funding streams as a means to finance the transportation plan. This account will collect and

disburse various motor vehicle fees, surcharges and tax revenue currently accounted for in the General Fund, but now to be deposited to the Highway Maintenance Account (HMA).

Article 21 removes authority of the Rhode Island Turnpike and Bridge Authority to toll the Sakonnet River Bridge as of June 30, 2014 (the toll was formally removed on June 20, 2014 by order of the Governor). The Rhode Island Turnpike and Bridge Authority will continue to control the four bridges in the East Bay (Newport Pell, Jamestown, Mount Hope, and Sakonnet). To make up for the loss of toll revenue on the Sakonnet River Bridge, Article 21 transfers three and one-half cents (\$0.035) of the State gas tax to the Rhode Island Turnpike and Bridge Authority beginning July 1, 2014 to be used for maintenance expenses, capital expenditures and debt service on any of the Authority's projects.

Article 21 makes additional changes that result in new revenue to the HMA, including: 1) authorization to increase the gas tax every other fiscal year equivalent to the increase in the Consumer Price Index (CPI), rounded to the nearest 1.0 cent increment; 2) transfer of fees collected for certificate of title issuance; 3) transfer of surcharges collected on the rental of vehicles; 4) imposition of a new twenty-five dollar (\$25) fee on dismissals based on good driving records; 5) increase of the fee on motor vehicle inspections from thirty-nine dollars (\$39) to fifty-five dollars (\$55), thirty-two dollars (\$32) of which will go to the HMA; and 6) transfer of most motor vehicle related fees over a three year period, with 25.0 percent transferred in fiscal year 2016, 75.0 percent in fiscal year 2017 and 100.0 percent in fiscal year 2018. In total, these changes will result in an estimated increase in resources for transportation infrastructure of over \$70.0 million by fiscal year 2018 and thereafter.

### **Google Inc. Settlement**

An investigation by the United States Attorney's Office in Rhode Island and the U.S. Food and Drug Administration's Office of Criminal Investigations Rhode Island Task Force resulted in the forfeiture of \$500 million in revenue by Google. Because several State law enforcement agencies participated in the investigation, the State was awarded \$110 million of this forfeiture. As of June 30, 2014 the State had spent approximately \$10.7 million of the total award and will be able to use the balance of the award in future years. The funds must be utilized for public safety purposes.

### **Local Government Financial Matters**

A number of local governments in the State continue to experience financial difficulties involving cumulative deficits, budgetary imbalances, and unfunded pension and OPEB obligations. Most notably, the City of Central Falls was under the control of a State appointed receiver 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 implement three levels of oversight and control: fiscal overseer, budget commission, and state receiver. A State fiscal overseer and a budget commission were appointed for the City of East Providence in 2011. In September 2013 it was determined that the fiscal health of the City improved to a level that such oversight was no longer necessary. In addition, a budget commission was appointed for the City of Woonsocket in May 2012 and continues to oversee the City's financial affairs.

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



# Basic Financial Statements



State of  
Rhode Island

**CAFR**  
**2014**

**State of Rhode Island and Providence Plantations**  
**Statement of Net Position**  
**June 30, 2014**  
**(Expressed in Thousands)**

	Primary Government			Component Units
	Governmental Activities	Business - Type Activities	Totals	
<b>Assets</b>				
Current assets:				
Cash and cash equivalents	\$ 818,184	\$ 23,356	\$ 841,540	\$ 295,879
Funds on deposit with fiscal agent	107,488	187	107,675	
Investments				12,401
Receivables (net)	614,958	82,967	697,925	73,601
Restricted assets:				
Cash and cash equivalents		5,892	5,892	253,535
Investments	70,128		70,128	29,276
Receivables (net)				1,442
Other assets				35,728
Due from primary government				13,607
Due from component units	4,466		4,466	255
Internal balances	(2,608)	2,608		
Due from other governments and agencies	174,327	1,257	175,584	2,071
Inventories	1,812	696	2,508	10,472
Other assets	6,840	490	7,330	6,240
Total current assets	<u>1,795,595</u>	<u>117,453</u>	<u>1,913,048</u>	<u>734,507</u>
Noncurrent assets:				
Investments				181,801
Receivables (net)	18,385		18,385	47,945
Due from other governments and agencies	19,407		19,407	
Restricted assets:				
Cash and cash equivalents				76,708
Investments				372,963
Other assets				1,479,434
Due from component units	50,561		50,561	1,394
Capital assets - nondepreciable	1,013,509	45,602	1,059,111	245,258
Capital assets - depreciable (net)	2,670,231	116,399	2,786,630	1,646,806
Derivative instruments	28,072		28,072	
Other assets	2,552	1,518	4,070	160,047
Total noncurrent assets	<u>3,802,717</u>	<u>163,519</u>	<u>3,966,236</u>	<u>4,212,356</u>
Total assets	<u>5,598,312</u>	<u>280,972</u>	<u>5,879,284</u>	<u>4,946,863</u>
<b>Deferred outflows of resources</b>	<u>26,723</u>	<u>6,819</u>	<u>33,542</u>	<u>6,430</u>
<b>Liabilities</b>				
Current Liabilities:				
Accounts payable	555,673	17,490	573,163	100,143
Due to primary government				4,466
Due to component units	13,607		13,607	255
Due to other governments and agencies				230
Accrued expenses		4,484	4,484	
Unearned revenue	81,049		81,049	
Other current liabilities	112,683	358	113,041	224,120
Current portion of long-term debt	247,121	66,920	314,041	209,101
Obligation for unpaid prize awards		7,907	7,907	
Total current liabilities	<u>1,010,133</u>	<u>97,159</u>	<u>1,107,292</u>	<u>538,315</u>
Noncurrent Liabilities:				
Due to primary government				50,561
Net pension obligation	3,470		3,470	
Net OPEB obligation	8,485		8,485	54,463
Unearned revenue		5,590	5,590	15,215
Due to component units				1,394
Notes payable	3,475		3,475	17,449
Loans payable				45,689
Obligations under capital leases	202,246		202,246	5,806
Compensated absences	10,036	287	10,323	22,806
Bonds payable	2,257,063	220,088	2,477,151	1,992,828
Other liabilities	95,296		95,296	323,204
Total noncurrent liabilities	<u>2,580,071</u>	<u>225,965</u>	<u>2,806,036</u>	<u>2,529,415</u>
Total liabilities	<u>3,590,204</u>	<u>323,124</u>	<u>3,913,328</u>	<u>3,067,730</u>
<b>Deferred inflows of resources</b>	<u>28,076</u>		<u>28,076</u>	<u>82</u>
<b>Net position (deficit)</b>				
Net investment in capital assets	2,706,209	(62,060)	2,644,149	1,207,805
Restricted for:				
Budget reserve	176,719		176,719	
Capital Projects	116,487		116,487	
Debt	116,569	5,892	122,461	227,431
Assistance to other entities	98,114		98,114	
Employment insurance programs	155,232	27,903	183,135	
Other	135,979		135,979	177,036
Nonexpendable	174		174	102,052
Unrestricted	(1,498,728)	(7,068)	(1,505,796)	171,157
Total net position (deficit)	<u>\$ 2,006,755</u>	<u>\$ (35,333)</u>	<u>\$ 1,971,422</u>	<u>\$ 1,885,481</u>

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, 2014**  
**(Expressed in Thousands)**

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Position			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	\$ 736,911	\$ 212,275	\$ 115,455	\$ 414	\$ (408,767)	\$	\$ (408,767)	\$
Human services	3,302,590	229,047	1,949,303	4,230	(1,120,010)		(1,120,010)	
Education	1,399,347	27,617	210,181	50	(1,161,499)		(1,161,499)	
Public safety	478,826	44,192	38,286	3,664	(392,684)		(392,684)	
Natural resources	80,690	27,259	20,010	7,749	(25,672)		(25,672)	
Transportation	298,626	7,199	70,537	212,542	(8,348)		(8,348)	
Interest and other charges	129,421				(129,421)		(129,421)	
Total governmental activities	<u>6,426,411</u>	<u>547,589</u>	<u>2,403,772</u>	<u>228,649</u>	<u>(3,246,401)</u>		<u>(3,246,401)</u>	
Business-type activities:								
State lottery	462,153	837,951				375,798	375,798	
Convention center	49,255	25,097				(24,158)	(24,158)	
Employment security	257,145	264,158	53,146			60,159	60,159	
Total business-type activities	<u>768,553</u>	<u>1,127,206</u>	<u>53,146</u>			<u>411,799</u>	<u>411,799</u>	
Total primary government	<u>\$ 7,194,964</u>	<u>\$ 1,674,795</u>	<u>\$ 2,456,918</u>	<u>\$ 228,649</u>	<u>(3,246,401)</u>	<u>411,799</u>	<u>(2,834,602)</u>	
<b>Component units:</b>	<u>\$ 1,258,999</u>	<u>\$ 723,871</u>	<u>\$ 439,095</u>	<u>\$ 87,702</u>				(8,331)
<b>General Revenues:</b>								
Taxes:								
Personal income					1,111,799		1,111,799	
General business					380,950		380,950	
Sales and use					1,126,481		1,126,481	
Gasoline					137,542		137,542	
Other					223,615		223,615	
Interest and investment earnings					4,852	109	4,961	32,325
Miscellaneous revenue					108,398	31,208	139,606	20,028
Gain on sale of capital assets					953		953	
<b>Transfers (net)</b>					332,824	(332,824)		
Total general revenues and transfers					<u>3,427,414</u>	<u>(301,507)</u>	<u>3,125,907</u>	<u>52,353</u>
Change in net position					181,013	110,292	291,305	44,022
Net position (deficit) - beginning as restated					1,825,742	(145,625)	1,680,117	1,841,459
Net position (deficit) - ending					<u>\$ 2,006,755</u>	<u>\$ (35,333)</u>	<u>\$ 1,971,422</u>	<u>\$ 1,885,481</u>

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

## Major Funds

### Governmental

**General Fund** – the operating fund of the State, which 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, bond proceeds, and certain motor vehicle registration and licensing surcharges, 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) bonds, the RI Motor Fuel Tax (RIMFT) revenue bonds, and the I-195 Redevelopment District Commission bonds and related expenditures.

### Proprietary

**Enterprise Funds** – account for operations where management has decided that periodic determination of revenue earned, expenses incurred (including depreciation), and/or net income is appropriate for capital maintenance, public policy, management control and 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 Veterans Memorial Auditorium 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, 2014**  
**(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	\$ 410,771	\$ 24,776	\$ 337,044	\$ 772,591
Funds on deposit with fiscal agent		89,546	17,942	107,488
Restricted investments			70,128	70,128
Receivables (net)	541,653	14,311	70,287	626,251
Due from other funds	3,972			3,972
Due from component units		1,040		1,040
Due from other governments and agencies	138,553	52,440		190,993
Loans to other funds	19,553		50,647	70,200
Other assets	831			831
<b>Total assets</b>	<b>\$ 1,115,333</b>	<b>\$ 182,113</b>	<b>\$ 546,048</b>	<b>\$ 1,843,494</b>
<b>Liabilities, Deferred Inflows of Resources and Fund Balances</b>				
<b>Liabilities</b>				
Accounts payable	482,513	28,915	25,298	536,726
Due to other funds		1,119	6,101	7,220
Due to component units	3,395	5,534	4,679	13,608
Loans from other funds	50,647		12,193	62,840
Unearned revenue	81,049			81,049
Other liabilities	84,822	10,973	283	96,078
<b>Total liabilities</b>	<b>702,426</b>	<b>46,541</b>	<b>48,554</b>	<b>797,521</b>
Deferred inflows of resources	17,528	17,135		34,663
<b>Fund Balances</b>				
Nonspendable			174	174
Restricted	297,617	118,426	497,241	913,284
Unrestricted				
Committed	18,564	4,039	79	22,682
Assigned	72,005			72,005
Unassigned	7,193	(4,028)		3,165
<b>Total fund balances</b>	<b>395,379</b>	<b>118,437</b>	<b>497,494</b>	<b>1,011,310</b>
<b>Total liabilities, deferred inflows of resources and fund balances</b>	<b>\$ 1,115,333</b>	<b>\$ 182,113</b>	<b>\$ 546,048</b>	<b>\$ 1,843,494</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 Position**  
**June 30, 2014**  
**(Expressed in Thousands)**

Fund balance - total governmental funds \$ 1,011,310

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

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

	Capital assets	6,032,630	
	Accumulated depreciation	(2,351,655)	
		<u>3,680,975</u>	

Deferred outflows of resources 26,723

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	(76,334)	
	Bonds payable	(2,337,179)	
	Net premium/discount	(62,717)	
	Obligations under capital leases	(207,595)	
	Premium	(16,611)	
	Interest payable	(20,828)	
	Other liabilities	(120,742)	
		<u>(2,842,006)</u>	

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

	Receivables	2,740	
	Due from component units	53,987	
	Derivative instruments	28,072	
	Other assets	2,552	
	Unavailable revenue	34,663	
		<u>122,014</u>	

Deferred inflows of resources (28,076)

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

35,815

Net position - total governmental activities \$ 2,006,755

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, 2014**  
**(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	\$ 2,666,523	\$ 137,542	\$ 170,951	\$ 2,975,016
Licenses, fines, sales, and services	330,565		2,090	332,655
Departmental restricted revenue	216,142	7,172		223,314
Federal grants	2,345,942	284,736		2,630,678
Income from investments	650	350	3,809	4,809
Other revenues	59,808	3,248	52,748	115,804
<b>Total revenues</b>	<b>5,619,630</b>	<b>433,048</b>	<b>229,598</b>	<b>6,282,276</b>
<b>Expenditures:</b>				
Current:				
General government	488,707		168,119	656,826
Human services	3,325,538			3,325,538
Education	1,357,630		273	1,357,903
Public safety	478,108			478,108
Natural resources	76,118		9	76,127
Transportation		381,875	1,941	383,816
Capital outlays			139,848	139,848
Debt service:				
Principal	117,975	37,005	21,905	176,885
Interest and other charges	67,113	18,967	36,583	122,663
<b>Total expenditures</b>	<b>5,911,189</b>	<b>437,847</b>	<b>368,678</b>	<b>6,717,714</b>
Excess (deficiency) of revenues over (under) expenditures	(291,559)	(4,799)	(139,080)	(435,438)
<b>Other financing sources (uses):</b>				
Bonds and notes issued			53,150	53,150
Proceeds from refundings			78,700	78,700
Premium			14,719	14,719
Transfers in	432,049	25,479	108,548	566,076
Payment to refunded bonds escrow agent			(91,991)	(91,991)
Transfers out	(146,245)	(43,953)	(41,519)	(231,717)
<b>Total other financing sources (uses)</b>	<b>285,804</b>	<b>(18,474)</b>	<b>121,607</b>	<b>388,937</b>
<b>Net change in fund balances</b>	<b>(5,755)</b>	<b>(23,273)</b>	<b>(17,473)</b>	<b>(46,501)</b>
Fund balances - beginning	401,134	141,710	514,967	1,057,811
<b>Fund balances - ending</b>	<b>\$ 395,379</b>	<b>\$ 118,437</b>	<b>\$ 497,494</b>	<b>\$ 1,011,310</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, 2014**  
**(Expressed in Thousands)**

Net change in fund balances - total governmental funds \$ (46,501)

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	360,267	
Depreciation expense	(170,728)	
		189,539

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 Position. Repayments of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Position.

Principal paid on debt	176,885	
Debt defeased in refunding	84,220	
Accrued interest and other charges	(16,116)	
Proceeds from sale of debt	(131,850)	
Deferral of premium/discount	(14,719)	
Amortization of premium/discount	12,449	
Deferral of refunding costs	6,168	
Amortization of refunding costs	(1,488)	
		115,549

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	2,058	
Program expenses	(76,792)	
Program revenue	(8,373)	
Capital grant revenue	1,743	
General revenue - taxes	5,371	
General revenue-miscellaneous	(6,469)	
		(82,462)

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

The change in net position of the internal service funds is reported with governmental activities. 4,888

Change in net position - total governmental activities \$ 181,013

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

**State of Rhode Island and Providence Plantations**  
**Statement of Net Position**  
**Proprietary Funds**  
**June 30, 2014**  
**(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>
<b>Assets</b>					
Current assets:					
Cash and cash equivalents	\$ 18,564	\$ 3,686	\$ 1,106	\$ 23,356	\$ 45,593
Restricted cash and cash equivalents		5,892		5,892	
Funds on deposit with fiscal agent			187	187	
Receivables (net)	6,543	1,119	75,305	82,967	7,094
Due from other funds		1,072	2,077	3,149	1,323
Due from other governments and agencies			1,257	1,257	
Inventories	696			696	1,812
Other assets	45	445		490	5,994
Total current assets	<u>25,848</u>	<u>12,214</u>	<u>79,932</u>	<u>117,994</u>	<u>61,816</u>
Noncurrent assets:					
Capital assets - nondepreciable		45,602		45,602	
Capital assets - depreciable (net)	460	115,939		116,399	2,765
Other assets		1,518		1,518	
Total noncurrent assets	<u>460</u>	<u>163,059</u>		<u>163,519</u>	<u>2,765</u>
Total assets	<u>26,308</u>	<u>175,273</u>	<u>79,932</u>	<u>281,513</u>	<u>64,581</u>
<b>Deferred outflows of resources</b>					
Deferred loss on advance debt refunding		6,819		6,819	
<b>Liabilities</b>					
Current liabilities:					
Accounts payable	12,522	4,963	5	17,490	18,949
Due to other funds	541			541	683
Due to other governments and agencies			52,024	52,024	
Loans from other funds					7,360
Accrued expenses	4,484			4,484	
Unearned revenue	625	3,269		3,894	
Other current liabilities	358			358	1,774
Notes payable		43		43	
Bonds payable		10,750		10,750	
Compensated absences	209			209	
Obligation for unpaid prize awards	7,907			7,907	
Total current liabilities	<u>26,646</u>	<u>19,025</u>	<u>52,029</u>	<u>97,700</u>	<u>28,766</u>
Noncurrent liabilities:					
Unearned revenue	5,000	590		5,590	
Bonds payable		220,088		220,088	
Compensated absences	287			287	
Total noncurrent liabilities	<u>5,287</u>	<u>220,678</u>		<u>225,965</u>	
Total liabilities	<u>31,933</u>	<u>239,703</u>	<u>52,029</u>	<u>323,665</u>	<u>28,766</u>
<b>Net Position (Deficit)</b>					
Net investment in capital assets	460	(62,520)		(62,060)	2,765
Restricted for:					
Debt		5,892		5,892	
Employment insurance programs			27,903	27,903	
Unrestricted	(6,085)	(983)		(7,068)	33,050
Total net position (deficit)	<u>\$ (5,625)</u>	<u>\$ (57,611)</u>	<u>\$ 27,903</u>	<u>\$ (35,333)</u>	<u>\$ 35,815</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 Position**  
**Proprietary Funds**  
**For the Fiscal Year Ended June 30, 2014**  
**(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	\$	\$ 24,677	\$ 264,158	\$ 288,835	\$ 299,293
Lottery sales	242,786			242,786	
Video lottery, net	507,057			507,057	
Table games	88,108			88,108	
Federal grants			53,146	53,146	
Miscellaneous		420		420	
Total operating revenues	<u>837,951</u>	<u>25,097</u>	<u>317,304</u>	<u>1,180,352</u>	<u>299,293</u>
Operating expenses:					
Personal services	9,438	15,542		24,980	12,240
Supplies, materials, and services	306,642	11,049		317,691	280,522
Prize awards, net of prize recoveries	145,959			145,959	
Depreciation and amortization	114	10,021		10,135	169
Benefits paid			247,138	247,138	
Total operating expenses	<u>462,153</u>	<u>36,612</u>	<u>247,138</u>	<u>745,903</u>	<u>292,931</u>
Operating income (loss)	375,798	(11,515)	70,166	434,449	6,362
Nonoperating revenues (expenses):					
Interest revenue	108	1		109	44
Other nonoperating revenue	1,023		30,185	31,208	17
Interest expense		(12,643)	(3,024)	(15,667)	
Other nonoperating expenses			(6,983)	(6,983)	
Total nonoperating revenue (expenses)	<u>1,131</u>	<u>(12,642)</u>	<u>20,178</u>	<u>8,667</u>	<u>61</u>
Income (loss) before transfers	376,929	(24,157)	90,344	443,116	6,423
Transfers in	23	24,575	19,559	44,157	
Transfers out	<u>(376,327)</u>		<u>(654)</u>	<u>(376,981)</u>	<u>(1,535)</u>
Change in net position	625	418	109,249	110,292	4,888
Net position (deficit) - beginning, as restated	(6,250)	(58,029)	(81,346)	(145,625)	30,927
Net position (deficit) - ending	<u>\$ (5,625)</u>	<u>\$ (57,611)</u>	<u>\$ 27,903</u>	<u>\$ (35,333)</u>	<u>\$ 35,815</u>

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, 2014**  
**(Expressed in Thousands)**

	Business-type Activities-- Enterprise Funds			Governmental Activities	
	R.I.			Internal Service Funds	
	R.I. State Lottery	Convention Center	Employment Security		
<b>Cash flows from operating activities:</b>					
Cash received from gaming activities	\$ 838,122		\$ 261,489	\$ 838,122	\$ 300,393
Cash received from customers		25,397	53,630	286,886	
Cash received from grants				53,630	
Cash payments for gaming activities	(447,910)			(447,910)	
Cash payments to suppliers	(4,287)	(11,581)		(15,868)	(278,716)
Cash payments to employees	(9,332)	(15,412)		(24,744)	(12,918)
Cash payments for benefits			(247,228)	(247,228)	
Other operating revenue (expense)			99	99	17
Net cash provided by (used for) operating activities	<u>376,593</u>	<u>(1,596)</u>	<u>67,990</u>	<u>442,987</u>	<u>8,776</u>
<b>Cash flows from noncapital financing activities:</b>					
Loan from federal government			150,116	150,116	
Payment of interest on loan from federal government			(5,005)	(5,005)	
Loans from other funds					4,552
Loans to other funds					(10,871)
Repayment of loans to other funds					9,660
Repayment of loans from other funds					(3,153)
Transfers in		25,352	21,484	46,836	
Transfers out	(376,881)		(583)	(377,464)	(1,535)
Net transfers from (to) fiscal agent			(234,035)	(234,035)	
Net cash provided by (used for) noncapital financing activities	<u>(376,881)</u>	<u>25,352</u>	<u>(68,023)</u>	<u>(419,552)</u>	<u>(1,347)</u>
<b>Cash flows from capital and related financing activities:</b>					
Principal paid on capital obligations		(10,248)		(10,248)	
Interest paid on capital obligations		(13,041)		(13,041)	
Acquisition of capital assets	(172)	(2,876)		(3,048)	(617)
Net cash provided by (used for) capital and related financing activities	<u>(172)</u>	<u>(26,165)</u>		<u>(26,337)</u>	<u>(617)</u>
<b>Cash flows from investing activities:</b>					
Interest on investments	109	1		110	44
Net cash provided by investing activities	<u>109</u>	<u>1</u>		<u>110</u>	<u>44</u>
Net increase (decrease) in cash and cash equivalents	(351)	(2,408)	(33)	(2,792)	6,856
Cash and cash equivalents, July 1	18,915	11,986	1,139	32,040	38,737
Cash and cash equivalents, June 30	<u>\$ 18,564</u>	<u>\$ 9,578</u>	<u>\$ 1,106</u>	<u>\$ 29,248</u>	<u>\$ 45,593</u>
<b>Reconciliation of operating income (loss) to net cash provided by (used for) operating activities:</b>					
Operating income (loss)	375,798	(11,515)	70,166	434,449	6,362
<b>Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:</b>					
Depreciation and amortization	114	10,021		10,135	169
Other revenue (expense) and transfers in (out)	398		70	468	19
Net changes in assets and liabilities:					
Receivables, net	783	(432)	(2,246)	(1,895)	878
Inventory	3			3	(117)
Prepaid items	(3)	18		15	615
Due to / due from transactions	(83)			(83)	
Accounts and other payables	(1,422)	(420)		(1,842)	1,527
Accrued expenses	273			273	(677)
Unearned revenue	3	732		735	
Prize awards payable	729			729	
Total adjustments	<u>795</u>	<u>9,919</u>	<u>(2,176)</u>	<u>8,538</u>	<u>2,414</u>
Net cash provided by (used for) operating activities	<u>\$ 376,593</u>	<u>\$ (1,596)</u>	<u>\$ 67,990</u>	<u>\$ 442,987</u>	<u>\$ 8,776</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, defined contribution plans and other postemployment benefit plans.

**External Investment Trust – 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 the 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 Position**  
**Fiduciary Funds**  
**June 30, 2014**  
**(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	\$ 5,971	\$	\$	\$ 18,285
Deposits held as security for entities doing business in the State				58,207
Advance held by claims processing agent	775			
Receivables				
Contributions	32,876			
Due from state for teachers	15,714			
Miscellaneous	933	2		3,158
Total receivables	49,523	2		3,158
Prepaid expenses	1,800			
Investments, at fair value				
Equity in short-term investment fund		5,315		
Equity in pooled trust	8,314,739			
Other investments	277,480		2,605	
Total investments	8,592,219	5,315	2,605	
Total assets	8,650,288	5,317	2,605	\$ 79,650
<b>Liabilities</b>				
Accounts payable	7,612			2,994
Incurred but not reported claims	2,466			
Unearned revenue	3,033			
Deposits held for others				76,656
Total liabilities	13,111			\$ 79,650
<b>Net position</b>				
Held in trust for:				
Pension benefits	8,527,503			
Other postemployment benefits	109,674			
Pool participants		5,317		
Other			2,605	
Total net position	\$ 8,637,177	\$ 5,317	\$ 2,605	

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 Position**  
**Fiduciary Funds**  
**For the Fiscal Year Ended June 30, 2014**  
**(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	\$ 197,079	\$	\$
Employer contributions	404,169		
Supplemental employer contributions	584		
State contributions for teachers	76,701		
Interest on service credits purchased	309		
Service credit transfer payments	13		
From participants		557	
Total contributions	<u>678,855</u>	<u>557</u>	
Amortization of unearned revenue	3,033		
Other income	718		
Investment income			
Net appreciation in fair value of investments	1,082,967		278
Interest	63,282	21	
Dividends	14,414		40
Other investment income	10,030		121
	<u>1,170,693</u>	<u>21</u>	<u>439</u>
Less: investment expense	14,622	13	
Net income from investing activities	<u>1,156,071</u>	<u>8</u>	<u>439</u>
Total additions	<u>1,838,677</u>	<u>565</u>	<u>439</u>
<b>Deductions</b>			
Retirement benefits	898,547		
Death benefits	3,464		
Distributions	2,643	8,636	101
Refund of contributions	12,526		
Administrative expense	8,651		
Service credit transfers	13		
OPEB benefits	52,334		
Total deductions	<u>978,178</u>	<u>8,636</u>	<u>101</u>
Change in net position:			
Pension benefits	816,945		
Other postemployment benefits	43,554		
Other		(8,071)	338
Net position - beginning	7,776,678	13,388	2,267
Net position - ending	<u>\$ 8,637,177</u>	<u>\$ 5,317</u>	<u>\$ 2,605</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 Position**  
**Component Units**  
**June 30, 2014**  
**(Expressed in Thousands)**

	<u>RIAC</u>	<u>RICC</u>	<u>I-195 RDC</u>	<u>RIPTA</u>	<u>RITBA</u>
<b>Assets</b>					
Current Assets:					
Cash and cash equivalents	\$ 43,345	\$ 3,873	\$ 77	\$ 7,088	\$ 2,360
Investments				1,569	
Receivables (net)	8,221	1,662		4,524	106
Restricted assets:					
Cash and cash equivalents	21,774	19,772			5,554
Investments	2,258	3,134			12,110
Receivables (net)	1,439	3			
Other assets	46				607
Due from primary government		61	94	5,750	645
Due from other governments					
Due from other component units		7			
Inventories				1,849	234
Other assets	664	76	44	158	133
Total current assets	<u>77,747</u>	<u>28,588</u>	<u>215</u>	<u>20,938</u>	<u>21,749</u>
Noncurrent Assets:					
Investments		1,807		934	7,005
Receivables (net)	262	3,687			
Restricted assets:					
Cash and cash equivalents	40,961	9,612			
Investments	14,704	23,925			4,789
Other assets		1,088			
Capital assets - nondepreciable	80,296	129		16,100	250
Capital assets - depreciable (net)	443,029	50		142,360	159,532
Due from other component units		697			
Other assets, net of amortization	1,612		214		
Total noncurrent assets	<u>580,864</u>	<u>40,995</u>	<u>214</u>	<u>159,394</u>	<u>171,576</u>
Total assets	<u>658,611</u>	<u>69,583</u>	<u>429</u>	<u>180,332</u>	<u>193,325</u>
<b>Deferred outflows of resources</b>					
	<u>5,388</u>				
<b>Liabilities</b>					
Current liabilities:					
Accounts payable	6,400	163	104	5,607	6,471
Due to primary government				1,047	133
Due to other component units	63				
Due to other governments					
Other liabilities	19,663	2,688	148	6,037	3,783
Current portion of long-term debt	10,111	6,548		25	27,720
Total current liabilities	<u>36,237</u>	<u>9,399</u>	<u>252</u>	<u>12,716</u>	<u>38,107</u>
Noncurrent liabilities:					
Due to primary government	2,020			14,058	907
Due to other component units					
Unearned revenue		14,473			
Notes payable	45				
Loans payable	41,541				
Obligations under capital leases					
Net OPEB obligation				44,043	
Other liabilities		6,156		9,556	
Compensated absences				398	
Bonds payable	281,769	26,510	38,400		58,273
Total noncurrent liabilities	<u>325,375</u>	<u>47,139</u>	<u>38,400</u>	<u>68,055</u>	<u>59,180</u>
Total liabilities	<u>361,612</u>	<u>56,538</u>	<u>38,652</u>	<u>80,771</u>	<u>97,287</u>
<b>Deferred inflows of resources</b>					
					<u>82</u>
<b>Net position (deficit)</b>					
Net investment in capital assets	212,905	179		143,355	74,696
Restricted for:					
Debt					18,271
Other	44,099				
Other nonexpendable		4,901			
Unrestricted	45,383	7,965	(38,223)	(43,794)	2,989
Total net position (deficit)	<u>\$ 302,387</u>	<u>\$ 13,045</u>	<u>\$ (38,223)</u>	<u>\$ 99,561</u>	<u>\$ 95,956</u>

(Continued)

**State of Rhode Island and Providence Plantations**  
**Combining Statement of Net Position**  
**Component Units**  
**June 30, 2014**  
**(Expressed in Thousands)**

	URI	RIC	CCRI	Other Component Units	Totals
<b>Assets</b>					
Current Assets:					
Cash and cash equivalents	\$ 127,936	\$ 20,336	\$ 16,930	\$ 73,934	\$ 295,879
Investments				10,832	12,401
Receivables (net)	33,825	6,552	4,010	14,701	73,601
Restricted assets:					
Cash and cash equivalents				206,435	253,535
Investments				11,774	29,276
Receivables (net)					1,442
Other assets				35,075	35,728
Due from primary government	3,907	269		2,881	13,607
Due from other governments				2,071	2,071
Due from other component units				248	255
Inventories	3,158	500	891	3,840	10,472
Other assets	1,107	8	131	3,919	6,240
Total current assets	<u>169,933</u>	<u>27,665</u>	<u>21,962</u>	<u>365,710</u>	<u>734,507</u>
Noncurrent Assets:					
Investments	142,588	26,090	2,864	513	181,801
Receivables (net)	27,803	4,560	25	11,608	47,945
Restricted assets:					
Cash and cash equivalents	346	315	4,948	20,526	76,708
Investments				329,545	372,963
Other assets	21,776	1,127	784	1,454,659	1,479,434
Capital assets - nondepreciable	22,192	12,959	9,110	104,222	245,258
Capital assets - depreciable (net)	576,202	118,772	66,527	140,334	1,646,806
Due from other component units				697	1,394
Other assets, net of amortization	2,415	18		155,788	160,047
Total noncurrent assets	<u>793,322</u>	<u>163,841</u>	<u>84,258</u>	<u>2,217,892</u>	<u>4,212,356</u>
Total assets	<u>963,255</u>	<u>191,506</u>	<u>106,220</u>	<u>2,583,602</u>	<u>4,946,863</u>
<b>Deferred outflows of resources</b>				<u>1,042</u>	<u>6,430</u>
<b>Liabilities</b>					
Current liabilities:					
Accounts payable	42,665	7,925	2,465	28,343	100,143
Due to primary government	1,715	936	635		4,466
Due to other component units				192	255
Due to other governments			210	20	230
Other liabilities	16,416	3,519	4,069	167,797	224,120
Current portion of long-term debt	10,985	4,855	4,300	144,557	209,101
Total current liabilities	<u>71,781</u>	<u>17,235</u>	<u>11,679</u>	<u>340,909</u>	<u>538,315</u>
Noncurrent liabilities:					
Due to primary government	15,590	13,696	4,290		50,561
Due to other component units				1,394	1,394
Unearned revenue				742	15,215
Notes payable		1,240		16,164	17,449
Loans payable	846			3,302	45,689
Obligations under capital leases	5,600			206	5,806
Net OPEB obligation				10,420	54,463
Other liabilities	12,912	4,284	18	290,278	323,204
Compensated absences	17,273	1,786	791	2,558	22,806
Bonds payable	225,033	17,634	2,677	1,342,532	1,992,828
Total noncurrent liabilities	<u>277,254</u>	<u>38,640</u>	<u>7,776</u>	<u>1,667,596</u>	<u>2,529,415</u>
Total liabilities	<u>349,035</u>	<u>55,875</u>	<u>19,455</u>	<u>2,008,505</u>	<u>3,067,730</u>
<b>Deferred inflows of resources</b>					<u>82</u>
<b>Net position (deficit)</b>					
Net investment in capital assets	372,006	97,404	67,759	239,501	1,207,805
Restricted for:					
Debt				209,160	227,431
Other	79,828	6,488	2,449	44,172	177,036
Other nonexpendable	79,329	16,102	1,720		102,052
Unrestricted	83,057	15,637	14,837	83,306	171,157
Total net position (deficit)	<u>\$ 614,220</u>	<u>\$ 135,631</u>	<u>\$ 86,765</u>	<u>\$ 576,139</u>	<u>\$ 1,885,481</u>

(Concluded)

**State of Rhode Island and Providence Plantations**  
**Combining Statement of Activities**  
**Component Units**  
**For the Fiscal Year Ended June 30, 2014**  
**(Expressed in Thousands)**

	RIAC	RICC	I-195 RDC	RIPTA	RITBA	URI	RIC	CCRI	Other Component Units	Totals
<b>Expenses</b>	\$ 81,657	\$ 24,552	\$ 1,214	\$ 119,844	\$ 27,854	\$ 489,822	\$ 141,982	\$ 120,985	\$ 251,089	\$ 1,258,999
<b>Program revenues:</b>										
Charges for services	66,112	2,640	13	33,031	20,332	312,002	70,253	40,215	179,273	723,871
Operating grants and contributions		1,395	1,322	63,940		161,961	65,881	80,516	64,080	439,095
Capital grants and contributions	18,248			5,671		48,386	12,393	2,475	529	87,702
Total program revenues	84,360	4,035	1,335	102,642	20,332	522,349	148,527	123,206	243,882	1,250,668
Net (Expenses) Revenues	2,703	(20,517)	121	(17,202)	(7,522)	32,527	6,545	2,221	(7,207)	(8,331)
<b>General revenues:</b>										
Interest and investment earnings	68	2,490		8	753	15,443	3,865	446	9,252	32,325
Miscellaneous revenue	39	15,495		930	764		907	619	1,274	20,028
Total general revenue	107	17,985		938	1,517	15,443	4,772	1,065	10,526	52,353
Change in net position	2,810	(2,532)	121	(16,264)	(6,005)	47,970	11,317	3,286	3,319	44,022
Net position (deficit) - beginning as restated	299,577	15,577	(38,344)	115,825	101,961	566,250	124,314	83,479	572,820	1,841,459
Net position (deficit) - ending	\$ 302,387	\$ 13,045	\$ (38,223)	\$ 99,561	\$ 95,956	\$ 614,220	\$ 135,631	\$ 86,765	\$ 576,139	\$ 1,885,481

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* and GASB Statement No. 61, *The Financial Reporting Entity: Omnibus*, defines component units as a) legally separate entities for which the elected officials of the primary government (such as the State) are 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. The primary government (the State) is financially accountable if it appoints a voting majority of the entity's governing body **and** (1) it is able to impose its will on that entity **or** (2) there is a potential for the entity to provide specific financial benefits to, or to impose specific financial burdens on, the State. Also, the State is financially accountable if an entity is fiscally dependent on the State and there is the potential for the entity to provide specific financial benefits to, or to impose specific financial burdens on, the State, regardless of the State's appointment power over the governing body.

The State has considered all agencies, boards, commissions, public benefit authorities and corporations, the State university and colleges, the Central Falls School District and The Metropolitan Regional Career and Technical Center 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 entity's relationship with the State as determined by application of GASB statements 14, 39, and 61.

### Blended Component Units

A component unit should be reported as part of the primary government and blended into the appropriate funds in any of the following circumstances:

- The component unit provides services entirely or almost entirely to the primary government, or otherwise exclusively, or almost exclusively, benefits the primary government even though it does not provide services directly to it; or
- The component unit's governing body is substantively the same as the governing body of the primary government and (a) there is a financial benefit or burden relationship between the primary government and the component unit, or (b) management of the primary government has operational responsibility for the component unit; or
- The component unit's total debt outstanding is expected to be repaid entirely or almost entirely with resources of the primary government.

The following 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 Veterans Memorial Auditorium Arts and Cultural Center located in Providence. RICCA is dependent upon annual State appropriations of lease revenue by the General Assembly to fund debt service on its outstanding

bonds; therefore RICCA's total debt outstanding, including leases, is expected to be repaid entirely with the resources of the State. 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)*

TSFC was organized in June 2002 as a public corporation by the State. TSFC is legally separate and provides services exclusively to the State through the purchase of its future tobacco settlement revenues. TSFC is authorized to issue bonds necessary to provide sufficient funds for carrying out its purpose. TSFC's purchase of tobacco settlement revenues occurred previous to the effective date of GASB 48 and as a result, is not accounted for as a sale of future revenues. 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. RIPRC provides services exclusively to the State. 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.

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 (DPCUs) 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 the nature and significance of the component unit's relationship to the State. The factors underlying this determination include the type and dollar value of services provided to the citizens of the State, the presence of significant transactions with the State, and a significant benefit or burden relationship with the State. Discretely presented component units, grouped by major and nonmajor categories, are as follows:

**Major Component Units**

*Rhode Island Airport Corporation (RIAC)*

This corporation was created in 1992 and its purpose is to undertake the management, operation, maintenance and improvements of the six airports in the State. Revenues of RIAC include airline and concession contract revenues, federal grants, licenses, and permits. The RIAC leases the land on which the State's largest airport is located and reimburses the State annually for general obligation proceeds utilized for airport projects. For more detailed information, a copy of the financial statements can be obtained by writing to the Chief Financial Officer, Rhode Island Airport Corporation, 2000 Post Road, Warwick, RI 02886 or at [www.pvdairport.com](http://www.pvdairport.com).

*Rhode Island Commerce Corporation (RICC)*

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. RICC has the power to issue tax-exempt bonds to accomplish its corporate purpose. Until June 30, 2013 the corporation was known as the R.I. Economic Development Corporation. The RICC has one component unit, the Small

Business Loan Fund Corporation, which was created for the purpose of granting secured and unsecured loans to Rhode Island's small business community. The RICC's activities are largely supported by State appropriations and the RICC has used its debt issuance authority to finance various economic development initiatives on behalf of 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. Commerce Corporation, 315 Iron Horse Way, Suite 101, Providence, RI 02903, or at [www.commerceri.com](http://www.commerceri.com).

#### *I-195 Redevelopment District Commission (I-195 RDC)*

This commission was created in 2011 by the Rhode Island General Assembly, to oversee, plan, implement, and administer the development of land reclaimed from the Interstate 195 relocation project and the Washington Bridge project. Upon completion of the redevelopment of the I-195 land, the commission will oversee the sale of the land in an attempt to maximize the economic benefits to the State. The commission issued debt and utilized the proceeds to reimburse the State for the fair value of the land acquired. The State will appropriate amounts to the commission for debt service and operating assistance until sufficient land sale proceeds are available to fund these expenses. Proceeds from land sales are expected to fund the majority of the debt service. For more detailed information, a copy of the financial statements can be obtained by writing to the Director of Finance and Administration, R. I. Commerce Corporation, 315 Iron Horse Way, Suite 101, Providence, RI 02903.

#### *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. In addition to significant operating assistance, the State has also forgiven certain debt service obligations owed to the State as a means to provide additional financial assistance to the Authority. 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 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. The authority is responsible for the maintenance and operation of the Claiborne Pell, Mount Hope, Jamestown, and Sakonnet River Bridges which are a vital segment of the State's infrastructure. Title relating to the Jamestown and Sakonnet River bridges has remained with the State, thus those capital assets are reported within the primary government on the State's government-wide financial statements. The Claiborne Pell and Mount Hope bridges are reported as capital assets of the authority. 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).

#### *University and Colleges*

The Board of 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, and 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).

#### **Nonmajor Component Units**

##### *Central Falls School District*

The Central Falls School District (the "District") is governed by a seven member board of trustees that is appointed by the State's Board of Education ("Board"). As a result of the enactment of Chapter 312 of

Rhode Island Public Laws of 1991, the State of Rhode Island assumed responsibility for the administration and operational funding of the Central Falls School District effective July 1, 1991. In June 2002, Chapter 16-2 of the Rhode Island General Laws established the board of trustees to govern the Central Falls School District in a manner consistent with most local school committees. In addition, the Commissioner of Education and the Board have oversight 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 Higher Education Assistance Authority (RIHEAA)*

This authority was created by law in 1977 for the dual purpose of guaranteeing loans to students attending eligible institutions and administering other programs of post-secondary student assistance. The authority receives significant appropriations from the State annually to administer certain scholarship and grant programs on its behalf. 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 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. Certain debt issued by the RIHMFC is secured in part by capital reserve funds which the General Assembly may, but is not required to, appropriate funding of any deficiencies in such reserves. 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 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. Certain obligations of the RIIFC are secured by mortgages which are insured by the Rhode Island Industrial-Recreational Building Authority for which the State's full faith and credit is pledged. 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.commerceri.com](http://www.commerceri.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. The authority's insurance of first mortgages and first security agreements is backed by a pledge of the full faith and credit of 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.commerceri.com](http://www.commerceri.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. The RIRRC coordinates and administers a statewide recycling program and has periodically transferred amounts to the State's general fund as operating assistance. The State is one of several potentially responsible parties for the costs of remedial actions at the RIRRC's

superfund site. 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).

*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. All administrative duties of the board are being performed by the State Division of Planning as RIWRBC transfers all functions, programmatic and financial, to the Rhode Island Clean Water Finance Agency, a related organization of the State, upon repayment of the RIWRBC's existing debt due to be fully repaid in fiscal 2015. For more detailed information, a copy of the financial statements can be obtained by writing to the R.I. Water Resources Board Corporate, One Capitol Hill, Providence, RI 02908.

*Quonset Development Corporation (QDC)*

This corporation was established in 2004 as a real estate development and management company for the Quonset Point/Davisville Industrial Park. Its purpose is to promote the preservation, expansion, and development of new and existing industry and business, in order to stimulate and support diverse employment opportunities in the State. The State has provided funding for certain capital improvements required at the industrial park to aid in its expansion and development. For more detailed information, a copy of the financial statements can be obtained by writing to the Finance Director, Quonset Development Corporation, 95 Cripe Street, North Kingstown, RI 02852 or at [www.quonset.com](http://www.quonset.com).

*The Metropolitan Regional Career and Technical Center*

*The Metropolitan Regional Career and Technical Center ("The Met")* is a state funded, local education agency established by the R.I. Department of Education under the Rhode Island General Laws. The Met serves approximately 900 students statewide in grades 9-12. It is governed by a board of trustees that is appointed by the State's Board of Education. The Met is funded primarily through State appropriations and federal grant funds. In addition, it conducts its operations in facilities that are owned by the State. For more detailed information, a copy of the financial statements can be obtained by writing to the Chief Financial Officer, The Metropolitan Regional Career and Technical Center, 325 Public Street, Providence, RI 02905.

**Related Organizations**

The following are "related organizations" under GASB Statement No. 14, *The Financial Reporting Entity*, as amended by GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units* and Statement No. 61, *The Financial Reporting Entity: Omnibus*: Rhode Island Student Loan Authority, Narragansett Bay Commission, Rhode Island Health and Education Building Corporation, and Rhode Island Clean Water Finance Agency. The State is responsible for appointing a voting majority of the members of each entity's board. However, the State's accountability does not extend beyond the appointments. These entities do not meet the criteria for inclusion as component units of the State and therefore are not part of these financial statements.

**C. Financial Statement Presentation**

**Government-wide Financial Statements**

The government-wide financial statements (i.e., the Statement of Net Position 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 Position presents the reporting entity's nonfiduciary assets and liabilities, with the difference reported as net position. The net position is reported in three categories:

**Net investment in capital assets** – This category reflects the portion of net position 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** – This category represents the portion of net position 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** – This category represents the portion of net position that does not meet the definition of the two preceding categories. The use of the unrestricted net position 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 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.

*Debt Service Fund* – This fund is used to account for and report financial resources that are restricted, committed, or assigned to expenditure for principal and interest. Debt service funds are used to report resources if legally mandated or when financial resources are being accumulated for principal and interest maturing in future years.

*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, Judicial Retirement Benefit Trust, Rhode Island Judicial Retirement Fund Trust, Teachers' Survivors Benefit Plan, FICA Alternative Retirement Income Security Program, and the defined contribution retirement plan which accumulate resources for pension benefit payments to eligible 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 eligible 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 addition, in fiscal year 2014 an agency fund was established to account for the HealthSource RI Trust. The Trust was created for the purpose of collecting health and dental insurance premium payments from qualified employers and individuals and paying such premiums to insurance carriers for plans offered through the HealthSource RI health benefits exchange established under Section 1311 of the Patient Protection and Affordable Care Act.

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 and deferred outflows, liabilities and deferred inflows, resources/revenues, **or** expenditures/expenses of that fund are at least 10% of the respective total for all funds of that type, **and**
- Total assets and deferred outflows, liabilities and deferred inflows, resources/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, bond proceeds, and certain motor vehicle registration and licensing surcharges, that are used in maintenance, upgrading, and construction of the State's highway system. It also accounts for the proceeds from the Grant Anticipation Revenue Vehicle (GARVEE) bonds, the RI Motor Fuel Tax (RIMFT) revenue bonds, the I-195 Redevelopment District Commission bonds, and related expenditures. Management considers this a major fund regardless of the above criteria.

### Proprietary funds:

#### *Rhode Island Lottery*

The R.I. Lottery, 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 Veterans 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. Management considers this a major fund regardless of the above criteria.

## **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.

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 Position.

#### **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 6, 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, and deferred gains and losses 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 and deferred amounts on refundings are generally deferred and amortized over the term of the bonds using the interest method.

Bond premiums and discounts are presented as adjustments to the face amount of the bonds payable. Deferred gains and losses on refundings are presented as either deferred inflows of resources or deferred outflows of resources.

#### 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 7E).

#### 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 liabilities when earned.

#### P. Other Assets and Liabilities

Other assets reported within the primary government mainly consist of 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. Deferred Outflows of Resources and Deferred Inflows of Resources

Deferred outflows of resources are defined as a consumption of net position by the State that is applicable to a future reporting period. Deferred inflows of resources are defined as an acquisition of net position by the State that is applicable to a future reporting period. Deferred outflows of resources increase net position, similar to assets, and deferred inflows of resources decrease net position, similar to liabilities.

The components of the deferred outflows of resources and deferred inflows of resources related to the primary government and its discretely presented component units as of June 30, 2014 are as follows (expressed in thousands):

	Governmental Activities	Business- Type Activities	Primary Government	Component Units
Deferred outflows of resources:				
Deferred loss on refunding of debt	\$ 26,723	\$ 6,819	\$ 33,542	\$ 6,430
Total deferred outflows of resources	<u>\$ 26,723</u>	<u>\$ 6,819</u>	<u>\$ 33,542</u>	<u>\$ 6,430</u>
Deferred inflows of resources:				
Derivatives	\$ 28,072	\$	\$ 28,072	\$
Deferred gain on refunding of debt	4		4	82
Total deferred inflows of resources	<u>\$ 28,076</u>	<u>\$</u>	<u>\$ 28,076</u>	<u>\$ 82</u>

The components of the deferred outflows of resources and deferred inflows of resources related to the governmental funds as of June 30, 2014 are as follows (expressed in thousands):

	General Fund	IST Fund	Other Governmental Funds	Total Governmental Funds
Deferred inflows of resources:				
Taxes	\$ 9,473	\$	\$	\$ 9,473
Other general revenue	8,055			8,055
Federal revenue		17,135		17,135
Total deferred inflows of resources	<u>\$ 17,528</u>	<u>\$ 17,135</u>	<u>\$</u>	<u>\$ 34,663</u>

## R. 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.
- 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.

## S. Recently Issued Accounting Standards

During the fiscal year ended June 30, 2014, the State adopted the following new accounting standards issued by GASB:

GASB Statement No. 65 – *Items Previously Reported as Assets and Liabilities*. This Statement establishes accounting and financial reporting standards that require that certain items no longer be reported in statements of net position since they do not meet the definition of assets, liabilities, deferred outflows of resources, or deferred inflows of resources. In addition, the standard requires that certain items previously reported as assets or liabilities be reported as deferred inflows or outflows of resources. As required by the Statement, effective July 1, 2013, bond issuance costs are expensed as incurred and gains or losses on debt refunding are reported as a deferred inflow of resources or a deferred outflow of resources, respectively. Previously, bond issuance costs were deferred and amortized over the life of the related debt and deferred gains or losses on

advance debt refundings were reported as a component of bonds payable. Due to the adoption of the standard, the net position at July 1, 2013 has been restated. See Note 18F for details about the restatement.

The following GASB statements that are effective for the fiscal year ending June 30, 2014 had little or no effect on the State's financial statements.

GASB Statement No. 66 – *Technical Corrections – 2013 – an amendment to GASB No. 10 and No. 62.*

GASB Statement No. 67 – *Financial Reporting for Pension Plans – an amendment to GASB Statement No. 25.* This Statement relates to pension plans that are administered through trusts or equivalent arrangements that meet certain criteria. The Statement addresses accounting and financial reporting for the activities of such pension plans.

The Employees' Retirement System (ERS) is the administrator for six defined benefit pension plans that are subject to Statement No. 67. The ERS's Statement No. 67-compliant stand-alone financial statements can be obtained by writing to the Employees' Retirement System, 50 Service Ave., Warwick, RI 02886.

GASB Statement No. 70 – *Accounting and Financial Reporting for Nonexchange Financial Guarantees.*

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

GASB Statement No. 68 – *Accounting and Financial Reporting for Pensions - an amendment to GASB Statement No. 27.* This Statement replaces the requirements of Statements No. 27 and No. 50 related to pension plans that are administered through trusts or equivalent arrangements. The requirements of Statements No. 27 and No. 50 remain applicable for pensions that are not administered as trusts or equivalent arrangements. The requirements of this Statement are effective for the fiscal year ending June 30, 2015 and the State will be required to restate opening net position as of July 1, 2014 to recognize its share of the net pension obligation. The restatement is expected to reduce the net position of the primary government-governmental activities by approximately \$2.4 billion as of July 1, 2014.

GASB Statement No. 69 – *Government Combinations and Disposals of Governmental Operations.*

GASB Statement No. 71 – *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68.* The requirements of this statement will eliminate the source of a potential significant understatement of restated beginning net position and expense in the first year of implementation of Statement 68 in the accrual-basis financial statements of employers and nonemployer contributing entities. The benefit will be achieved without the imposition of significant additional costs. The provisions of this standard will be applied simultaneously with the provisions of Statement 68.

## **T. Change in Reporting Entity**

On an annual basis the State considers the provisions of GASB Statement No. 14, *The Financial Reporting Entity*, as amended by GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units* and Statement No. 61, *The Financial Reporting Entity: Omnibus*. After a review of potential component units conducted in fiscal year 2014 it was determined that The Metropolitan Regional Career and Technical Center ("The Met") presents the potential to provide a financial benefit or impose a financial burden on the State. The State, acting through the Department of Education, appoints The Met's Board of Trustees. In addition, the State provides significant funding for operations. The State also finances, constructs and has title to The Met's facilities.

See Note 18F regarding restatements of prior period net position for the State's discretely presented component units resulting from the change in the State's reporting entity resulting from the addition of The Met as a component unit.

## 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, 2014 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. The lone exception to the full collateralization requirement is the Ocean State Investment Pool Trust (OSIP or the Trust), which follows the 60 day time deposit rule, but otherwise does not require full collateralization. The investment objective of the OSIP's Cash Portfolio is to seek to obtain as high a level of current income as is generally consistent with the preservation of principal and liquidity within the OSIP's investment guidelines which are consistent with SEC Rule 2a-7. While investment in the pool is not guaranteed or fully collateralized, certain investments within the pool are collateralized. At June 30, 2014, of the \$499.3 million invested, \$221.8 million was either a US Government or Agency Security (\$52.4 million) or a Collateralized Repurchase Agreement (\$169.4 million).

With the exception of \$568,190 in bank balances of the R.I. Convention Center Authority, as of June 30, 2014 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 or the blended component unit'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, 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, 2014 are as follows:

<b>Pooled cash equivalents (at amortized cost)</b>	
Financial company commercial paper	\$ 238,678
Other commercial paper	13,494
Asset backed commercial paper	9,998
Government agency repurchase agreement	90,375
Other repurchase agreements	79,000
Treasury debt	30,614
Certificates of deposit	5,000
Government agency debt	21,767
Other Municipal Debt	2,407
Other notes	6,000
Other Instruments	2,000
Total investments	<u>499,333</u>
Plus: other assets in excess of other liabilities	161
Total investment pool	<u>499,494</u>
<b>Funds held by fiduciary funds and discretely presented component units</b>	
Less:	
Amounts categorized as funds on deposit with fiscal agent	5,959
Amounts held by fiduciary trust funds:	
Pension trusts	170,358
OPEB trust	3,427
RIPTA health fund	686
Amounts held by discretely presented component units:	
URI	10,127
RIHEAA	7
RIIRBA	2,856
Amounts held for external parties	<u>5,317</u>
<b>Primary government pooled cash equivalents</b>	<u>300,757</u>
<b>Other primary government cash equivalents and investments</b>	
Repurchase agreements	1,651
Financial company commercial paper	52,649
Government agency debt	17,479
Money Market Mutual Funds	6,704
<b>Total primary government cash equivalents and investments</b>	<u>\$ 379,240</u>
Cash equivalents and investments	\$ 379,240
Cash	538,320
Total cash, cash equivalents and investments	<u>\$ 917,560</u>
<u>Statement of Net Position</u>	
Cash and cash equivalents	\$ 841,540
Restricted cash and cash equivalents	5,892
Restricted investments	70,128
Total cash, cash equivalents and investments	<u>\$ 917,560</u>

The State's restricted investments, equaling \$70,128,000 are held by the Tobacco Settlement Financing Corporation, a blended component unit.

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 for the investments of the primary government.

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, 2014, 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	At Fair Value	Total Amortized Cost	Investment Maturities (in days) (At Amortized Cost)				
			0-30	31-90	91-180	181-397	>397
Financial Company Commercial Paper	\$ 238,696	\$ 238,678	\$ 75,246	\$ 109,457	\$ 42,977	\$ 10,998	\$
Other Commercial Paper	13,496	13,494	7,499		5,995		
Asset Backed Commercial Paper	9,999	9,998	4,000	5,998			
Gov't Agency Repurchase Agreements	90,375	90,375	90,375				
Other Repurchase Agreements	79,009	79,000	58,000	5,000	16,000		
Treasury Debt	30,616	30,614	12,606	8,008	6,004	3,996	
Certificates of Deposit	5,000	5,000	5,000				
Government Agency Debt	21,774	21,767		3,000		9,999	8,768
Other Municipal Debt	2,407	2,407		2,407			
Other Notes	6,000	6,000		1,000	5,000		
Other Instruments	2,000	2,000	2,000				
<b>Grand Total</b>	<b>\$ 499,372</b>	<b>\$ 499,333</b>	<b>\$ 254,726</b>	<b>\$ 134,870</b>	<b>\$ 75,976</b>	<b>\$ 24,993</b>	<b>\$ 8,768</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
Financial company commercial paper	\$ 52,649	\$ 52,649	\$ 0	\$ 0	\$ 0
Government agency debt	17,479	17,479	0	0	0
Money Market Mutual Funds	6,704	6,704	0	0	0
Repurchase agreements	1,651	1,651	0	0	0
Cash equivalents and investments	<b>\$ 78,483</b>	<b>\$ 78,483</b>	<b>\$ 0</b>	<b>\$ 0</b>	<b>\$ 0</b>

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, 2014, 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	At Fair Value	Total Amortized Cost	Quality Ratings (1) (At Amortized Cost)		
			A-1+	A-1	A-2
Financial Company Commercial Paper	\$ 238,696	\$ 238,678	\$ 89,972	\$ 146,706	\$ 2,000
Other Commercial Paper	13,496	13,494	5,995		7,499
Asset Backed Commercial Paper	9,999	9,998		9,998	
Gov't Agency Repurchase Agreements	90,375	90,375	88,375	2,000	
Other Repurchase Agreements	79,009	79,000	4,000	75,000	
Treasury Debt	30,616	30,614	30,614		
Certificates of Deposit	5,000	5,000		3,000	2,000
Government Agency Debt	21,774	21,767	21,767		
Other Municipal Debt	2,407	2,407	2,407		
Other Notes	6,000	6,000	5,000		1,000
Other Instruments	2,000	2,000		2,000	
<b>Grand Total</b>	<b>\$ 499,372</b>	<b>\$ 499,333</b>	<b>\$ 248,130</b>	<b>\$ 238,704</b>	<b>\$ 12,499</b>

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

The Ocean State Investment Pool 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 Bank Discount Note	\$ 17,479	Government Agency	P-1	Not Applicable
Money market mutual funds				
Fidelity Institutional Money Market Gvt. Port Class III	6,495	Money Market	Aaa-mf	52
Goldman Sachs Treasury Instruments Fund	4	Money Market	Aaa-mf	47
Wells Fargo Advantage 100% Treasury Money Market Fund	205	Money Market	Aaa-mf	55
Commercial Paper				
Banco Santander Chile Commercial Paper	52,649	Commercial Paper	P-1	Not Applicable
	<u>\$ 76,832</u>			

The Tobacco Settlement Financing Corporation, a blended component unit, purchased the Federal Home Loan Bank Discount Note and the Banco Santander Chile Commercial Paper listed in the above table under the terms of two contracts that are discussed in Note 3.

**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, 2014 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
Money Market Mutual Funds	\$ 101,789	\$ 101,789	0	0	0
Investment Contracts	5,699	5,699	0	0	0
Investments	<u>\$ 107,488</u>	<u>\$ 107,488</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>

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

Issuer	Fair Value	Moody's Rating	Average Maturities in Days
<b>Money Market Funds</b>			
Dreyfus Treasury Prime Cash Management Fund	\$ 2,174	Aaa-mf	55
Federated Govt. Obligation Tax Managed Fund	13,014	Aaa-mf	48
Fidelity Institutional Money Market Gvt. Port Class III	38,293	Aaa-mf	52
First American Government Obligations Fund	39,181	Aaa-mf	40
Wells Fargo Advantage 100% Treasury Money Market Fund	589	Aaa-mf	55
Morgan Stanley Prime Portfolio	2,579	Aaa-mf	28
Ocean State Investment Pool	5,959	N/A	N/A
<b>Investment Contracts</b>			
FSA Capital Management GIC	5,699	N/A	N/A
	\$ 107,488		

Funds on deposit with fiscal agent also include approximately \$187 thousand 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	Percentage
Money Market Funds	Fidelity Institutional Money Market Gvt. Port Class III	\$ 44,788	9.20%
Money Market Funds	First American Government Obligations Fund	39,181	8.05%
Commercial Paper	Banco Santander Chile Commercial Paper	52,649	10.82%

### C. Pension Trusts

The Employees' Retirement System (ERS) consists of six plans: the Employees' Retirement System, Municipal Employees' Retirement System (MERS), State Police Retirement Board Trust (SPRBT), Judicial Retirement Board Trust (JRBT), Rhode Island Judicial Retirement Fund Trust (RIJRFT), and Teachers' Survivors Benefit Plan (TSBP).

### Cash Deposits and Cash Equivalents

At June 30, 2014, the carrying amount of the ERS cash deposits was \$2,385,000 and the bank balance was \$2,653,000. 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. The bank balance, \$886,000, and the remainder representing interest-bearing collateralized bank deposits totaling \$1,767,000, are either federally insured or collateralized (102%) with U.S. Treasury, agencies, and Federal Home Loan Bank letters of credit 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, 2014 (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. In January 2014, the assets of the RIJFRT were added to the pool for investment purposes only. The assets of the TSBP had previously been pooled with the assets of the ERS.

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 for the defined benefit plans at June 30, 2014 (expressed in thousands):

Pooled Investment Trust - Investment Type	Fair Value
Cash and Cash Equivalents	\$ 21,476
Foreign Currencies	1,246
Money Market Mutual Fund	319,976
U.S. Government Securities	557,956
U.S. Government Agency Securities	351,280
Collateralized Mortgage Obligations	18,802
Corporate Bonds	422,341
Term Loans	341,055
International Government Bonds	112,541
Domestic Equity Securities	824
International Equity Securities	272
Commingled Funds - Domestic Equity	2,055,284
Commingled Funds - International Equity	2,035,354
Private Equity	544,763
Real Estate Limited Partnerships and Commingled Funds	252,953
Hedge Funds	1,154,573
Derivative Investments	122
Investments at Fair Value	\$ 8,190,818
Receivable for investments sold	240,732
Payable for investments purchased	(226,011)
Total	\$ 8,205,539

## 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 sensitivity to fair value changes arising from changes in the level of interest rates. It is the weighted average maturity of a bond's cash flows. 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:

Barclays US Aggregate Index

Barclays World Government Inflation-Linked All Maturities USD Hedge

Custom High Yield and Bank Loan Index – 30% Bank of America Merrill Lynch 1-3 BB-B High Yield and 70% Credit Suisse Institutional Leveraged Loan Index

At June 30, 2014, 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, 2014 (expressed in thousands):

Investment Type	Fair Value	Effective Duration
U.S. Government Securities	\$ 557,956	4.26
U.S. Government Agency Securities	351,280	3.69
Collateralized Mortgage Obligations	18,802	2.17
Corporate Bonds	422,341	6.24
International Government Bonds	112,541	3.93
Term Loans	341,055	0.52
Total Fixed Income	\$ 1,803,975	3.78

The ERS had investments at June 30, 2014 totaling \$170,358,479 in the Ocean State Investment Pool Trust (OSIP), an investment pool established by the State General Treasurer. The ERS's investment accounted for 34% of the total OSIP at June 30, 2014.

OSIP operates in a manner consistent with 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.

The ERS also invested \$149,616,358 in a short-term money market mutual fund that held investments with a weighted average maturity of 66 days at June 30, 2014.

The ERS invests in various mortgage-backed securities, such as collateralized mortgage obligations (CMO), interest-only and principal-only 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 and principal-only strips 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 prepayments 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 their portfolios and by establishing limits on the percentage of the portfolios that are invested in non-investment grade securities. The ERS's exposure to credit risk as of June 30, 2014 is as follows (expressed in thousands):

Rating	Collateralized Mortgage Obligations	U.S. Government Agency Obligations	Corporate Bonds	International Government Bonds	Term Loans
Aaa	\$ 10,967	\$ 351,280	\$ 17,791	\$ 26,910	\$
Aa	1,908		15,267	78,171	
A	4,723		73,407	4,437	
Baa	1,204		241,986	3,022	4,490
Ba			23,885		93,173
B			40,299		169,973
Caa			8,380		20,697
Ca			97		
Not rated			1,229		52,722
Fair Value	<u>\$ 18,802</u>	<u>\$ 351,280</u>	<u>\$ 422,341</u>	<u>\$ 112,540</u>	<u>\$ 341,055</u>

## Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of investments in a single issuer. There is no single issuer exposure within the ERS's pooled investment trust 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 a 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, 2014, 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, Bank of New York Mellon.

## 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, 2014, was as follows (expressed in thousands):

Currency	Commingled Funds	Currency	Equities	Private Equity	International Bonds	Term Loans	Derivatives	Total
Australian Dollar	\$ 108,320	\$ 71	\$	\$	\$ 3,350	\$	\$	\$ 111,741
Austrian Schilling	3,802							3,802
Belgian Franc	17,177							17,177
Brazilian Real	45,281							45,281
Canadian Dollar	156,740	(40)	192	14,879	4,677		(47)	176,401
Chilean Peso	6,985							6,985
Chinese Yuan	58,822							58,822
Colombian Peso	4,562							4,562
Czech Republic Koruna	1,111							1,111
Danish Krone	21,100							21,100
Egyptian Pound	898							898
Euro Currency	430,187	55		81,777	36,652	137	206	549,014
Great Britain Pound	290,003	(192)	80		46,702		10	336,603
Hong Kong Dollar	66,590	1,158					109	67,857
Hungarian Forint	1,000							1,000
Indian Rupee	31,622							31,622
Indonesia Rupiah	11,097							11,097
Israeli Shekel	7,470							7,470
Japanese Yen	290,584	(39)			8,263		(230)	298,578
Malaysian Ringgit	17,564							17,564
Mauritian Rupee	322							322
Mexican Peso	23,154							23,154
New Zealand Dollar	1,994							1,994
Norwegian Krone	12,116							12,116
Peruvian Nouveau Sol	1,437							1,437
Philippine Peso	4,473							4,473
Polish Zloty	7,591							7,591
Qatari Real	1,659							1,659
Russian Ruble	24,582							24,582
Singapore Dollar	19,259							19,259
Swedish Krona	42,500	(109)					5	42,396
Swiss Franc	130,683							130,683
South African Rand	34,362	342					3	34,707
South Korean Won	70,889							70,889
Taiwan Dollar	55,334							55,334
Thailand Baht	9,644							9,644
Turkish Lira	7,774							7,774
United Arab Emirates Dirham	1,836							1,836
Total	\$ 2,020,524	\$ 1,246	\$ 272	\$ 96,656	\$ 99,644	\$ 137	\$ 56	\$ 2,218,535
US Dollar	14,830							
Commingled Fund Total	\$ 2,035,354							

In addition to the foreign currency exposure highlighted in the foregoing table, certain hedge and private equity fund investments may 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. If not offset by a corresponding position with the opposite currency exposure, these contracts involve risk in excess of the amount reflected in the ERS's Statements of Fiduciary Net Position. The face or contract amount in U.S. dollars reflects the total exposure the ERS 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 cash 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 cash 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 due to movements in the underlying or reference markets.

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

The ERS invests in mortgage-backed securities, which include 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.

Additional information regarding interest rate risks for these investments is included in the Interest Rate Risk section of this note.

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 ERS 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 summarize the ERS’s exposure to specific derivative investments at June 30, 2014 (expressed in thousands):

Investment Derivative Instruments	Change in fair value included in investment income	Fair value at June 30, 2014	Notional amount
Fixed income futures - long	\$ 610	\$ (5)	\$ 48,493
Index futures - long	664	261	28,129
Index futures - short	(736)	(676)	(79,324)
Credit default swap	24	86	2,990
Interest rate swaps	464	456	4,950
	<u>\$ 1,026</u>	<u>\$ 122</u>	

Foreign Currency Forward Contracts:

Pending payable (liability)	\$ (1,406)
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The ERS is exposed to counterparty risk on foreign currency contracts that are in asset positions. The aggregate fair value of derivative instruments in asset positions at June 30, 2014 was \$113,240. 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.

Credit Default Swaps can be used in the portfolio by the credit manager to either obtain exposure to the high yield market efficiently (i.e. by selling protection) at a similar or better price than what can be obtained in cash bonds, or to hedge the credit risk of the portfolio (i.e. buy protection). The actual swap entered into sold protection on an index to effectively and quickly gain long exposure to the high yield markets giving this new manager time to invest in individual cash bonds in line with the mandate.

Interest rate swaps can be used to manage interest rate risk and increase returns in the fixed income or term loan portion of the portfolio.

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

### Other Investments—Defined Contribution Plans

The State Investment Commission selected various investment options for Defined Contribution Plan participants with the overall objective of offering low-cost, strategic, and long-term oriented investment products. Plan participants can choose one or more of the various options and can change options at any time. Plan participants who do not elect a specific option default to a target date retirement fund consistent with their anticipated Social Security retirement eligibility date. The Plan's holdings at June 30, 2014 are as follows (expressed in thousands):

Investment Type	Fair Value	% of Total	Duration (years)	Weighted Average Maturity (days)
<b>Annuities</b>				
TIAA Stable Value	\$ 3,278	1.2%		
TIAA Real Estate-variable annuity	1,345	0.5%		
<b>Total</b>	<b>\$ 4,623</b>	<b>1.7%</b>		
<b>Money Market</b>				
Vanguard Prime Money Market Fund Investor Class	\$ 306	0.1%		57
<b>Fixed Income Funds</b>				
Pimco Real Return Institutional Class	2,189	0.8%	6.78	
Vanguard Total Bond Market Index Signal Class	1,687	0.6%	5.62	
<b>Total</b>	<b>\$ 3,876</b>	<b>1.4%</b>		
<b>Target Retirement Funds</b>				
Vanguard Target Retirement 2010 Trust II	5,428	2.0%		
Vanguard Target Retirement 2015 Trust II	21,377	7.7%		
Vanguard Target Retirement 2020 Trust II	38,902	14.0%		
Vanguard Target Retirement 2025 Trust II	41,117	14.8%		
Vanguard Target Retirement 2030 Trust II	40,834	14.7%		
Vanguard Target Retirement 2035 Trust II	38,719	14.0%		
Vanguard Target Retirement 2040 Trust II	30,335	10.9%		
Vanguard Target Retirement 2045 Trust II	22,252	8.0%		
Vanguard Target Retirement 2050 Trust II	11,827	4.3%		
Vanguard Target Retirement 2055 Trust II	2,646	1.0%		
Vanguard Target Retirement 2060 Trust II	280	0.1%		
Vanguard Target Retirement Income Trust II	1,720	0.6%		
<b>Total</b>	<b>\$ 255,437</b>	<b>92.1%</b>		
<b>Equity Mutual Funds</b>				
TIAA-CREF International Equity Index Fund Institutional	1,437	0.5%		
TIAA-CREF Social Change Equity Institutional	82	0.0%		
Vanguard 500 Index Fund Signal Class	5,727	2.1%		
Vanguard Emerging Markets Stock Index Signal Class	1,232	0.4%		
Vanguard Mid-Cap Index Fund Signal Class	2,414	0.9%		
Vanguard Small Cap Index Fund Signal Class	2,254	0.8%		
<b>Total</b>	<b>\$ 13,146</b>	<b>4.7%</b>		
<b>Total</b>	<b>\$ 277,388</b>	<b>100.0%</b>		

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, 2014, all assets and securities were registered in the name of

TIAA-CREF as the Defined Contribution Plan's record keeper for the benefit of plan members and were held in the possession of TIAA-CREF's custodian, J.P. Morgan Bank.

The majority of the defined contribution plan investment options are mutual funds that invest in diversified portfolios of securities including equity and fixed-income investments. For investment options that are solely fixed income, weighted-average maturity or duration have been disclosed as a measure of interest rate risk.

Fixed income mutual funds and variable annuity accounts are subject to interest rate, inflation and credit risks. Target-date retirement mutual funds share the risks associated with the types of securities held by each of the underlying funds in which they invest, including equity and fixed income funds. Mutual funds may have exposure to foreign currency risk through investment in non-US denominated securities.

The assets of the FICA Alternative Retirement Income Security Program are primarily invested in an array of Vanguard Target Retirement Funds that are selected based on the age of the participant. At June 30, 2014, all assets and securities were registered in the name of TIAA-CREF as the record keeper for the benefit of plan members and were held in the possession of TIAA-CREF's custodian, J.P. Morgan Bank.

#### **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 Education.

#### **Cash Deposits and Cash Equivalents**

At June 30, 2014, the carrying amount of the OPEB System's cash deposits was approximately \$158,000 and the bank balance was the same amount. 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, 2014, the System's cash deposits were either federally insured or collateralized.

In addition, at June 30, 2014, the System also had cash equivalent investments consisting of approximately \$3,427,000 in the Ocean State Investment Pool Trust (OSIP), an investment pool established by the State General Treasurer. The System's investment accounted for 0.7% of the total investment in OSIP at June 30, 2014. 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, 2014 (expressed in thousands):

<u>Investment Type</u>	<u>Fair Value</u>
Money Market Mutual Fund	\$ 2,256
US Government Securities	12,302
US Government Agency Securities	11,704
Collateralized Mortgage Obligations	638
Corporate Bonds	10,792
Commingled Funds - Domestic Equity	71,303
	<u>108,995</u>
Net investment receivable	204
<b>Investments at Fair Value</b>	<u><u>\$ 109,199</u></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, 2014 (expressed in thousands):

<u>Investment Type</u>	<u>Fair Value</u>	<u>Effective Duration</u>
US Government Agency Securities	\$ 11,704	3.66
US Government Securities	12,302	5.47
Collateralized Mortgage Obligations	638	4.37
Corporate Bonds	10,792	7.40
Total Fixed Income	<u><u>\$ 35,436</u></u>	5.11

The OPEB System's investment in Dreyfus Institutional Cash Advantage Fund, a money market mutual fund, had an average maturity of 47 days at June 30, 2014.

## Credit Risk

The OPEB System generally manages exposure to credit risk by adhering to an overall target weighted average credit quality for the portfolio.

The OPEB System's exposure to credit risk on corporate bonds as of June 30, 2014 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	\$ 638	\$ 11,704	\$ -
Aa			438
A			2,424
Baa			7,632
Ba			298
<b>Fair Value</b>	<b>\$ 638</b>	<b>\$ 11,704</b>	<b>\$ 10,792</b>

### (1) Moody's Investor Service

The OPEB System's investment in a short-term money market mutual fund (Dreyfus Institutional Cash Advantage Fund) 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, 2014, 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, Bank of New York Mellon.

## 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 approximately \$2,605,000 in the Fidelity Balanced Fund as of June 30, 2014.

### F. Agency Funds

As of June 30, 2014, 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. Hedging Derivatives

In connection with the issuance of revenue bonds in June 2002, the Tobacco Settlement Financing Corporation (TSFC) entered into two interest-bearing contracts. The contracts are considered hedging derivatives. The contracts are a type of investment in which the investor, in this case the TSFC, purchases eligible securities selected by the agreement provider on a periodic basis from the agreement provider at a fixed rate of return that is specified in the contract.

One contract, having a notional amount of \$51,351,531, with Morgan Stanley & Co. Inc. as provider, generates a fixed annual rate of return of 5.48% through June 1, 2042. As of June 30, 2014 Morgan Stanley & Co. Inc. long-term debt was rated Baa1 by Moody's and A- by Standard & Poor's. At June 30, 2014 Banco Santander Chile Commercial Paper was held pursuant to this contract.

The other contract, the notional amount of which varies based on the TSFC's debt service payment requirements, is with JP Morgan Chase Bank, N.A. as provider and generates a fixed annual rate of return of 4.013% through June 1, 2022 or the date on which the trustee and the TSFC have satisfied all of their obligations under the agreement. As of June 30, 2014 JP Morgan Chase Bank, N.A. long-term debt was rated A2 by Moody's and A- by Standard & Poor's. At June 30, 2014 a Federal Home Loan Bank Discount Note was held pursuant to this contract.

The interest-earning investment contracts provide for a fixed annual rate of return for investments held within the TSFC's debt service reserve fund and debt service fund. The counterparty to the investment contract purchases investments based on types permitted by the TSFC's trust indenture. When the earnings on such investments are less than the fixed annual return rate as specified in the contract, the counterparty is required to make an additional payment to the trustee on behalf of the TSFC.

Through the interest-earning investment contracts, the TSFC is exposed to concentration of credit risk since the counterparty is required to purchase only permitted investments but not necessarily diversify such holdings. The fair value of the investment contracts is estimated based on the present value of their estimated future cash flows and is sensitive to interest rate changes. The terms of the investment contracts generally coincide with the TSFC's outstanding indebtedness and maintenance of the debt service and debt service reserve fund. The contracts provide for the payment of a termination amount under certain conditions specified in the agreement (e.g., defeasance, default). The termination amount payable between the provider and the TSFC would vary depending on prevailing interest rates at the time the termination amount was calculated. Under certain market conditions, the termination amount payable by the TSFC (or its trustee) could be substantial. In addition, the contracts also require the providers to pledge collateral in certain circumstances.

**Note 4. Receivables**

Receivables at June 30, 2014 (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	\$ 471,015	\$ 374,021	\$ 1,826	\$ 846,862	\$ 193,734	\$ 55,027
Less: Allowance for Uncollectibles	105,811	106,785	923	213,519		
Governmental receivables, net	<u>365,204</u>	<u>267,236</u>	<u>903</u>	<u>633,343</u>	<u>193,734</u>	<u>55,027</u>
Business-type receivables	75,964	32,665		108,629	1,257	
Less: Allowance for Uncollectibles	4,078	21,584		25,662		
Business-type receivables, net	<u>71,886</u>	<u>11,081</u>		<u>82,967</u>	<u>1,257</u>	
Receivables, Net of Allowance for Uncollectibles	437,090	278,317	903	716,310	194,991	55,027
Less: Current Portion						
Governmental receivables	355,731	259,181	46	614,958	174,327	4,466
Business-type receivables	71,886	11,081		82,967	1,257	
Noncurrent Receivables, Net	<u>\$ 9,473</u>	<u>\$ 8,055</u>	<u>\$ 857</u>	<u>\$ 18,385</u>	<u>\$ 19,407</u>	<u>\$ 50,561</u>

**Note 5. Intra-Entity Receivables and Payables**

Intra-entity receivables and payables as of June 30, 2014 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	\$ 3,972	\$	Reimbursement for operating expenses
Intermodal Surface Transportation		1,119	Transportation funding
Non-Major Funds			
RI Temporary Disability Insurance		979	Debt service and administrative costs
Bond Capital		3,209	State match for transportation
RI Capital Plan		1,279	Primarily for transportation State match
Certificates of Participation		602	Fees restricted for COPS debt service
Permanent School		32	Payment of operating expenses
Total Non-Major Funds		<u>6,101</u>	
Total Governmental	<u>3,972</u>	<u>7,220</u>	
Proprietary Funds			
Enterprise			
RI Lottery		541	Net income owed to General Fund
RI Convention Center Authority	1,072		Project funding
Employment Security Trust	2,077		Benefit reimbursements
Total Enterprise	<u>3,149</u>	<u>541</u>	
Internal Service	1,323	683	Settlement of services rendered
Total primary government	<u>\$ 8,444</u>	<u>\$ 8,444</u>	

**Note 6. Capital Assets**

The capital asset activity of the reporting entity for the year ended June 30, 2014 consists of the following (expressed in thousands):

**Primary Government**

<b>Governmental Activities</b>	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets not being depreciated or amortized:				
Land	\$ 375,225	\$ 12,884	\$ (76)	\$ 388,033
Works of Art	2,389			2,389
Intangibles	161,777	4,941	(2)	166,716
Construction in progress *	591,406	313,172	(448,207)	456,371
Total capital assets not being depreciated or amortized	<u>1,130,797</u>	<u>330,997</u>	<u>(448,285)</u>	<u>1,013,509</u>
Capital assets being depreciated or amortized:				
Land improvements	3,700			3,700
Buildings *	712,593	11,196	(101)	723,688
Building Improvements	270,378			270,378
Furniture and equipment	253,088	18,526	(5,772)	265,842
Intangibles	14,040			14,040
Infrastructure	3,295,847	451,988		3,747,835
Total capital assets being depreciated or amortized	<u>4,549,646</u>	<u>481,710</u>	<u>(5,873)</u>	<u>5,025,483</u>
Less accumulated depreciation or amortization for:				
Land improvements	3,439	34		3,473
Buildings	225,184	15,101	(57)	240,228
Building Improvements	184,072	7,219		191,291
Furniture and equipment	220,178	12,646	(5,623)	227,201
Intangibles	12,974	712		13,686
Infrastructure	1,544,188	135,185		1,679,373
Total accumulated depreciation or amortization	<u>2,190,035</u>	<u>170,897</u>	<u>(5,680)</u>	<u>2,355,252</u>
Total capital assets being depreciated or amortized, net	<u>2,359,611</u>	<u>310,813</u>	<u>(193)</u>	<u>2,670,231</u>
Governmental activities capital assets, net	<u>\$ 3,490,408</u>	<u>\$ 641,810</u>	<u>\$ (448,478)</u>	<u>\$ 3,683,740</u>

\* Beginning balances have been restated

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

General government	\$ 8,622
Human services	6,197
Education	3,573
Public safety	12,090
Natural resources	5,286
Transportation	135,129
Total depreciation or amortization expense - governmental activities	<u>\$ 170,897</u>

### Business-type Activities

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets not being depreciated:				
Land	\$ 45,558	\$	\$	\$ 45,558
Construction in progress	445	890	(1,291)	44
Total capital assets not being depreciated	46,003	890	(1,291)	45,602
Capital assets being depreciated:				
Buildings	234,384			234,384
Machinery and equipment	27,079	3,268	(200)	30,147
Intangibles	175			175
Total capital assets being depreciated	261,638	3,268	(200)	264,706
Less accumulated depreciation for:				
Buildings	117,478	8,176		125,654
Machinery and equipment	20,881	1,932	(200)	22,613
Intangibles	15	25		40
Total accumulated depreciation	138,374	10,133	(200)	148,307
Total capital assets being depreciated, net	123,264	(6,865)		116,399
Business-type activities capital assets, net	\$ 169,267	\$ (5,975)	\$ (1,291)	\$ 162,001

### Discretely Presented Component Units

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets not being depreciated or amortized:				
Land	\$ 110,365	\$ 9,109	\$	\$ 119,474
Construction in progress *	125,128	111,817	(111,411)	125,534
Other	250			250
Total capital assets not being depreciated or amortized	235,743	120,926	(111,411)	245,258
Capital assets being depreciated or amortized:				
Buildings	1,897,306	87,696		1,985,002
Land improvements	197,562	18,370		215,932
Machinery and equipment *	409,508	21,577	(15,844)	415,241
Infrastructure	189,749	23,185	(3,314)	209,620
Total capital assets being depreciated or amortized	2,694,125	150,828	(19,158)	2,825,795
Less accumulated depreciation or amortization for:				
Buildings	678,376	62,207	(288)	740,295
Land improvements	119,104	5,810		124,914
Machinery and equipment *	237,682	28,387	(14,964)	251,105
Infrastructure	55,494	7,731	(550)	62,675
Total accumulated depreciation or amortization	1,090,656	104,135	(15,802)	1,178,989
Total capital assets being depreciated or amortized, net	1,603,469	46,693	(3,356)	1,646,806
Total capital assets, net	\$ 1,839,212	\$ 167,619	\$ (114,767)	\$ 1,892,064

\* Beginning balances have been restated

**Note 7. Long-Term Liabilities**

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

Changes in long-term liabilities for the year ended June 30, 2014 are presented in the following table:

	Long-term Liabilities (Expressed in Thousands)			Ending Balance	Amounts Due Within One Year	Amounts Due Thereafter
	Beginning Balance	Additions	Reductions			
<b>Governmental Activities</b>						
<i>Bonds Payable</i>						
General obligation bonds (see section B)	\$ 1,103,945	\$ 131,850	\$ (161,045)	\$ 1,074,750	\$ 87,480	\$ 987,270
RICC Grant Anticipation Revenue Bonds	311,645		(32,615)	279,030	34,160	244,870
RICC Rhode Island Motor Fuel Tax Revenue Bonds	66,510		(3,985)	62,525	4,185	58,340
Tobacco Settlement Asset-Backed Bonds	765,161		(20,340)	744,821		744,821
Accreted interest on TSFC bonds	83,051	18,603		101,654		101,654
RICC Historic Tax Credit Bonds	90,575		(16,175)	74,400	17,010	57,390
Net unamortized premium/discount	58,619	14,719	(10,620)	62,718		62,718
<b>Bonds Payable, net</b>	<b>2,479,506</b>	<b>165,172</b>	<b>(244,780)</b>	<b>2,399,898</b>	<b>142,835</b>	<b>2,257,063</b>
Obligation under capital leases (see section E)	232,975		(25,380)	207,595	21,960	185,635
Net unamortized premium/discount	18,441		(1,830)	16,611		16,611
<b>Obligation under capital leases, net</b>	<b>251,416</b>		<b>(27,210)</b>	<b>224,206</b>	<b>21,960</b>	<b>202,246</b>
Job Creation Guaranty Program Obligation (see section H)	2,500	82,673	(2,500)	82,673	8,383	74,290
Compensated absences (see section K)	80,298	67,153	(69,802)	77,649	67,613	10,036
Net pension obligation (see note 14)	1,816	1,654		3,470		3,470
Net OPEB Obligation (see note 15 C)	11,341	35	(2,891)	8,485		8,485
Special obligation notes (see section C)	6,675		(1,565)	5,110	1,635	3,475
<i>Other Long-term Liabilities</i>						
Pollution remediation (see section I)	9,507	932	(5,917)	4,522	932	3,590
Other (see section N)	26,442	3,764	(9,027)	21,179	3,763	17,416
<b>Total Governmental Long-term Liabilities</b>	<b>\$ 2,869,501</b>	<b>\$ 321,383</b>	<b>\$ (363,692)</b>	<b>\$ 2,827,192</b>	<b>\$ 247,121</b>	<b>\$ 2,580,071</b>
<b>Business-type Activities</b>						
Revenue bonds (see section B)	\$ 236,960	\$	\$ (10,060)	\$ 226,900	\$ 10,750	\$ 216,150
Net unamortized premium/discount	5,099		(1,161)	3,938		3,938
<b>Revenue bonds, net</b>	<b>242,059</b>		<b>(11,221)</b>	<b>230,838</b>	<b>10,750</b>	<b>220,088</b>
Notes payable (see section C)	231		(188)	43	43	
Unearned Revenue (see section N)	9,377	732	(625)	9,484	3,894	5,590
Compensated absences (see section K)	390	325	(219)	496	209	287
Due to Other Governments and Agencies (see Section J)	155,276	57	(103,309)	52,024	52,024	
<b>Total Business-type Long-term Liabilities</b>	<b>\$ 407,333</b>	<b>\$ 1,114</b>	<b>\$ (115,562)</b>	<b>\$ 292,885</b>	<b>\$ 66,920</b>	<b>\$ 225,965</b>
<b>Component Units</b>						
Bonds payable (see section B)	\$ 2,204,445	\$ 170,945	\$ (304,049)	\$ 2,071,341	\$ 93,087	\$ 1,978,254
Net unamortized premium/discount	15,811	1,250	(1,738)	15,323	749	14,574
<b>Bonds Payable, net</b>	<b>2,220,256</b>	<b>172,195</b>	<b>(305,787)</b>	<b>2,086,664</b>	<b>93,836</b>	<b>1,992,828</b>
Notes payable (see section C)	97,977	302,739	(292,815)	107,901	90,452	17,449
Loans payable (see section D)	43,607	3,631	(636)	46,602	913	45,689
Obligations under capital leases	8,027		(1,120)	6,907	1,101	5,806
Net OPEB obligation	46,877	7,678	(92)	54,463		54,463
Compensated absences (see section K)	32,622	1,370	(1,638)	32,354	9,548	22,806
Due to primary government (see section M)	59,904	1,167	(6,043)	55,028	4,467	50,561
Due to Other Governments and Agencies (see section J)	114		(94)	20	20	
Unearned Revenue (see section N)	13,727	6,517	(102)	20,142	4,927	15,215
Due to Component Units	1,815		(228)	1,587	193	1,394
<i>Other Long-term liabilities</i>						
Arbitrage rebate (see section L)	1,700		(435)	1,265		1,265
Pollution remediation (see section I)	16,904	2,917		19,821	1,486	18,335
Other liabilities (see section N)	288,057	26,017	(3,629)	310,445	6,841	303,604
<b>Total Component Units Long-term Liabilities</b>	<b>\$ 2,831,587</b>	<b>\$ 524,231</b>	<b>\$ (612,619)</b>	<b>\$ 2,743,199</b>	<b>\$ 213,784</b>	<b>\$ 2,529,415</b>

The State implemented GASB Statement 65; therefore, all beginning balances for bonds payable were restated (see note 18F).

Certain beginning balances of the component units have been reclassified to conform to the current financial statement presentation or restated due to changes in the reporting entity, see Note 18F.

## B. Bonds Payable

At June 30, 2014, 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		
2015	\$ 142,835	\$ 71,768	\$ 10,750	\$ 12,229	\$ 93,087	\$ 79,757
2016	148,945	65,056	11,300	11,673	75,120	77,995
2017	156,225	57,771	11,285	11,182	79,466	75,415
2018	148,470	50,327	10,955	10,620	79,820	72,549
2019	117,335	42,905	11,505	10,064	83,118	69,571
2020 - 2024	454,380	136,799	73,335	40,355	426,440	297,137
2025 - 2029	245,065	52,098	63,875	18,944	414,297	203,143
2030 - 2034	253,565	7,416	27,385	7,147	353,735	119,381
2035 - 2039		116,156	6,510	395	263,930	55,261
2040 - 2044	371,700	69,694			134,345	21,853
2045 - 2049					53,740	7,501
2050 - 2054	197,006	2,637,174 *			14,243	486
	<u>\$ 2,235,526</u>	<u>\$ 3,307,164</u>	<u>\$ 226,900</u>	<u>\$ 122,609</u>	<u>\$ 2,071,341</u>	<u>\$ 1,080,049</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, 2014 the State issued \$53,150,000 of general obligation bonds with interest rates ranging from 0.45% to 5.06%, maturing from 2015 through 2034. \$12,500,000 of these bonds is taxable. Also, the State issued \$78,700,000 of refunding bonds with interest rates ranging from 2.00% to 5.00%, maturing from 2015 through 2026. These bonds, combined with the premium of \$11,184,000 and other sources of \$2,689,000, were used to advance refund \$84,220,000 of bonds with interest rates from 3.70% to 5.00% and maturities from 2015 to 2026. The economic gain was approximately \$6,742,000 with a net present value savings of approximately \$4,057,000.

At June 30, 2014, general obligation bonds authorized by the voters and unissued amounted to \$191,402,195. 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 - \$35,200,000, (2) Information Technology Improvements Certificates of Participation - \$36,130,000 (3) Nursing Education Center Debt - \$36,000,000 and (4) Garrahy Courthouse Garage Debt - \$45,000,000.

*Historic Tax Credit Bonds* - In fiscal year 2009 the R.I. Commerce Corporation (RICC), 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 RICC 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.

*RICC Grant Anticipation Bonds and Rhode Island Motor Fuel Tax Revenue Bonds* - RICC, 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 RICC 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 2014 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 were 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 TSFC 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, 2014, TSFC utilized \$20,340,000 of excess collections to early redeem an equal amount of outstanding bonds. Pledged tobacco revenues were sufficient to fund fiscal 2014 debt service payments for Tobacco Settlement Asset-Backed bonds. These revenues have been pledged for the term of the underlying debt through fiscal 2052.

#### **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, 2014, outstanding bond and note indebtedness totaled \$226,943,000.

Revenue bonds of RICCA were issued to (a) refund bonds and notes, (b) pay construction costs, (c) pay costs of issuance and (d) acquire and renovate the Dunkin Donuts Center (DDC). 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 2014, the RICCA was unable to fund the Operating Reserve requirement and Renewal and Replacement component of the restrictive covenants pursuant to its indentures.

During July 2013, RICCA and the State entered into two agreements that provide for appropriations from the Rhode Island Capital Plan Fund (RICAP) for the purpose of funding the renewal and replacement requirement included in the 2006 Series A Bonds (DDC) and funding renovations and repairs to the RICCA through June 30, 2018. Under the agreement for the DDC, RICCA was authorized to receive funding of \$925,000 in fiscal year 2014 and annual appropriations of \$1,387,500 through fiscal year 2018. Under the agreement for the RICCA, RICCA was authorized to receive funding of \$1,000,000 in fiscal year 2014, and will receive annual appropriations of \$1,000,000 through fiscal year 2018. Any unexpended funds from one

fiscal year will be recommended to be re-appropriated to the subsequent fiscal year. During fiscal year 2014 RICCA received appropriations for the DDC totaling \$596,580 and appropriations for the RICCA totaling \$939,103.

### 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 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.

At June 30, 2014 revenue bonds outstanding were approximately as follows: URI - \$227,192,000 RIC - \$17,738,000 and CCRI - \$2,836,000.

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

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 general aviation airports to repay approximately \$238,095,000 in airport revenue bonds. Proceeds from the bonds were used for various airport improvement projects. Amounts available to pay debt service per the Master Indenture, including pledged passenger facility charges, was approximately \$38,243,000 for the year ended June 30, 2014. Principal and interest payments for the year ended June 30, 2014 were approximately \$21,208,000.

RIAC has pledged facility revenues related to the InterLink Facility, net of specified operating expenses, to repay \$46,870,000 in First Lien Special Facility Bonds. Proceeds from the bonds were used for the construction of the InterLink Facility. Facility revenues, including interest income, net of specified operating expenses, were approximately \$5,885,000 for the year ended June 30, 2014. Principal and interest payments per the terms of the indenture of trust on the First Lien Special Facility Bonds for the year ended June 30, 2014 was approximately \$3,096,000.

#### *I-195 Redevelopment District Commission*

In April 2013, RICC issued Economic Development Revenue Bonds 2013 Series A, and Economic Development Bonds 2013 Series B (federally taxable) in the aggregate principal amounts of \$37,440,000 and \$960,000, respectively. The I-195 Redevelopment District Commission (I-195 RDC) is the obligor for both Series A and Series B Bonds. The 2013 Series A Bonds mature in April 2033 and the 2013 Series B Bonds mature in April 2019. Both bond series currently bear interest at the lesser of 7.75% or the 30-Day London InterBank Offered Rate (LIBOR) (0.15% at June 30, 2014) plus applicable margin.

Applicable margin and applicable taxable margin is the rate that corresponds to the lesser of the two long-term bond ratings of the State from Moody's Investors Service (Moody's) and Standard & Poor's (S&P) in the following table:

State Bond Rating (S & P/Moody's):	AA/Aa2 or Higher	AA-/Aa3	A+/A1	A/A2	A-/A3
Applicable Margin, 2013 Series A	1.00%	1.17%	1.37%	1.57%	1.82%
Applicable Taxable Margin, 2013 Series B	1.15%	1.32%	1.52%	1.72%	1.97%

The State's general obligation bonds were rated AA and Aa2 by S&P and Moody's, respectively, as of October 2013, which is the most recent date for which bond rating information is available. As such, at June 30, 2014, the 2013 Series A Bonds bore interest at 1.15%, and the 2013 Series B Bonds bore interest at 1.30%.

Concurrent with the issuance of the 2013 Series A and B Bonds, the Commission, RICC, and a bank entered into a bond purchase agreement under the terms of which the 2013 Series A and B Bonds were purchased by the bank. The bank holds a mandatory tender option to sell the bonds to RICC on either April 1, 2023 or April 1, 2028. Also concurrently, the State entered into a separate Rate Cap Agreement with the bank for each series, under which the bank agreed to pay the State interest on a monthly basis at 30-Day LIBOR (0.15% at June 30, 2014) to the extent 30-Day LIBOR exceeds the interest rate cap on the notional amount, which mirrors the scheduled principal balance of the 2013 Series A and the 2013 Series B bonds through maturity. The interest rate for the Series A Bonds and the Series B Bonds is capped at 6.75% and 6.85%, respectively.

Repayment of the 2013 Series A and B Bonds shall be solely from i) appropriated funds, if any, made available and appropriated by the General Assembly for bond payments, but not for payment of administrative expenses and ii) pledged receipts, which are the net proceeds derived from the sale, lease, transfer, conveyance, or other disposition of any interest in all or any portion of the I-195 land owned by the Commission.

The Commission has pledged and granted to RICC a security interest, which has been assigned to the bond trustee, in all pledged receipts and all deposits in the bond, project, expense, and credit facility funds established with the bond trustee. To the extent that the Commission has insufficient funds to meet its payment obligations under the bonds, it shall seek appropriations from the State; however, there are no assurances that the State will appropriate amounts to fund the Commission's payment obligations.

#### *R.I. Turnpike and Bridge Authority*

At June 30, 2014, the R. I. Turnpike and Bridge Authority (RITBA) had revenue bonds outstanding with principal amounts totaling \$61,735,000. These bonds are from the 2003 Series A Taxable Refunding Revenue Bonds and from the 2010 Series A Revenue Bonds, maturing in 2017 and 2039, respectively. The bond proceeds are used to finance the repair, rehabilitation, upgrading, and improvement of the Claiborne Pell Bridge, the Mount Hope Bridge, and other such activities as stated in the Authority Acts which authorized the issuance of the bonds. The State has authorized RITBA to issue approximately \$68 million of additional revenue bonds. The terms and expected date for such issuance have not yet been determined.

#### *Other Component Units*

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, 2014 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, 2014-2017.	\$ <u>5,110</u>
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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 2014 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, 2014 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.	\$ 1,346
R.I. Resource Recovery note payable to the host municipality with an interest rate of 1.4%, payable in equal installments over the next 14 years.	1,500
R.I. Housing and Mortgage Finance Corporation bank notes and lines of credit, 1.22% to 6.25% interest, payable through 2043.	79,904
R.I. Turnpike and Bridge Authority Bond Anticipation Note maturing on February 7, 2015 at interest at the thirty-day London InterBank Offered Rate plus an applicable margin rate based on RITBA's debt rating payable monthly.	25,000
R.I. Airport Corporation note payable at 4.15% interest, payable through 2015	151
	<u>107,901</u>
Less: current portion	(90,452)
	<u>\$ 17,449</u>

## D. Loans Payable

### Discretely Presented Component Units

In June 2006, the R.I. Airport Corporation (RIAC), R.I. Commerce Corporation (RICC), 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 (TIFIA). The purpose of the Agreement was to reimburse RICC and RIDOT and to provide funding to RIAC for a portion of eligible project costs related to the now completed InterLink Facility Project. 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 RICC (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, 2014, RIAC had approximately \$41,541,000 in borrowings under this agreement. Interest payments on the TIFIA loan for the year ended June 30, 2014 were approximately \$2,185,000.

The remaining balance consists of loans payable by the University of Rhode Island, the Quonset Development Corporation, and the Metropolitan Regional Career and Technical Center of approximately \$1,040,000, \$3,907,000, and \$114,000, respectively.

## 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, 2014 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.

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, 2014:

Fiscal Year Ending June 30	Total
2015	\$ 31,078
2016	30,638
2017	30,735
2018	25,219
2019	25,314
2020 - 2024	97,546
2025 - 2029	19,790
Total future minimum lease payments	260,320
Amount representing interest	(52,725)
Present value of future minimum lease payments	<u>\$ 207,595</u>

Each COPS transaction generally covers multiple capital projects supporting multiple functions of the primary government. In general, the amount of capital asset additions funded through COPS is equivalent to the amount of the issuance. The State reports the amortization charge on assets acquired through COPS with depreciation expense on the government-wide financial statements and discloses the amounts in Note 6, Capital Assets.

When issuances also fund component unit projects, the State records the full lease under the obligation and recognizes the related receivable from the component unit for their portion of debt service in the government-wide financial statements.

#### 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, 2014, the following bonds outstanding (expressed in thousands) are considered defeased:

	Amount
Primary government:	
General Obligation Bonds	\$ 154,600
Certificates of Participation	86,685
R.I. Convention Center Authority	3,095
Component Units:	
R.I. Depositors Economic Protection Corporation (ceased operations during FY04)	127,555
R.I. Commerce Corporation	8,320
R.I. Turnpike and Bridge Authority	34,895

#### G. Conduit Debt

The R.I. Industrial Facilities Corporation and the R.I. Commerce 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, 2014 was \$73,000,000 and \$903,700,000 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 13.

#### H. Job Creation Guaranty Program – Moral Obligations

The Job Creation Guaranty Program (JCGP) was established by the General Assembly in 2010 for the purpose of promoting economic development in the State and authorized the issuance of a maximum of \$125 million of obligations by the RI Commerce Corporation (RICC).

In November 2010, the RICC issued \$75 million of taxable revenue bonds under the JCGP. The bond proceeds were loaned to 38 Studios, LLC (38 Studios) and provided funding for the relocation of the company's corporate headquarters to the State and establishment and operation of a video gaming studio in the City of Providence. Proceeds also were used to fund a Capital Reserve Fund and Capitalized Interest Fund. Amounts in the Capital Reserve Fund were to be used in the event that 38 Studios failed to make any required loan payments. In accordance with the enabling legislation and the agreement between the RICC, the trustee and 38 Studios, should amounts in the Capital Reserve Fund fall below minimum requirements, the RICC has 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 his or her budget request for appropriation by the General Assembly. The General Assembly may, but is not required to, appropriate such amounts.

38 Studios filed for Chapter 7 bankruptcy protection on June 7, 2012. The RICC and the Trustee for the bonds have obtained court approval to take custody of the assets pledged by 38 Studios to secure the payment of the bonds. It is not certain at this time what the value of the pledged assets is. It is estimated that the total remaining debt service on the bonds, after considering any existing reserves held by the trustee, will be approximately \$82.7 million. The maturity dates on the bonds range from 2014 to 2020 with maximum annual debt service of approximately \$12.5 million. The General Assembly made appropriations for fiscal years 2014 and 2015 to restore the shortfall in the Capital Reserve Fund. The fiscal year 2015 enacted budget includes an appropriation of \$12.3 million, which together with remaining amounts available in the Capital Reserve Fund, will be used to pay the principal and interest on the bonds due in fiscal year 2015.

The State has recorded a liability of \$82.7 million relating to its moral obligation to the 38 Studios bondholders under the JCGP at June 30, 2014. This amount represents the current estimate of the amount of probable loss by the State. Such amount, although recorded as a liability for financial statement purposes, is still subject to annual appropriation by the General Assembly. The estimated liability will be reduced in future years as the related debt is extinguished.

In November 2012, the RICC sued various individuals and entities involved with the loan to 38 Studios including principals of 38 Studios, former employees of the RICC and various advisors to the RICC alleging fraud, negligence, breach of fiduciary duty and other charges. The suit seeks repayment of compensatory and punitive damages associated with the various counts identified in the lawsuit. A settlement was reached with two of the defendants and, after expenses, a net recovery of approximately \$3.2 million was received in August of 2014. The net amount of the settlement was paid to the trustee for the benefit of the bondholders and will be used to pay a portion of the fiscal year 2015 debt service. To the extent there are additional recoveries resulting from the lawsuit, such amounts, net of legal fees, would be available to reduce amounts, if any, appropriated by the State to fund the Capital Reserve Fund and pay debt service on the bonds.

On August 27, 2014, a bank sent a notice of nonpayment to RICC in accordance with RICC's guaranty (the Guaranty) of a term loan advanced by the bank to another borrower under the JCGP. In accordance with its moral obligations under the Guaranty, RICC made payment of the amount sought by the bank (the Advance) and subsequently made demand upon the borrower to pay RICC for such Advance. The approximate amount of the term loan for which RICC provided the Guaranty is \$3.30 million. On December 17, 2014, RICC submitted a certificate to the Governor of the State of Rhode Island identifying a deficiency arising under a term loan extended by the bank, in the amount of \$2.25 million. The amount of any estimated loss related to the State's moral obligation for this borrower under the JCGP is not presently determinable.

The General Assembly repealed the authority for the RICC to guarantee further loans under the JCGP during the 2013 legislative session.

## 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. As of June 30, 2014, no reasonable estimates of those recoveries can be made. Capital assets may be created when pollution remediation outlays are made under specific circumstances.

## J. Due to Other Governments and Agencies

The State has borrowed amounts from the federal government (Unemployment Insurance Trust Fund) to fund employment insurance benefits paid from the Employment Security Fund to eligible unemployed individuals. The amount outstanding under this loan was approximately \$48,660,000 on June 30, 2014. Interest accrued beginning January 1, 2011 and is payable on October 1 of each year. The amount outstanding was paid in full in November 2014.

## 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 the employees' 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.

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.
- 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 8. Net Position/Fund Balances

### Governmental Activities

#### *Restricted Net Position*

The Statement of Net Position reflects \$799,274,000 of restricted net position, of which \$276,129,000 is restricted by enabling legislation. The net position that is restricted by enabling legislation is included in the Employment Insurance Programs and Other categories on the Statement of Net Position. The principal components of the remaining balance of the restricted net position 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):*

Governmental Funds - Fund Balance

	Major Funds			Total
	General Fund	IST Fund	Other Funds	
Fund Balances:				
Nonspendable:				
Permanent Fund Principal	\$	\$	\$ 174	\$ 174
Restricted for:				
Budget Reserve and Cash Stabilization	176,719			176,719
Purposes specified by enabling legislation	120,898			120,898
Debt Service		20,305	94,530	114,835
Capital Projects			239,480	239,480
Temporary Disability Insurance			155,232	155,232
Historic Tax Credit Redemption			5,486	5,486
Transportation-Infrastructure		98,121		98,121
Education			1,840	1,840
Other			673	673
Committed to:				
Transportation-Maintenance		4,039	79	4,118
Employees' Retirement System Transfer	13,794			13,794
Other	4,770			4,770
Assigned to:				
Subsequent Years Expenditures	67,992			67,992
Other	4,013			4,013
Unassigned:	7,193	(4,028)		3,165
Totals	\$ 395,379	\$ 118,437	\$ 497,494	\$ 1,011,310

Article IX of the State Constitution requires the maintenance of a State Budget Reserve and Cash Stabilization Account (the "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 2014, 3.0% of total general revenues and opening surplus are transferred to the Reserve. Amounts in excess of 5.0% of total general revenues and opening surplus are transferred to the RI Capital Plan Fund to be used for capital projects.

According to the State Constitution and related enabling laws the Reserve, or any portion thereof, may be appropriated by a majority of the members of the General Assembly "in the event of an emergency involving the health, safety or welfare of the citizens of the State". The Reserve may also be appropriated by a majority of the members of the General Assembly "to fund any unanticipated general revenue deficit caused by a general revenue shortfall" in any given year. As general revenue estimates are adjusted several times each year, including at the May Revenue Estimating Conference, significant shortfalls between the final estimated revenue amounts and actual revenues for a fiscal year have been very rare. In fact, since its inception the Reserve has been accessed only once in fiscal year 2009 to address an unexpected severe revenue shortfall. This shortfall resulted from the effects of the Great Recession, which severely impacted the State with little warning. At that time the General Assembly appropriated \$22 million from the Reserve.

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 \$13,794,501 which is reflected in the committed category of fund balance in the table above. The transfer will be made in fiscal year 2015 upon issuance of the audited financial statements.

See Note 1, Section R of these Notes for more information regarding the five categories of fund balance.

**Note 9. 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 inflows of resources. 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	\$ 1,109,702	\$ 1,111,799
General Business Taxes:		
Business Corporations	113,808	113,873
Public Utilities Gross Earnings	101,382	101,967
Financial Institutions	16,611	19,606
Insurance Companies	100,957	100,980
Bank Deposits	2,472	2,472
Health Care Provider Assessment	42,131	42,052
Sub-total - General Business Taxes	<u>377,361</u>	<u>380,950</u>
Sales and Use Taxes:		
Sales and Use	916,083	915,806
Motor Vehicle	52,408	52,408
Motor Fuel	524	520
Cigarettes	139,462	139,495
Alcoholic Beverages	18,252	18,252
Sub-total - Sales and Use Taxes	<u>1,126,729</u>	<u>1,126,481</u>
Other Taxes:		
Inheritance and Gift	43,592	43,440
Racing and Athletics	1,177	1,177
Realty Transfer	7,962	8,047
Sub-total - Other Taxes	<u>52,731</u>	<u>52,664</u>
Total - General Fund	<u>2,666,523</u>	<u>2,671,894</u>
Intermodal Surface Transportation Fund		
Gasoline	137,542	137,542
Other Governmental Funds	170,951	170,951
Total Taxes	<u>\$ 2,975,016</u>	<u>\$ 2,980,387</u>

**Note 10. Transfers**

Transfers for the fiscal year ended June 30, 2014 are presented below (expressed in thousands):

	Transfers	Description
Governmental Activities		
Major Funds		
General		
Major Funds		
Intermodal Surface Transportation	\$ 42,028	Debt service and operating assistance
Nonmajor Funds		
RI Temporary Disability Insurance	1,907	Administrative cost reimbursement
Historic Tax Credit	7,617	Reimbursement for tax credits claimed
Bond Capital	511	Interest earnings transfer
RI Capital Plan	3,005	Reimbursement for capital expenditures
Business-Type Activities		
Lottery	376,327	Net income transfer
Employment Security	654	Administrative cost reimbursement
Intermodal Surface Transportation		
General Fund	1,889	Infrastructure funding
Bond Capital	15,854	Infrastructure funding
RI Capital Plan	7,736	Infrastructure funding
Nonmajor Funds		
COPs		
General	2,030	Debt service
RI Capital Plan		
General	101,272	Transfer statutory excess in budget reserve
Bond Capital	3,321	Premium on new bonds
RI Public Rail Corporation		
Intermodal Surface Transportation	1,925	Operating assistance
Total Governmental Activities	<u>566,076</u>	
Business-Type Activities		
Lottery Fund		
RI Capital Plan	23	Capital Improvement
Convention Center		
General	23,030	Debt service
RI Capital Plan	1,545	Capital Improvement
Employment Security		
General	18,024	Debt service
Assessed Fringe Benefits	1,535	Reimbursement for State employees' unemployment compensation
Total transfers primary government	<u><u>\$ 610,233</u></u>	

**Note 11. Operating Lease Commitments**

The primary government is committed under numerous operating leases covering real property. Operating lease expenditures totaled approximately \$13,493,000 for the fiscal year ended June 30, 2014. 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, 2014:

Fiscal Year Ending June 30	
2015	\$ 12,318
2016	9,007
2017	4,532
2018	3,794
2019	3,534
2020 - 2024	4,970
Total	<u><u>\$ 38,155</u></u>

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

## Note 12. Commitments

### Primary Government

The primary government is committed at June 30, 2014 under various contractual obligations for infrastructure construction projects and other capital projects, which will be principally financed with debt proceeds, Rhode Island Capital Plan funds and federal grants. The total of commitments outstanding for the most significant category, infrastructure construction projects, is approximately \$427 million at June 30, 2014.

The primary government is also committed at June 30, 2014 under contracts to develop and implement a number of software systems. These projects 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, 2014 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. Commerce Corporation (RICC), 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, 2014, \$3,560,000 was paid to the developer.

The RICC 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 \$3,081,000 of the debt on the related economic development revenue bonds in fiscal year 2014. 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 2014, Twin River was authorized and issued approximately \$33.4 million in promotional points to facility patrons.

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 (61.02% for fiscal year 2014). 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). The Master Contract is being amended to reflect recently enacted legislation regarding the Lottery's reimbursement to UTGR for allowable marketing expenses not to exceed an additional \$3 million multiplied by the Lottery's percentage of net terminal income. The reimbursement of marketing expenses by the Lottery occurs after UTGR has incurred an additional \$4 million in qualified 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. Recent legislation increased the percentage of net terminal income by 2.25% effective July 1, 2013, and expiring June 30, 2015.

The Master Contract has been amended in recent years to reflect the statutory authorization of a promotional points program at Newport Grand. In fiscal year 2014, Newport Grand was authorized and issued approximately \$5.4 million in promotional points to facility patrons.

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 (59.23% for fiscal year 2014). 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. The 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, the MBTA, 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) currently has several projects underway that are part of the Green Airport Improvement Program. The lengthening of primary Runway 5-23 to a total of 8,700 feet will allow the airport to accommodate coast-to-coast and international flights, and will enhance the efficiency of the New England Regional Airport System. Included in the project is the construction of a taxiway extension, an Engineered Material Safety Arresting System (EMAS) Runway Safety Area, and an airport service road. Approximately \$6.458 million was expended in fiscal year 2014 and construction is expected to be complete by December 2017.

In addition, RIAC is constructing a Deicer Management System. In fiscal year 2014, approximately \$15.710 million was expended on the Deicer Management System. The project includes online

monitoring and diversion of deicing stormwater to comply with the Rhode Island Pollutant Discharge Elimination System (RIPDES) permit issued by the Rhode Island Department of Environmental Management (RIDEM). The improvements prevent the discharge of deicing runoff to surface waters when the concentration exceeds the RIPDES permit limits.

As of June 30, 2014, RIAC is obligated for the completion of certain airport improvements under commitments of approximately \$35 million, which are expected to be funded from current available resources and future operations.

*R.I. Turnpike and Bridge Authority*

During 2013, R.I. Turnpike and Bridge Authority entered into contracts totaling \$40,900,000, for Phase II of the steel repairs and painting on the Claiborne Pell Bridge, which is expected to take two to three years to complete. As of June 30, 2014, remaining commitments on these contracts total \$25,550,000.

*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 RIRRC has been segregated into six distinct phases. Phases I, II and III were closed by the RIRRC in prior years, while Phase IV reached capacity during fiscal year 2012, with final capping completed during fiscal year 2014. In 2005, the RIRRC began landfilling in Phase V. As of June 30, 2014 the RIRRC has not begun landfilling in phase VI.

A liability for closure and post-closure care of \$61,115,203 as of June 30, 2014 has been recorded in the statement of net position, as summarized by Phases below:

	Year ended June 30, 2014
Phase I	\$ 9,552,725
Phase II and III	5,599,995
Phase IV	9,767,277
Phase V	36,195,206
	<u>\$ 61,115,203</u>

Phase VI has been licensed by RIDEM, however is not open to receive waste as of June 30, 2014.

As of June 30, 2014, 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	\$ 8,852,230	80.35%	2.2 years

As of June 30, 2014 the RIRRC revised its estimate for future pollution remediation and landfill closure and post-closure care costs. The revised estimate resulted in a \$10,556,887 increase of the corresponding liability from \$70,379,581 at June 30, 2013 to \$80,936,468 at June 30, 2014 and was primarily attributable to improved leachate flow data and revised capping costs based on pricing from a recently executed contract.

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 position held in trust in the statements of net position as of June 30, 2014 is \$41,525,803 placed in trust to meet the financial requirements of closure and post-closure care related to Phases II, III, IV and V. The RIRRC 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, 2014 is as follows:

Balance, June 30, 2013	Additions	Reductions	Balance, June 30, 2014	Current Portion
\$ 16,904,094	\$ 2,917,171	\$ 0	\$ 19,821,265	\$ 1,485,622

Superfund site:

In prior years, the EPA issued administrative orders requiring the RIRRC 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 RIRRC entered into a Consent Decree with the EPA concerning remedial actions taken by the RIRRC 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 \$42,365,530 as of June 30, 2014.

In 2004, the RIRRC began the capping project for the Superfund site and continued to revise its estimates for leachate pretreatment costs and flows. The RIRRC has recorded a liability for future remediation costs of approximately \$19,821,000 as of June 30, 2014.

Other pollution remediation obligations:

The RIRRC is the owner of several properties adjacent to its landfill operations. The RIRRC is obligated to remediate one of these parcels. The RIRRC has recorded a liability for future remediation costs of approximately \$263,000 as of June 30, 2014.

Environmental concerns:

In August 1996, the RIRRC entered into a Consent Agreement (the Agreement) with RIDEM concerning action to be taken by the RIRRC 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 RIRRC during fiscal years 1997 through 2002, as required by RIDEM. During 2004, RIDEM released from the escrow approximately \$543,000 to the RIRRC. As of June 30, 2013 the escrow account totaled approximately \$156,000. During fiscal year 2014, RIDEM approved the work completed by RIRRC and the final amount of \$156,000 was released.

The RIRRC submitted a comprehensive plan to RIDEM which was approved by RIDEM in April 1998. The RIRRC 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 was approved by RIDEM during fiscal year 2014.

*R.I. Public Transit Authority*

The R.I. Public Transit Authority is committed under various contracts in the amount of \$3,660,734 at June 30, 2014.

### *R.I. Industrial-Recreational Building Authority*

At June 30, 2014, 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, 2014 are \$14,930,000.

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 defaulted on its payments to the bond holder and the Authority assumed responsibility for making the debt payments. The payments are being made by first exhausting the Authority's available financial resources. The Authority must then request appropriations from the Rhode Island General Assembly for any loss in excess of the insured amount. At June 30, 2014, the Authority has determined that it is likely that it will incur a loss under the insured commitment. The Authority has estimated the range of potential loss to be between \$2,242,000 and \$5,886,000 and has determined the best estimate within this range to be \$2,355,633. The Authority has accrued an insured commitment payable of \$2,355,633 equal to the estimated loss at June 30, 2014. The current portion of the insured commitment 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 13. 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. Significant specific litigation is 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 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. On January 2, 2013, the Court ordered the parties to participate in mediation. As noted below, mediation has ended without a settlement agreement.

Challenges to the 2011 Pension Reform - In June 2012, certain unions, active and retired State employees and associations of retired State and municipal employees who maintain they are current beneficiaries of the ERSRI commenced five separate lawsuits in State court challenging the Rhode Island Retirement Security Act of 2011 ("RIRSA") enacted by the General Assembly. The five cases are: Rhode Island Public Employees' Retirement Coalition v. Chafee, C.A. No. 12-3166; Bristol/Warren Regional School Employees,

Local 581, AFSCME, Council 94 v. Chafee, C.A. No. 12-3167; Rhode Island Council 94, AFSCME, AFL-CIO, et al v. Chafee, C.A. No. 12-3168; City of Cranston Police Officers, International Brotherhood of Police Officers, Local 301, AFL, CIO v. Chafee, C.A. No. 12-3169 and Woonsocket Fire Fighters, IAFF Local 732, AFL-CIO v. Chafee, C.A. No. 12-3579. 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 lawsuits.

On August 17, 2012, the defendants filed a motion to dismiss the Rhode Island Public Employees' Retirement Coalition v. Chafee 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. A hearing on defendants' motions was held in December 2012.

On February 14, 2014, the parties (with the exception of City of Cranston, Police Officers, International Brotherhood of Police Officers Local 301 and Cranston Fire Fighters, IAFF Local 1363) executed a Settlement Agreement in each of those cases. Pursuant to the terms of the parties' agreement, a series of votes took place for the unions to proceed with the proposed settlement. In addition, the settlement was conditioned on enactment of the legislation by the General Assembly.

As a result of the voting and pursuant to the terms of the proposed settlement, the settlement process has ended. Under terms of the proposed settlement, if any one of the six groups voting voted to reject the proposal, the settlement process would terminate and the litigation would continue. Although more than seventy percent of the members eligible to vote did not reject the settlement, the smallest group, representing less than two percent of all eligible members, voted to reject the settlement. The Court was apprised of the vote. The mediation has ended without a settlement agreement.

Meanwhile, on April 3, 2014, fifty retired State workers and public school teachers filed an additional lawsuit objecting to the class action settlement, and seeking equitable relief, including but not limited to restoration of COLAs. Stated broadly the plaintiffs' claims are substantively similar to those raised in the underlying litigation, Rhode Island Public Employees Retirement Coalition v. Chafee. The State intends to vigorously contest the lawsuit.

On May 9, 2014, after the Superior Court was informed that the mediation was unsuccessful, the Court denied each of defendants' motions for more definite statements and motions to dismiss.

The six cases proceeded through litigation and, after the Court entered an order directing certain of the plaintiffs to join the municipal entities with which they allege they have a collective bargaining agreement, Cranston Firefighters, IAFF Local 1363, AFL-CIO, which had been a party to one of the original five lawsuits challenging RIRSA filed a separate lawsuit in Rhode Island Superior Court challenging RIRSA and withdrew from the original suit.

Finally, on September 8, 2014, an eighth case was commenced by the Rhode Island State Troopers Association and Rhode Island State Troopers Association ex rel. Kevin M. Grace and Ernest E. Adams in Rhode Island Superior Court challenging RIRSA.

On December 2, 2014, the judge presiding over the case in the Superior Court ruled for a trial by jury commencing April 2015.

An adverse judgment to the State rendered in the pension litigation could significantly increase both the unfunded liability of the plans within the ERSRI and the State's actuarially determined contribution (ADC).

### **Other**

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.

### **Tobacco Settlement Financing Corporation**

According to the Master Settlement Agreement (“MSA”), for any year in which the Participating Manufacturers (“PMs”) suffer a market share loss 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 Proceeding for calendar years 2007, 2008, 2009, 2010, 2011 and 2012.

From April 2005 through April 2014, 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 has yet to be determined for deposit year 2014.

There has been a long-standing dispute between the PMs and the MSA Settling States relating to NPM Adjustment Disputes, and up until December 2012, all MSA Settling States and the PMs were engaged in an arbitration proceeding regarding the issue of Diligent Enforcement for the calendar year 2003 (“2003 Dispute”). On November 3, 2011, the PMs decided not to contest Rhode Island’s diligent enforcement for Year 2003; thus, for purposes of the NPM Adjustment, RI was considered diligent. In December 2012, the PMs reached a settlement agreement with certain MSA States & Territories (“Term Sheet States”) in connection with certain claims relating to NPM Adjustment Disputes, including the 2003 Dispute. The general terms thereof were memorialized in a Term Sheet (“Term Sheet”) with the PMs. In March of 2013, the Panel, which was convened for the 2003 Dispute, issued a Stipulated Partial Settlement and Award (“Award”) that incorporated certain provisions of the Term Sheet. Also, the Award included specific instructions to the Independent Auditor directing it to implement the provisions provided therein, which it did in preparing final calculations for the 2013 MSA payments. Hearings were held for those contested States that did not join the term sheet, and final arbitration awards for those states were issued in September 2013. While the 2003 Arbitration has concluded, the 2004 Arbitration has not yet commenced.

Twenty-eight (28) MSA States and Territories (“NSS”), including Rhode Island, have not accepted the terms of the Term Sheet, so the NPM Adjustment disputes between the NSS and PMs remain unresolved. 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. Depending on the outcome of future NPM adjustment arbitrations and any potential MSA litigation that may arise, 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 gaming operations could be adversely impacted by enacted legislation in Massachusetts allowing three casinos and one slot parlor in that state. Massachusetts has divided the state into three regions and accepted license applications for three category 1 resort style casinos. In addition, a category 2 slots only license was awarded in February 2014. The Western Massachusetts (region B) category 1 license was awarded in June 2014 and the region A Greater Boston category 1 license was awarded in September 2014. The region C Southeastern Massachusetts category 1 license is anticipated to be awarded in August 2015. The region C Southeastern Massachusetts category 1 licenses were recently opened to new applicants. Depending on the resulting location of the facilities within Massachusetts, lottery revenues in Rhode Island could decrease.

The Narragansett Indian Tribe is suing for injunctive and declaratory relief seeking to have the 2011 and 2012 Casino Acts ("Acts") allowing table games at Twin River to be declared unconstitutional, as well as seeking relief enjoining operations at Twin River and Newport Grand, alleging that both entities act in a manner contrary to the constitution, i.e., they are not "state operated." The Supreme Court affirmed a finding by the Superior Court that the Narragansett Tribe had standing to raise the constitutionality issues. The Superior Court dismissed that portion of the complaint that seeks to have the Acts declared unconstitutional. The plaintiff's filed an appeal of that decision in the Rhode Island Supreme Court. The parties filed briefs with the Rhode Island Supreme Court with respect to that aspect of the case in November, 2014. The issue of constitutionality was then argued in the Supreme Court on December 4, 2014. At this time it is not known when the Supreme Court will issue a decision on that aspect of the case (The issue related to injunctive relief remains pending in the Superior Court). While the lawsuit does not seek monetary damages, the lawsuit does seek attorney fees which could be substantial. Moreover, since the lawsuit challenges the constitutionality of the Acts and seeks to enjoin the operation of table games and the general operations of Twin River and Newport Grand, if successful, the lawsuit could have a significant effect on Rhode Island's third largest annual source of revenue.

A significant portion of the Lottery's revenues are derived from video lottery gaming at two licensed video lottery facilities. Newport Grand, one of those video lottery facilities, is subject to certain financing agreement restrictions. In 2008, Newport Grand entered into a \$25,000,000 financing agreement with two banks for expansion and renovation of its video lottery terminal facility. Prior events of default relative to failing to meet earnings levels amended the loan agreement, which required additional partner contributions, quarterly deposits and restricted dividend distributions. During fiscal year 2014, a subsequent loan amendment required continued deposits and a new loan covenant requirement.

## 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, 2013 was issued in March 2014. That report identified approximately \$14.3 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 2014 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.

During fiscal 2014, the State began determining eligibility for the Medical Assistance Program through the Unified Health Infrastructure Project (UHIP) system. The UHIP system was designed to validate applicant data against an array of federal and state data sources as a key control over its underlying eligibility

determinations. UHIP system interfaces, as designed, were not fully operational in fiscal 2014 due to implementation delays or technical issues encountered during phase 1 of the system implementation. The impact of these system issues on federal program compliance is not currently determinable.

### **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 bondholders. 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, 2014, the following debt was morally obligated by the State:

#### *R.I. Housing and Mortgage Finance Corporation (RIHMFC)*

The R.I. Housing and Mortgage Finance Corporation (RIHMFC) had \$131,970,558 outstanding in bonds, which are secured in part by capital reserve funds which have aggregated to \$31,113,556 on June 30, 2014. Under the moral obligation provisions detailed in the preceding paragraph, upon request by the Governor, the General Assembly may, but is not obligated to, provide appropriations for any deficiency in such reserve funds. The RIHMFC has never been required to request such appropriations. Such reserve funds relate solely to select multi-family issues of the RIHMFC.

#### *R.I. Commerce Corporation (RICC)*

The State has recorded a liability of \$82.7 million relating to its moral obligation to the 38 Studios bondholders under the Job Creation Guaranty Program at June 30, 2014. This amount represents the current estimate of the amount of probable loss by the State. Such amount, although recorded as a liability for financial statement purposes, is still subject to annual appropriation by the General Assembly. See Note 7H for more details.

### **Component Units**

#### *R.I. Higher Education Assistance Authority (RIHEAA)*

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 85% 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.

The Authority intends to 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. It is difficult to predict the time period over which such services would be required, and to what extent those responsibilities will continue to constitute a substantive activity for the Authority.

The Rhode Island General Assembly passed legislation that 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 December of 2013, the U.S. Congress passed the Bipartisan Budget Act of 2013. One of the provisions of the Act was to reduce the Guaranty Agency (GA) revenue derived from the rehabilitation of defaulted

student loans by approximately 50%, effective July 1, 2014. Revenues from loan rehabilitations constitute the major source of income for most GAs, and this reduction will have major implications on the ability of GAs to operate profitably, especially as portfolio balances decline over time, RIHEAA's management and Board are involved in the ongoing process of evaluating the changes described above and options for future operations.

#### *R.I. Housing and Mortgage Finance Corporation (RIHMFC)*

As of June 30, 2014, the RIHMFC may borrow up to a maximum of \$90,000,000 under various revolving loan agreements expiring between July 2014 and August 2015. Borrowings under the lines of credit are payable on demand and are unsecured. The RIHMFC is a party to financial instruments with off-balance sheet risk in connection with its commitments to provide financing. Such commitments expose the RIHMFC to credit risk in excess of the amounts recognized in the statements of net position. The RIHMFC'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, 2014 is \$45,913,248.

#### *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 14. Employer Pension Plans**

#### **A. Defined Benefit Plans**

##### **Plan Descriptions**

The State, through the Employees' Retirement System (ERS), administers six defined benefit pension plans. Four of these plans - the Employees' Retirement System (ERS), a cost-sharing multiple-employer defined benefit pension plan, and the Judicial Retirement Benefits Trust (JRBT), the Rhode Island Judicial Retirement Fund Trust (RIJRFT), 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 (MERS), an agent multiple-employer defined benefit pension plan. The Teachers' Survivors Benefit Plan (TSB), a multiple-employer cost sharing plan, provides survivors benefits to teachers who do not participate in Social Security. 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.

###### *Methods Used to Value Investments*

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.

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 or amortized 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. The fair value of mutual fund investments reflects the published closing net asset value as reported by the fund manager.

Commingled funds consist of institutional domestic equity index and international equity index funds. The fair value of these 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 fund. The determination of fair value for other commingled funds, which include hedge, private equity, and real estate funds is described in the succeeding paragraphs.

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.

Private equity and real estate investments represented 6.6% and 3.1%, respectively, of the total reported fair value of all ERS investments at June 30, 2014. Of the underlying holdings within private equity investments, approximately 21% 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 69% 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 25% 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 Expenses**

Investment management expenses are presented separately as a component of net investment income and include investment consultants' fees, custodial fees, direct investment expenses allocated by managers, and allocated Office of the General Treasurer expenses associated with oversight of the portfolio. In some instances (hedge funds, private equity, real estate investments, and cash 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 fiscal year 2014 contribution rates for the Employees' Retirement System, the State Police Retirement Benefits Trust, and the Judicial Retirement Benefits Trust were based on the actuarial valuation of those plans performed as of June 30, 2011. The fiscal year 2014 Annual Required Contribution for the Judicial Retirement Fund Trust was based on the actuarial valuation of that plan performed as of June 30, 2012.

A summary of the State's annual pension cost (expressed in thousands) for the fiscal year ended June 30, 2014 and the actuarial assumptions and methods used in the actuarial valuation of the plans used to determine such pension cost is provided in the table below:

	Employees' Retirement System	State Police Retirement Benefits Trust	Judicial Retirement Benefits Trust	RI Judicial Retirement Fund Trust
Contribution rate:				
State	23.05%	14.45%	27.28%	\$1,695
Plan members - state employees	3.75%	8.75%	8.75% and 12.00%	8.75% and 12.00%
State contribution for teachers	8.03% to 8.42%			
Annual pension cost	\$227,778	\$3,331	\$2,544	\$1,654
Contributions made - state employees	\$151,077	\$3,331	\$2,544	\$0
Contribution made - teachers	\$76,701			
Actuarial valuation date	June 30, 2011	June 30, 2011	June 30, 2011	June 30, 2012
Actuarial cost method	Entry Age Normal-Individual Entry Age Actuarial Cost Method	Entry Age Normal-Individual Entry Age Actuarial Cost Method	Entry Age Normal-Individual Entry Age Actuarial Cost Method	Entry Age Normal-Individual Entry Age Actuarial Cost Method
Amortization method	Level Percent of Payroll - Closed	Level Percent of Payroll - Closed	Level Percent of Payroll - Closed	Level Dollar
Equivalent Single Remaining Amortization Period	24 years	24 years	24 years	16 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%	4.00%
Projected salary increases	4.00% to 7.00%	4.00% to 12.00%	4.00%	4.00%
Inflation	2.75%	2.75%	2.75%	2.75%
Cost-of-living adjustments	<p>The 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.</p> <p>The 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.</p> <p>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 15 years.</p>			

**Annual Pension Cost and Net Pension Assets and Obligations**

For all defined benefit plans, except for the RI Judicial Retirement Fund Trust, the State contributed 100% of the annual pension cost. The net pension obligation relating to the RIJRFT is detailed in the table below (amounts expressed in thousands):

Annual Required Contribution	\$1,695
Interest on net pension obligation	73
Adjustment to annual required contribution	(114)
Annual pension cost	<u>1,654</u>
Contributions made	-
Increase in net pension obligation	<u>1,654</u>
Net pension obligation, beginning of year	<u>1,816</u>
Net pension obligation, end of year	<u>\$3,470</u>

Three-Year Trend Information

	Year Ending	Annual Pension Cost (APC) (In Thousands)	Percentage of APC Contributed	Net Pension Obligation (In Thousands)
Employees' Retirement System	6/30/12	233,834	100%	-
	6/30/13	207,319	100%	-
	6/30/14	227,778	100%	-
State Police Retirement Benefits Trust	6/30/12	5,333	100%	-
	6/30/13	2,103	100%	-
	6/30/14	3,331	100%	-
Judicial Retirement Benefits Trust	6/30/12	1,718	100%	-
	6/30/13	1,752	100%	-
	6/30/14	2,544	100%	-
RI Judicial Retirement Fund Trust	6/30/13	1,816	0%	1,816
	6/30/14	1,654	0%	3,470

The RI Judicial Retirement Fund Trust was established on July 1, 2012.

**Funded Status and Funding Progress**

The table below displays the funded status of each plan as of the most recent actuarial valuation date which was June 30, 2014 for all plans except the RIJRFT, the most recent actuarial valuation for which was as of June 30, 2013:

	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	\$ 2,449,125,421	\$ 4,266,354,839	\$ 1,817,229,418	57.41%	\$ 675,204,750	269.14%
Teachers	3,742,152,714	6,276,589,639	2,534,436,925	59.62%	982,565,406	257.94%
SPRBT	104,781,384	109,621,747	4,840,363	95.58%	20,814,621	23.25%
JRBT	53,830,516	57,251,698	3,421,182	94.02%	9,309,572	36.75%
RIJRFT	152,910	16,908,455	16,755,545	0.90%	1,255,256	1334.83%

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, 2014 actuarial valuation follows:

	ERS				
	State Employees	Teachers	SPRBT	JRBT	RIJBFT
Valuation Date	6/30/2014	6/30/2014	6/30/2014	6/30/2014	6/30/2013
Actuarial Cost Method	Entry Age Normal	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	Level Dollar
Equivalent Single Remaining Amortization Period	21 years	21 years	21 years	21 years	15 years
Asset Valuation Method	5 Year Smoothed Market	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%	4.00%
Projected Salary Increases	3.50% to 6.50%	3.50% to 13.50%	3.75% to 8.00%	3.50%	4.00%
Inflation	2.75%	2.75%	2.75%	2.75%	2.75%
Cost of Living Adjustments	The 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. The 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 three years after retirement.				

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 15 years.

Note 1. Within the Entry Age Normal -the Individual Entry Age Actuarial Cost methodology is used.

## B. Supplemental Contributions

The General Laws (Section 36-10-2(a) 1 and 2) also require, in addition to the contributions provided for by the funding policy, for each fiscal year in which the actuarially determined state contribution rate for state employees and teachers is lower than that for the prior fiscal year, the governor shall include an appropriation to that system equivalent to twenty percent (20%) of the rate reduction to be applied to the actuarial accrued liability. The amounts to be appropriated shall be included in the annual appropriation bill and shall be paid by the general treasurer into the retirement system. The retirement system's actuary shall not adjust the computation of the annual required contribution for the year in which supplemental contributions are received; such contributions once made may be treated as reducing the actuarial liability remaining for amortization in the next following actuarial valuation to be performed. For fiscal year 2014 no contribution to the System was required in accordance with this provision of the General Laws.

The General Laws also require that for any fiscal year in which the State's actual general revenues exceed estimated amounts, the difference shall be paid to the ERS plan upon completion and release of the State's audited financial statements. The amount paid to the System in fiscal year 2014 related to the State's fiscal year 2013 actual general revenues, as adjusted, exceeding budgeted amounts by \$169 thousand.

The Retirement Security Act provides for additional contributions to the System based on 5.5% of the value of contracts where the services performed by the contractor were previously performed by state employees. A supplemental contribution of \$415 thousand was paid to the System pursuant to Section 42-149-3.1 of the General Laws.

For fiscal year 2014, the General Laws required various supplemental contributions to the ERS defined benefit pension plan as described above. These supplemental contributions are in addition to the annual required contribution amounts to ERS as determined by the actuary. Because ERS is a cost-sharing plan, fiduciary net position, including the effects of the supplemental contributions, is allocated between both state employee and teacher covered groups. Accordingly, no net pension asset has been reflected on the State's Statement of Net Position as it is not directly attributable to any one participating employer.

### C. Defined Contribution Plan

The State of Rhode Island Defined Contribution Retirement Plan (the "Plan") is a defined contribution (money purchase) plan that operates under Section 401(a) of the Internal Revenue Code. The Plan was established under Rhode Island General Law section 36-10.3-2 and was placed under the management of the Retirement Board. The Retirement Board is the Plan administrator and Plan trustee. The law authorizes the State Investment Commission to select the appropriate third-party administrator for the Plan and to adopt Plan, trust, and/or custodial documents subject to certain guidelines outlined in the statute. The State Investment Commission is responsible for implementing the investment policy of the Plan and selecting the investment options available to members. TIAA-CREF serves as record keeper for the Plan and Plan assets are held by J.P. Morgan as investment custodian.

**Plan members** – The plan covers members of the Employees' Retirement System of Rhode Island (ERS), excluding legislators, correction officers and MERS general police and fire employees who participate in Social Security. For covered employees, participation in the defined contribution plan is mandatory. Judges and state police officers are also excluded from the Plan.

**Plan vesting provisions** – The total amount contributed by the member, including associated investment gains and losses, shall immediately vest in the member's account and is non-forfeitable. The total amount contributed by the employer, including associated investment gains and losses, vests with the member and is non-forfeitable upon completion of three (3) years of contributory service. Service credit under ERS or MERS prior to July 1, 2012 is credited to the member for vesting purposes.

**Member accounts** – Each member's account is credited with the member and employer's contribution and an allocation of the plan's earnings. Allocations are based on a relationship of the member's account balance in each investment fund to the total of all account balances in that fund. The retirement benefit to which a member is entitled is the benefit that can be provided from the member's account.

**Forfeitures** – Non-vested employer contributions are forfeited upon termination of employment. Such forfeitures can be used by employers to offset future remittances to the plan.

**Contributions** – the plan's benefits are funded by contributions from the participants and the employer, as specified in Rhode Island General Law 36-10.3-4 and 36-10.3-5. Eligible state employees and teachers and MERS general employees that participate in Social Security contribute 5% of the member's compensation. Employers contribute to these member's individual accounts an amount equal to 1% of the member's compensation.

Teachers and MERS general employees not covered by social security must contribute 7% of their compensation; employers contribute to these member's individual accounts an amount equal to 3% of the member's compensation. MERS police and fire employees not covered by social security must contribute 3%; employers contribute to these member's individual accounts an amount equal to 3% of the member's compensation.

**Investment options** – Member and employer contributions may be invested in a variety of investment options broadly diversified with distinct risk and return characteristics. The investment options provide opportunities to diversify across the risk-return spectrum with a range of investment choices within varied asset classes.

The investment programs are managed by TIAA-CREF and have various investment strategies.

Net investment income within the defined contribution plan is reported on a net-of-fees basis.

**Retirement benefits** – Benefits may be paid to a member after severance from employment, death, Plan termination, or upon a deemed severance from employment for participants performing qualified military service. At a minimum, retirement benefits must begin no later than April 1 of the calendar year following the year in which you attain age 70 ½ or terminate employment, if later. Members have the option to receive benefit payments in the form of a Single Life Annuity, Two Life Annuity, Lump Sum Benefit, or Installments. These payments are subject to any restrictions in the investment vehicles.

#### D. FICA Alternative Retirement Income Security Program

The State of Rhode Island FICA Alternative Retirement Income Security Program (the "FARP") is a defined contribution (money purchase) plan that operates under Section 401(a) of the Internal Revenue Code. The FARP was established under Rhode Island General Law section 36-7-33.1 and was placed under the management of the State's Department of Administration (DOA), who also serves as the FARP plan sponsor. The FARP took effect on December 15, 2013. TIAA-CREF serves as record keeper for the FARP and FARP assets are held by J.P. Morgan as investment custodian.

**Plan members** – Eligible members of the FARP are any part-time, seasonal, or temporary employees of the State of Rhode Island, hired after July 1, 2013, who are ineligible for participation in the Employees' Retirement System of Rhode Island (ERSRI). With the exception of the One-Time Opt-Out Exception described below, participation in the FARP is mandatory for these employees. Part-time, seasonal, or temporary employees hired prior to July 1, 2013, and who do not participate in the ERSRI may opt to continue contributing to Social Security for the duration of their continuous employment.

**One-time opt-out provision** – The FARP contains a provision which allows a FARP-eligible employee, hired after July 1, 2013, to opt-out or elect to not participate in the FARP. An employee who opts to not participate will continue to make FICA contributions and the State will continue to make FICA contributions on behalf of the employee. An employee who opts to not participate in the FARP may subsequently, without penalty, choose to participate in the FARP; this election is irrevocable as long as the employee is a FARP-eligible employee.

**Plan vesting provisions** – The total amount contributed by the member, including associated investment gains and losses, shall immediately vest in the member's account and is non-forfeitable. The State does not make matching contributions to the FARP.

**Member accounts** – Each member's account is credited with the member's contribution and an allocation of the plan's earnings. Allocations are based on a relationship of the member's account balance in each investment fund to the total of all account balances in that fund. The retirement benefit to which a member is entitled is the benefit that can be provided from the member's account.

**Contributions** – FARP benefits are funded by contributions from the participants as specified in RI General Law section 36-7-33.1. FARP participants make mandatory payroll deduction contributions to the FARP equal to 7.5% of the employee's gross wages for each pay period.

**Investment options** – Member and employer contributions must be invested in one of the Vanguard Target Retirement Trusts, which are age-appropriate.

**Retirement benefits** – Benefits may be paid to a member after termination from employment, death, total disability, or upon attaining age 59 ½. In the case of termination, a 10% IRS penalty upon withdrawal will apply if the member is younger than 55 years of age. At a minimum, retirement benefits must begin no later than April 1 of the calendar year following the year in which the member attains age 70 ½ or terminates employment, if later.

#### E. 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 \$16,856,000 during the year ended June 30, 2014.

The Rhode Island Public Transit Authority has a funded 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 5 years of 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. At January 1, 2014, the most recent valuation date, the total actuarial accrued liability was \$145,529,964 and the actuarial value of assets was \$101,419,199. The Authority contributed 100% of its annual pension cost, totaling \$7,328,561, for fiscal year 2014 and had a net pension obligation of \$1,709,957 at June 30, 2014.

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 15. 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 or related organizations: Narragansett Bay Commission, RI Airport Corporation and RI Commerce Corporation
- Certain certified public school teachers
- Judges
- State police officers
- Legislators
- Certain employees of the Board of Education (BOE)

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 02908.

A summary of the principal provisions of the plans follows:

	State Employees	Judicial	State Police	Legislators	BOE 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 BOE 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.

Note - Retired teachers can purchase coverage for themselves and dependents at the active or early retiree rate as applicable, until age 65, when they must enroll in a Medicare supplement plan.

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. Beginning in fiscal year 2011, 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, 2014, the State and other participating employers paid \$59,785,000 into the plans.

### C. Annual OPEB Cost and Net OPEB Obligation

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):

	State Employees 06/30/11	Teachers 06/30/11	Judicial 06/30/11	State Police 06/30/11	Legislators 06/30/11	BOE 06/30/11
Date of Actuarial Valuation	06/30/11	06/30/11	06/30/11	06/30/11	06/30/11	06/30/11
Annual required contribution as a percent of payroll	7.49%	N/A	0.12%	39.00%	0.00%	2.65%
Annual required contribution	\$ 49,072	\$ 2,797	\$ 13	\$ 7,839	\$ 0	\$ 3,095
Plus: Interest on net OPEB obligation at beginning of year	0	N/A	0	422	0	0
Less: Adjustment to ARC	0	N/A	0	388	0	0
Annual OPEB cost	49,072	2,797	13	7,874	0	3,095
Participating State and/or other employer contributions	46,998	2,321	13	7,839	0	2,614
Credit For Portion of Residual Balance From Predecessor Fund	2,074	476	0	0	0	481
Increase in OPEB obligation	0	0	0	35	0	0
Net OPEB obligation at beginning of year	0	0	0	8,450	0	0
Net OPEB obligation at end of year	\$ 0	\$ 0	\$ 0	\$ 8,485	\$ 0	\$ 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	2012	44,235	100.00%	-
	2013	45,800	100.00%	-
	2014	49,072	100.00%	-
Teachers	2012	2,321	100.00%	-
	2013	2,321	100.00%	-
	2014	2,797	100.00%	-
Judicial	2012	810	96.53%	2,867
	2013	802	97.01%	2,891
	2014	13	100.00%	-
State Police	2012	5,920	98.66%	8,381
	2013	6,287	98.91%	8,450
	2014	7,874	99.56%	8,485
Legislators	2012	799	97.34%	2,137
	2013	0	N/A	-
	2014	0	N/A	-
BOE	2012	2,884	100.00%	-
	2013	3,106	100.00%	-
	2014	3,095	100.00%	-

The table below displays the funded status of each plan at June 30, 2013, the most recent actuarial valuation date (dollar amounts expressed in thousands):

	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age - (b)	Unfunded (Overfunded) AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a) / c)
State Employees	\$ 39,527	\$ 637,059	\$ 597,532	6.2%	\$ 671,762	88.9%
Teachers	3,230	12,569	9,339	25.7%	n/a	n/a
Judicial	2,151	1,054	(1,097)	204.1%	13,447	-8.2%
State Police	9,587	70,385	60,798	13.6%	17,748	342.6%
Legislators	2,202	1,549	(653)	142.2%	1,695	-38.5%
BOE	7,486	55,706	48,220	13.4%	113,375	42.5%

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 2014 were determined based on the June 30, 2011 valuations for all plans.

As of the June 30, 2011 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, 2011 is 25 years. The UAAL for teachers is being amortized as a level dollar amount over an 8-year period from June 30, 2007 and the remaining amortization period as of June 30, 2011 is 4 years.

For the June 30, 2011 valuation the actuarial assumptions include a 5.0% discount rate, a health care cost trend assumption of 9% progressively declining to 4% after 10 years, and salary growth assumption rates ranging between 4% and 12%. 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, 2013.

Several changes were made in OPEB specific actuarial assumptions and methods between the June 30, 2011 and June 30, 2013 valuations. Changes to the OPEB specific assumptions include a decrease in the wage inflation and long term health care cost inflation assumptions from 4% to 3.5%. In addition, the excise tax load expected to be imposed under the Patient Protection and Affordable Care Act on pre-65 liabilities was changed from 7.4% to 11%. Also, there was a change in actuarial method. The premium development methodology was changed to create a single premium for all groups.

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 actual actuarial assumptions used in the two most recent valuations assume that the plans will be subject to the excise tax in 2018.

The General Laws were amended in the 2013 session of the General Assembly to modify the manner in which health insurance is provided to Medicare eligible retirees covered under the System's plan covering state employees. Effective October 1, 2014 the State established health reimbursement accounts (HRA) for each Medicare eligible retiree who elects to receive health insurance coverage through the state sponsored program. In addition, certain changes in benefits offered under the program are effective in July 2014 and January 2015. The effect on the Actuarial Accrued Liability resulting from these changes is reflected in the valuation table on the preceding page.

The table on the following page summarizes the actuarial methods and assumptions used in the most recent actuarial valuation.

Summary of Actuarial Methods and Assumptions as of June 30, 2013 valuation						
	Plan					
	State Employees	Teachers	Judicial	State Police	Legislators	Board of Education
<b>Valuation Date</b>	June 30, 2013	June 30, 2013	June 30, 2013	June 30, 2013	June 30, 2013	June 30, 2013
<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	Individual Entry Age	Individual Entry Age	Individual Entry Age	Individual Entry Age	Individual Entry Age
<b>Amortization Method</b>	Level Percent of Payroll – Closed	Level Dollar	Level Percent of Payroll	Level Percent of Payroll – Closed	Level Percent of Payroll	Level Percent of Payroll – Closed
<b>Equivalent Single Remaining Amortization Period</b>	23 years closed	Determined by statutory contribution	30 years open	23 years closed	30 years open	23 years closed
<b>Asset Valuation Method</b>	Four year smoothed market	Four year smoothed market	Four year smoothed market	Four year smoothed market	Four year smoothed market	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>	3.50% to 6.50%	N/A	3.50%	3.50% to 11.5%	3.75% to 8.00%	3.50% to 6.50%
<b>Valuation Health Care Cost Trend Rate</b>	9% in 2014, grading to 3.5% in 2023	9% in 2014, grading to 3.5% in 2023	9% in 2014, grading to 3.5% in 2023	9% in 2014, grading to 3.5% in 2023	9% in 2014, grading to 3.5% in 2023	9% in 2014, grading to 3.5% in 2023
<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 16. 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 17. 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 year 2014, 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, 2014 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 Internal Service Fund Unpaid claims	\$ 15,436	\$ 213,066	\$ 212,174	\$ 16,328

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.

The State has entered into contracts with managed care health plans to share in either the aggregate risk (loss) or gain (profit) incurred by the plans over the course of the contract year. Managed care expenditures represent a relatively large portion of the State’s medical assistance expenditures.

**Note 18. 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	\$ 3,972	\$ 1,323	\$ 5,295	\$ (7,903)	\$ (2,608)
Loans to other funds	70,200		70,200	(70,200)	
Total assets	<u>\$ 74,172</u>	<u>\$ 1,323</u>	<u>\$ 75,495</u>	<u>\$ (78,103)</u>	<u>\$ (2,608)</u>
<b>Liabilities</b>					
Due to other funds	\$ 7,220	\$ 683	\$ 7,903	\$ (7,903)	\$
Loans from other funds	62,840	7,360	70,200	(70,200)	
Total liabilities	<u>\$ 70,060</u>	<u>\$ 8,043</u>	<u>\$ 78,103</u>	<u>\$ (78,103)</u>	<u>\$</u>
<b>Program revenue</b>					
General government	\$	\$ 288,489	\$ 288,489	\$ (288,489)	
Public safety		10,804	10,804	(10,804)	
<b>Expenses</b>					
General government		(288,728)	(288,728)	288,728	
Public safety		(10,565)	(10,565)	10,565	
Net revenue (expenses)	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>
<b>Transfers</b>					
Transfers in	\$ 566,076	\$	\$ 566,076	\$ (233,252)	\$ 332,824
Transfers out	(231,717)	(1,535)	(233,252)	233,252	
Net transfers	<u>\$ 334,359</u>	<u>\$ (1,535)</u>	<u>\$ 332,824</u>	<u>\$</u>	<u>\$ 332,824</u>
<b>Total Business-type Activities</b>					
			Total	Eliminations	Internal Balances
<b>Assets</b>					
Due from other funds	\$ 3,149	\$	\$ 3,149	\$ (541)	\$ 2,608
Total assets	<u>\$ 3,149</u>	<u>\$</u>	<u>\$ 3,149</u>	<u>\$ (541)</u>	<u>\$ 2,608</u>
<b>Liabilities</b>					
Due to other funds	\$ 541	\$	\$ 541	\$ (541)	\$
Total liabilities	<u>\$ 541</u>	<u>\$</u>	<u>\$ 541</u>	<u>\$ (541)</u>	<u>\$</u>
<b>Transfers</b>					
Transfers in	\$ 44,157	\$	\$ 44,157	\$ (44,157)	\$
Transfers out	(376,981)		(376,981)	44,157	(332,824)
Net transfers	<u>\$ (332,824)</u>	<u>\$</u>	<u>\$ (332,824)</u>	<u>\$</u>	<u>\$ (332,824)</u>

**B. Related Party Transactions**

The State has transferred custody, control and supervision of the Jamestown and the Sakonnet River Bridges and related land and improvements from the Department of Transportation to the R.I. Turnpike and Bridge Authority. While maintenance responsibilities for the two bridges rest with the RITBA, ownership and title remains with the State.

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) 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 State has transferred land reclaimed from the Interstate 195 relocation project and the Washington Bridge project to the I-195 Redevelopment District Commission (I-195 RDC). The value of the land was reported in the State's financial statements as a capital contribution at the historical cost of \$343 per acre, for a total of \$7,203. Significant improvements to the land are being funded by the state to complete redevelopment of the land for sale. In April 2013, the R.I. Commerce Corporation (RICC) issued conduit debt obligations on behalf of the I-195 RDC totaling \$38,400,000. In connection with this issuance there were financing fees of approximately \$1.494 million, which were paid principally by the State. This payment is included in the General Government's expenses in the State's financial statements.

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.

### **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 97.0 percent of estimated general revenues. The remaining 3.0 percent is contributed to the Budget Reserve Account until such account equals 5.0 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.

The State's budget documents may be accessed at the following website: <http://www.budget.ri.gov/>.

#### **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. Commerce Corporation	\$ 14,948	Operating and capital assistance
University of Rhode Island	65,062	Operating assistance
Rhode Island College	38,930	Operating assistance
Community College of Rhode Island	44,703	Operating assistance
Central Falls School District	45,525	Operating assistance
R.I. Public Transit Authority	5,475	Operating assistance
IST		
R.I. Public Transit Authority	40,806	Operating assistance
Bond Capital		
University of Rhode Island	7,566	Construction, improvement or purchase of assets
Rhode Island College	6,243	Construction, improvement or purchase of assets
R. I. Capital Plan		
University of Rhode Island	14,052	Construction, improvement or purchase of assets
Rhode Island College	5,968	Construction, improvement or purchase of assets
Total Governmental Activities	<u>\$ 289,278</u>	

## E. Individual Fund Deficits

The following Internal Service Funds had cumulative fund deficits at June 30, 2014:

- Assessed Fringe Benefits (\$1,404,000)
- Central Utilities (\$13,000)
- Central Mail (\$270,000)
- State Telecommunications (\$270,000)
- Records Center (\$100,000)
- Capitol Police (\$90,000)

The deficits will be eliminated through charges for services in fiscal year 2015.

## F. Restatements – Net Position and Fund Balances

Restatements of June 30, 2013 net position/fund balances (expressed in thousands) are in the table below:

	Governmental Activities	Proprietary and Business-type Activities	Discretely Presented Component Units
Balances previously reported at June 30, 2013			
Net position	\$ 1,842,302	\$ (143,514)	\$ 1,858,918
Fund balance			
Restatement due to:			
(1) <i>Implementation of GASB 65</i>	(13,183)	(2,111)	(22,753)
(2) <i>Change in financial reporting entity</i>			4,933
(3) <i>Correction of errors</i>	(1,405)		361
(4) <i>Adjustments to Carrying Value of Capital Assets</i>	(1,972)		
June 30, 2013 net position/fund balance, as restated	<u>\$ 1,825,742</u>	<u>\$ (145,625)</u>	<u>\$ 1,841,459</u>

- (1) The State implemented *GASB Statement No. 65 – Items Previously Reported as Assets and Liabilities*. The implementation of this standard caused the restatement of the State's beginning

net position at July 1, 2013 primarily due to the immediate recognition of previously deferred bond issuance costs. See Note 1S for more details on this standard. Within the Business-type Activities, the RI Convention Center Authority, a major fund, restated beginning net position by \$2.1 million. Within the discretely presented component units, the four major component units and the approximate amounts restated were as follows; University of Rhode Island (\$10.5 million), R. I. Airport Corporation (\$2.9 million), I-195 Redevelopment District Commission (\$1.5 million), and R. I. Turnpike and Bridge Authority (\$1.1 million).

- (2) *Change in financial reporting entity* - The State added The Metropolitan Regional Career and Technical Center (The Met) as a component unit.
- (3) *Correction of errors* – Tobacco Settlement Financing Corporation, a blended component unit, had previously calculated accreted interest as of the maturity date of the respective series of revenue bonds (June 01), rather than June 30th. The Rhode Island Public Transit Authority, a discretely presented component unit, had a correction to the amount of its accrued vacation liability.
- (4) *Adjustments to Carrying Value of Capital Assets* – During fiscal year 2014, a net reduction of \$1,972,514 was recorded as a prior period adjustment related to capital assets. Of this net amount a reduction of \$3,250,163 was attributable to the adjustment of the carrying value of a software development project for costs that should not have been included in construction in progress in prior fiscal years. In addition, an increase of \$1,277,649 was recorded in the carrying value of buildings due to the State's recognition in fiscal year 2014 of costs related to a State owned building constructed at The Met in a prior fiscal year.

## Note 19. Subsequent Events

### Primary Government

In November 2014 the State issued \$208,240,000 of General Obligation Bonds. The Series B and C bonds in the amount of \$46,125,000 mature in 2015 through 2034 and will be used for a variety of purposes including a new facility for the care of veterans, transportation infrastructure projects and affordable housing initiatives. The Series D bonds, in the amount of \$162,115,000, refunded previous general obligation bonds.

In November 2014 the State issued \$49,495,000 of Lease Participation Certificates. The proceeds will be used to fund energy conservation projects and technology initiatives. The Certificates mature in 2015 through 2029.

In November 2014 the voters of the State approved referenda to authorize the following general obligation bonds: (1) \$125.0 million for a new College of Engineering building at the University of Rhode Island, (2) \$30.0 million for grants to performance and cultural arts centers throughout the State, (3) \$53.0 million for environmental and recreational projects, and (4) \$35.0 million for Mass Transit Hub Infrastructure.

The General Laws were amended in the 2013 session of the General Assembly to modify the manner in which health insurance is provided to Medicare eligible retirees covered under the System's plan covering state employees. On October 1, 2014, the State established a health reimbursement account (HRA) for each Medicare eligible retiree who elects to receive health insurance coverage through the state sponsored program.

On July 15, 2014, Tobacco Settlement Financing Corporation (TSFC) approved resolutions authorizing the issuance of bonds not to exceed \$630.0 million to 1) finance a payment to the state in an amount not less than \$20.0 million; 2) to refund all of TSFC's outstanding tobacco settlement asset-backed bonds, Series 2002A; 3) to fund the open market purchase of certain maturities of TSFC's outstanding tobacco settlement asset-backed bonds, Series 2007 accepted for purchase by TSFC; 4) to make deposits to the debt service reserve account with respect to the Series 2014 bonds; and, 5) to pay related cost of issuance of the Series 2014 bonds. On August 4, 2014, a holder of Series 2002 and Series 2007 bonds filed a complaint in Rhode Island Superior Court contending that the proposed 2014 transaction would violate State law and provisions in the 2007 indenture. TSFC filed a response and counterclaim on August 25, 2014 arguing that State law enacted by the 2014 General Assembly specifically authorizes this transaction and that provisions of the

2007 indenture are being followed as required. On August 29, 2014, the plaintiff filed a motion to amend their original complaint to add the State and future buyers of the Series 2014 bonds as additional defendants in the lawsuit. TSFC filed a response opposing the plaintiff's motion to amend, as well as a motion for partial judgment on the pleading contending that the plaintiff is barred from bringing any action under the 2007 indenture until all the 2002A bonds are paid in full. On September 29, 2014, the Judge ruled in favor of the plaintiff and allowed the motion to amend the original complaint. The TSFC has filed a motion for summary judgment, for which oral arguments were heard on December 8, 2014.

Pursuant to legislation passed by the General Assembly in the 2014 session, on August 21, 2014 the R.I. Refunding Bond Authority (RIRBA), a blended component unit which had been dormant for several years, entered into a loan with a bank for approximately \$23.5 million. The loan bears interest at an annual rate of 1.087% and is repayable in three annual payments, beginning on August 1, 2015 and ending on August 1, 2017.

Approximately \$21.8 million of the loan proceeds were transferred to an escrow account and used in September 2014 to retire certain outstanding debt of the Depositors Economic Protection Corporation (DEPCO) which had previously been defeased. DEPCO was formerly a blended component unit that was liquidated in 2004. The investments held in the DEPCO escrow account were transferred to an escrow account established in the name of the RIRBA. These investments are pledged as collateral for the loan and will be used to pay principal and interest on the bank loan as they come due.

As a result of this transaction, after paying costs of issuance, the RIRBA transferred to the State approximately \$1.5 million which will be used as a resource in fiscal year 2015.

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

On October 30, 2014 the Rhode Island Housing and Mortgage Finance Corporation (RIHMFC) issued Series 65-T taxable Homeownership Opportunity Bonds (HOB) in the amount of \$86,505,000. On October 31, 2014 these refunding bond proceeds were used to redeem \$86,505,000 of HOB Series 49 and 50 bonds.

RIHMFC has been informed by the United States Department of Housing and Urban Development (HUD) that it may be required to reimburse HUD for certain funds that RIHMFC advanced under the federal Continuum of Care Program to the Urban League of Rhode Island in support of the Safe Haven program. Based upon the information available, RIHMFC does not believe that the final resolution of this matter will have a material impact on its operations, programs or financial condition.

HUD's Office of the Inspector General is conducting an ongoing review of the RIHMFC administration of the Home Investment Partnerships Program (HOME) for the period of March 1, 2010 through February 28, 2013. Based upon the information available, RIHMFC does not believe that the final resolution of this matter will have a material impact on its operations, programs or financial condition.

In November, 2014, the Rhode Island Turnpike and Bridge Authority refinanced its \$30 million Series 2013A Bond Anticipation Note. The Series 2013A Bond Anticipation Note was paid off with the issuance of the Series 2014A/B Bond Anticipation Note with a principal amount of \$60 million. \$30 million paid off the Series 2013A Bond Anticipation Note and the balance of \$30 million constituted proceeds to be used to fund additional capital projects that are in process.



# Required Supplementary Information



State of  
Rhode Island

**CAFR**  
**2014**

**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, 2014**  
**(Expressed in Thousands)**

	Original Budget	Final Budget	Actual	Variance with Final Budget
<b>Revenues:</b>				
General Revenues:				
Personal Income Tax	\$ 1,109,155	\$ 1,103,200	\$ 1,115,513	\$ 12,313
General Business Taxes:				
Business Corporations	141,300	117,100	114,215	(2,885)
Public Utilities Gross Earnings	94,900	108,000	101,382	(6,618)
Financial Institutions	4,300	13,500	16,611	3,111
Insurance Companies	98,816	106,000	102,357	(3,643)
Bank Deposits	2,500	2,400	2,472	72
Health Care Provider Assessment	42,611	41,800	42,131	331
Sales and Use Taxes:				
Sales and Use	887,202	907,000	916,083	9,083
Motor Vehicle	51,800	52,300	52,408	108
Motor Fuel	1,000	500	524	24
Cigarettes	130,700	139,100	139,462	362
Alcohol	18,173	17,600	18,252	652
Other Taxes:				
Inheritance and Gift	31,800	38,100	43,592	5,492
Racing and Athletics	1,200	1,200	1,177	(23)
Realty Transfer Tax	7,500	8,000	7,962	(38)
Total Taxes (1)	<u>2,622,957</u>	<u>2,655,800</u>	<u>2,674,141</u>	<u>18,341</u>
Departmental Revenue	<u>348,708</u>	<u>359,161</u>	<u>360,678</u>	<u>1,517</u>
Total Taxes and Departmental Revenue	<u>2,971,665</u>	<u>3,014,961</u>	<u>3,034,819</u>	<u>19,858</u>
Other Sources:				
Lottery	394,100	380,700	376,327	(4,373)
Unclaimed Property	9,700	11,900	12,724	824
Other Miscellaneous	5,545	8,480	6,392	(2,088)
Total Other Sources	<u>409,345</u>	<u>401,080</u>	<u>395,443</u>	<u>(5,637)</u>
Total General Revenues	<u>3,381,010</u>	<u>3,416,041</u>	<u>3,430,261</u>	<u>14,221</u>
Federal Revenues	2,337,828	2,522,694	2,345,942	(176,752)
Restricted Revenues	246,323	271,142	216,142	(55,000)
Other Revenues	66,002	65,234	59,334	(5,900)
Total Revenues (2)	<u>6,031,163</u>	<u>6,275,111</u>	<u>6,051,679</u>	<u>(223,431)</u>
<b>Expenditures (4):</b>				
General government	699,866	765,754	686,282	79,472
Human services	3,292,477	3,412,937	3,325,539	87,398
Education	1,421,090	1,416,768	1,388,057	28,711
Public safety	495,101	516,767	479,997	36,770
Natural resources	101,374	99,242	76,118	23,124
Total Expenditures (2)	<u>6,009,908</u>	<u>6,211,468</u>	<u>5,955,993</u>	<u>\$ 255,475</u>
Transfer of Excess Budget Reserve to RI Capital Fund			101,272	
Transfer of Fiscal 2013 Excess Revenue to Employees' Retirement System			169	
Total Expenditures and Transfers	<u>\$ 6,009,908</u>	<u>\$ 6,211,468</u>	<u>6,057,434</u>	
Change in Fund Balance			(5,755)	
Fund balance - beginning			<u>401,134</u>	
Fund balance - ending			<u>\$ 395,379</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, 2014**  
**(Expressed in Thousands)**

	Original Budget	Final Budget	Actual	Variance with Final Budget
<b>Expenditures by Source:</b>				
General Revenues	\$ 3,359,755	\$ 3,352,399	\$ 3,336,423	\$ 15,976
Federal Funds	2,337,827	2,522,694	2,347,940	174,754
Restricted Receipts	246,324	271,141	214,259	56,882
Other Funds	66,002	65,234	57,371	7,863
	<u>\$ 6,009,908</u>	<u>\$ 6,211,468</u>	<u>\$ 5,955,993</u>	<u>\$ 255,475</u>

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

**Budgeted Surplus:**

Total Revenue - Final Budget	\$ 6,275,111
Total Expenditures - Final Budget	<u>6,211,468</u>
<b>Final Budget - Projected Surplus (3)</b>	\$ 63,643

**Final Budget and Actual - Results**

Total Revenues - Variance (Actual Revenue less than Budget)	\$ (223,432)
Total Expenditures - Variance (Actual Expenditures less than Budget)	<u>255,475</u>
<b>Surplus resulting from operations compared to final budget</b>	<u>\$ 32,043</u>
Total General Fund Surplus - Fiscal Year Ended June 30, 2014	\$ 95,686
Transfer of Fiscal 2013 Excess Revenue to Employees' Retirement System	(169)
Transfer of Excess Budget Reserve to RICAP Fund	<u>(101,272)</u>
<b>Net Change in General Fund - Fund Balance</b>	\$ (5,755)
Fund Balance, Beginning	<u>401,134</u>
Fund Balance, Ending	<u>\$ 395,379</u>

**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 97.0% of estimated general revenue for the fiscal year ending June 30, 2014.

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

General government	\$ 157,586
Education	30,427
	<u>\$ 188,013</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, 2014**  
**(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 2015</b>	<b>Fund Balance Available for Appropriation in Fiscal 2015</b>
Restricted	\$ 297,617	\$ 297,617	\$
Committed	18,564	18,564	
Assigned	72,005	11,391 (a)	60,614 (b)
Unassigned	7,193		7,193 (c)
<b>Total Fund Balance</b>	<b>\$ 395,379</b>	<b>\$ 327,572</b>	<b>\$ 67,807</b>

(a) Assigned fund balance not available for appropriation in fiscal 2015 includes (1) centralized cost allocation surplus that requires offset through fiscal 2015 centralized charges and (2) general revenue appropriations carried forward by the Governor, Judiciary, and Legislature.

(b) Assigned fund balance available for appropriation in fiscal 2015 includes fiscal 2014 ending surplus amounts of \$59.2 million appropriated as resources in the 2015 enacted budget, and fund balance amounts encumbered at June 30, 2014.

(c) Remaining fund balance available for appropriation.

(concluded)

See Notes to Required Supplementary Information.

**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, 2014**  
*(Expressed in Thousands)*

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
<b>Revenues:</b>				
Taxes	\$ 135,374	\$ 153,538	\$ 137,542	\$ (15,996)
Departmental restricted revenue	8,010	6,869	7,172	303
Federal grants	311,762	355,028	284,736	(70,292)
Other revenues	300	375	54	(321)
Total revenues	<u>455,446</u>	<u>515,810</u>	<u>429,504</u>	<u>(86,306)</u>
<b>Revenues and other Financing Sources (unbudgeted):</b>				
Miscellaneous revenue			3,544	
Total revenues			<u>433,048</u>	
Other Financing Sources:				
Transfers from RI Capital Plan and Bond Capital Funds (State FHWA Match)			25,480	
Total Other Financing Sources			<u>25,480</u>	
Total Revenues and Other Financing Sources			<u>458,528</u>	
<b>Expenditures (budgeted):</b>				
Central Management				
Federal Funds	11,308	11,400	7,558	3,842
Gasoline Tax	1,456	1,694	1,233	461
Total - Central Management	<u>12,764</u>	<u>13,094</u>	<u>8,791</u>	<u>4,303</u>
Management and Budget				
Gasoline Tax	1,550	2,166	542	1,624
Total - Management and Budget	<u>1,550</u>	<u>2,166</u>	<u>542</u>	<u>1,624</u>
Infrastructure-Engineering-GARVEE/ Motor Fuel Tax Bonds				
Federal Funds	293,588	330,906	274,318	56,588
Federal Funds-Stimulus	6,866	12,722	2,582	10,140
Restricted Receipts	8,010	6,869	7,203	(334)
Gasoline Tax	53,062	53,138	53,138	
Land Sale Revenue	14,809	9,100	288	8,812
Total - Infrastructure - Engineering	<u>376,335</u>	<u>412,735</u>	<u>337,529</u>	<u>75,206</u>
Infrastructure - Maintenance				
Gasoline Tax	42,251	43,905	43,153	752
Non-Land Surplus Property	125	50		50
Outdoor Advertising	175	325		325
Total - Infrastructure - Maintenance	<u>42,551</u>	<u>44,280</u>	<u>43,153</u>	<u>1,127</u>
Total Expenditures (budgeted)	<u>\$ 433,200</u>	<u>\$ 472,275</u>	<u>\$ 390,015</u>	<u>\$ 82,260</u>
<b>Expenditures and Financing Uses (unbudgeted):</b>				
Infrastructure Expenditures - State Match funded by RI Capital Plan and Bond Capital Funds			32,141	
Infrastructure Expenditures - GARVEE			21,773	
Mission 360 Loan Program			459	
Transfers to General Fund - Gas Tax			37,413	
Total Expenditures and Financing Uses (unbudgeted)			<u>91,786</u>	
Total Expenditures and Other Financing Uses			<u>481,801</u>	
Net change in fund balance			<u>(23,273)</u>	
Fund balance, beginning			<u>141,710</u>	
Fund balance, ending			<u>\$ 118,437</u>	

See Notes to Required Supplementary Information.

State of Rhode Island and Providence Plantations  
Required Supplementary Information  
Schedules of Funding Progress  
Pension Trusts  
June 30, 2014  
(Expressed in Thousands)

**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)
06/30/2014	\$ 6,191,278	\$ 10,542,944	\$ 4,351,666	58.7%	\$ 1,657,770	262.5%
06/30/2013	6,108,845	10,531,365 *	4,422,520 *	58.0% *	1,627,644	271.7% *
06/30/2012	6,167,491	10,670,343	4,502,851	57.8%	1,641,383	274.3%

\* - Amounts were restated as a result of changes in actuarial assumptions.

**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)
06/30/2014	\$ 104,781	\$ 109,622	\$ 4,840	95.6%	\$ 20,815	23.3%
06/30/2013	92,917	102,259	9,342	90.9%	19,904	46.9%
06/30/2012	84,294	94,032	9,738	89.6%	23,670	41.1%

**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)
06/30/2014	\$ 53,831	\$ 57,252	\$ 3,421	94.0%	\$ 9,310	36.7%
06/30/2013	47,641	54,430 *	6,789 *	87.5% *	8,976	75.6% *
06/30/2012	43,429	52,085	8,657	83.4%	8,823	98.1%

\* - Amounts were restated as a result of changes in actuarial assumptions.

**Rhode Island Judicial Retirement Fund 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)
06/30/2013	\$ 153	\$ 16,908	\$ 16,755	0.9%	\$ 1,255	1335.1%
06/30/2012 **	-	16,387	16,387	0.0%	1,231	1331.2%

\*\* Plan was effective July 1, 2012.

See Notes to Required Supplementary Information.

State of Rhode Island and Providence Plantations  
Required Supplementary Information  
Schedules of Funding Progress  
Other Postemployment Benefits  
June 30, 2014  
(Expressed in Thousands)

**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)
06/30/2013	\$ 39,527	\$ 637,059	\$ 597,532	6.2%	\$ 671,762	88.9%
06/30/2011	11,545	728,207	716,662	1.6%	600,273	119.4%
06/30/2009	-	673,640	673,640	0.0%	574,569	117.2%

**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)
06/30/2013	\$ 3,230	\$ 12,569	\$ 9,339	25.7%	NA	NA
06/30/2011	2,040	11,512	9,472	17.7%	NA	NA
06/30/2009	-	13,529	13,529	0.0%	NA	NA

**Judicial Plan**

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	(Overfunded)/ Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a) / c)
06/30/2013	\$ 2,151	\$ 1,054	\$ (1,097)	204.1%	\$ 13,447	-8.2%
06/30/2011	841	2,610	1,769	32.2%	10,813	16.4%
06/30/2009	-	8,665	8,665	0.0%	9,395	92.2%

**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)
06/30/2013	\$ 9,587	\$ 70,385	\$ 60,798	13.6%	\$ 17,748	342.6%
06/30/2011	1,488	81,759	80,271	1.8%	17,384	461.8%
06/30/2009	-	67,079	67,079	0.0%	16,725	401.1%

**Legislators Plan**

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	(Overfunded)/ Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a) / c)
06/30/2013	\$ 2,202	\$ 1,549	\$ (653)	142.2%	\$ 1,695	-38.5%
06/30/2011	1,442	1,443	1	99.9%	1,615	0.1%
06/30/2009	-	11,752	11,752	0.0%	1,612	729.0%

**Board of 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)
06/30/2013	\$ 7,486	\$ 55,706	\$ 48,220	13.4%	\$ 113,375	42.5%
06/30/2011	3,189	53,751	50,562	5.9%	125,340	40.3%
06/30/2009	-	58,476	58,476	0.0%	106,665	54.8%

See Notes to Required Supplementary Information.

## 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 budget to actual comparison for the General Fund on pages 124 through 126 is summarized and does not present budget and actual amounts detailed at the legal level of budgetary control. 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. A separate schedule presenting such amounts at the detailed legal level of budgetary control is available on the State Controller's website, <http://controller.admin.ri.gov/index.php>.

The comprehensive annual budget includes transportation function expenditures, the majority of which are reflected in the IST Fund for financial reporting purposes. The IST Fund major fund financial statements include transportation related activity of the various transportation funding sources including gas tax revenues, federal funds, GARVEE and Motor Fuel Bonds, and the proceeds of bonds issued by the I-195 Redevelopment District which were transferred to the IST fund to be utilized for infrastructure projects. The budget to actual comparison schedule for the IST fund on page 127 is presented at the legal level of budgetary control consistent with the legally adopted budget. Not all the activity reported within the IST fund financial statements is budgeted. Unbudgeted activity has been separately identified in the budget to actual comparison schedule to facilitate reconciliation to the IST 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.

## 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 as of the dates indicated in the schedules. Information about actuarial assumptions used in latest valuations can be found in Note 14.

### 2. Schedules of Funding Progress

#### ***Changes affecting the June 30, 2014 actuarial valuation:***

There were a number of changes in the actuarial assumptions used in the June 30, 2014 valuation for the Employees' Retirement System. A flat 25% per year retirement probability for members eligible for retirement was made. In addition, if in the first year a member is eligible for an unreduced retirement they have more than 25 years of service or at least age 65, the probability of retiring is adjusted to 50% for state employees and 35% for teachers. Also, future expectations for wage inflation were lowered.

#### ***Changes affecting the June 30, 2013 actuarial valuation:***

There were no changes in the actuarial assumptions used in the June 30, 2013 valuations for the Employees' Retirement System and the Judicial Retirement Benefits Trust. For the State Police Retirement Benefits Trust

assumptions were the same as those used in the prior valuation with the exception of the assumption related to overtime compensation which was changed to assume all members will work 400 hours of overtime during their final averaging period.

***Changes affecting the June 30, 2012 actuarial valuation:***

The assumptions for the Employees' Retirement System, Judicial Retirement Benefits Trust, and the State Police Retirement Benefits Trust are consistent with the 2011 valuation, with the exception of certain assumption changes that resulted from the enactment of the Rhode Island Retirement Security Act of 2011.

The method used to determine the actuarial value of assets is the five-year smoothed market method. A small adjustment was made to the method used to smooth investment gains and losses to allow gains and losses to offset each other immediately. This modification will reduce future volatility in the actuarial value of assets while ensuring that the actuarial value always trends directly towards the market value of assets. In addition, a minor modification to the retirement rate assumption was also made for the plans.

The assumptions used in the Rhode Island Judicial Retirement Fund Trust are consistent with those listed in the Judicial Retirement Benefits Trust; however, the investment return assumption used within this valuation is 4.00%. This rate was selected because the plan is not currently advance funded. Consistent with generally accepted accounting principles, a plan that is not prefunded should use a lower investment assumption than a prefunded plan. The investment return assumption should reflect the expected return on assets that will be used to pay benefits. This plan is for a closed group of individuals and the amortization payment has been calculated based on level-dollar amortization with a 16-year amortization period.

## 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, 2013, is included in Note 15.

### 2. Schedules of Funding Progress

#### ***Changes affecting the June 30, 2013 Actuarial Valuation:***

Several changes were made in OPEB specific actuarial assumptions and methods between the June 30, 2011 and June 30, 2013 valuations. Changes to the OPEB specific assumptions include a decrease in the wage inflation and long term health care assumptions from 4% to 3.5%. In addition, the excise tax load expected to be imposed under the Patient Protection and Affordable Care Act on pre-65 liabilities was changed from 7.4% to 11%. Also, there was a change in actuarial method. The premium development methodology was changed to create a single premium for all groups.

#### ***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 from 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.

The General Laws were amended in the 2013 session of the General Assembly to modify the manner in which health insurance is provided to Medicare eligible retirees covered under the System's plan covering state employees. The System's actuary has updated the June 30, 2011 actuarial valuation to reflect the effect on the Actuarial Accrued Liability resulting from this change.

***Changes affecting the June 30, 2009 Actuarial Valuation:***

With the creation of the trust effective July 1, 2010, the State Employees and Board of Education 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 except for the Board of Education Plan. For the Board of Education Plan, the medical trend assumption changed from 9% decreasing to 4.5% in ten years to 9% decreasing to 4% in ten 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.



# Combining Financial Statements



State of  
Rhode Island

**CAFR**  
**2014**

## Nonmajor 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 are 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.

**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.

**Debt Service Funds** – are used to account for and report financial resources that are restricted, committed, or assigned to expenditure for principal and interest. Debt service funds are used to report resources if legally mandated or when financial resources are being accumulated for principal and interest maturing in future years.

**Tobacco Settlement Financing Corporation (TSFC)** – created to securitize the tobacco settlement revenues from the State.

**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, 2014**  
**(Expressed in Thousands)**

	<b>Special Revenue</b>				
	<b>Coastal Resources Management Council Dredge</b>	<b>R.I. Temporary Disability</b>	<b>Historic Tax Credit Financing</b>	<b>R.I. Public Rail Corporation</b>	<b>Total Special Revenue Funds</b>
<b>Assets</b>					
Cash and cash equivalents	\$ 673	\$ 110,389	\$ 3,490	\$ 79	\$ 114,631
Funds on deposit with fiscal agent			2,355		2,355
Restricted investments					
Receivables (net)		46,094			46,094
Loans to other funds					
Total assets	\$ 673	\$ 156,483	\$ 5,845	\$ 79	\$ 163,080
<b>Liabilities and Fund Balances</b>					
<b>Liabilities</b>					
Accounts payable		56	359		415
Due to other funds		979			979
Due to component units					
Loans from other funds					
Other liabilities		216			216
Total liabilities		1,251	359		1,610
<b>Fund balances</b>					
Nonspendable					
Restricted	673	155,232	5,486		161,391
Unrestricted					
Committed				79	79
Total fund balances	673	155,232	5,486	79	161,470
Total liabilities and fund balances	\$ 673	\$ 156,483	\$ 5,845	\$ 79	\$ 163,080

(Continued)

**State of Rhode Island and Providence Plantations**  
**Combining Balance Sheet**  
**Nonmajor Governmental Funds**  
**June 30, 2014**  
**(Expressed in Thousands)**

	<u>Capital Project</u>				<u>Total Capital Project Funds</u>	<u>Debt Service</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>Tobacco Settlement Financing Corporation</u>	<u>Permanent School</u>	
<b>Assets</b>								
Cash and cash equivalents	\$ 127,642	\$ 87,216	\$ 5,292	\$	\$ 220,150	\$ 209	\$ 2,054	\$ 337,044
Funds on deposit with fiscal agent				15,587	15,587			17,942
Restricted investments						70,128		70,128
Receivables (net)						24,193		70,287
Loans to other funds		50,647			50,647			50,647
<b>Total assets</b>	<b>\$ 127,642</b>	<b>\$ 137,863</b>	<b>\$ 5,292</b>	<b>\$ 15,587</b>	<b>\$ 286,384</b>	<b>\$ 94,530</b>	<b>\$ 2,054</b>	<b>\$ 546,048</b>
<b>Liabilities and Fund Balances</b>								
<b>Liabilities</b>								
Accounts payable	4,250	8,909		11,716	24,875		8	25,298
Due to other funds	3,209	1,279		602	5,090		32	6,101
Due to component units	1,416	3,209		54	4,679			4,679
Loans from other funds	9,600			2,593	12,193			12,193
Other liabilities	67				67			283
<b>Total liabilities</b>	<b>18,542</b>	<b>13,397</b>		<b>14,965</b>	<b>46,904</b>		<b>40</b>	<b>48,554</b>
<b>Fund balances</b>								
Nonspendable							174	174
Restricted	109,100	124,466	5,292	622	239,480	94,530	1,840	497,241
Unrestricted								
Committed								79
<b>Total fund balances</b>	<b>109,100</b>	<b>124,466</b>	<b>5,292</b>	<b>622</b>	<b>239,480</b>	<b>94,530</b>	<b>2,014</b>	<b>497,494</b>
<b>Total liabilities and fund balances</b>	<b>\$ 127,642</b>	<b>\$ 137,863</b>	<b>\$ 5,292</b>	<b>\$ 15,587</b>	<b>\$ 286,384</b>	<b>\$ 94,530</b>	<b>\$ 2,054</b>	<b>\$ 546,048</b>

(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, 2014**  
**(Expressed in Thousands)**

	<b>Special Revenue</b>				
	<b>Coastal Resources Management Council Dredge</b>	<b>R.I. Temporary Disability</b>	<b>Historic Tax Credit</b>	<b>R.I. Public Rail Corporation</b>	<b>Total Special Revenue Funds</b>
<b>Revenues:</b>					
Taxes	\$	\$ 170,951	\$	\$	\$ 170,951
Licenses, fines, sales, and services			1,817	27	1,844
Income from investments		241	1		242
Other revenues					
Total revenues		171,192	1,818	27	173,037
<b>Expenditures:</b>					
Current:					
General government		168,057			168,057
Education					
Natural resources	9				9
Transportation				1,941	1,941
Capital outlays					
Debt service:					
Principal					
Interest and other charges					
Total expenditures	9	168,057		1,941	170,007
Excess (deficiency) of revenues over (under) expenditures	(9)	3,135	1,818	(1,914)	3,030
<b>Other financing sources (uses)</b>					
Bonds and notes issued					
Proceeds from refundings					
Premium					
Transfers in				1,925	1,925
Payment to refunded bonds escrow agent					
Transfers out		(1,907)	(7,617)		(9,524)
Total other financing sources (uses)		(1,907)	(7,617)	1,925	(7,599)
Net change in fund balances	(9)	1,228	(5,799)	11	(4,569)
Fund balances - beginning	682	154,004	11,285	68	166,039
Fund balances - ending	\$ 673	\$ 155,232	\$ 5,486	\$ 79	\$ 161,470

(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, 2014**  
**(Expressed in Thousands)**

	Capital Projects				Total Capital Project Funds	Debt Service	Permanent	Total Nonmajor Governmental Funds
	Bond Capital	R.I. Capital Plan	R.I. Clean Water Act Environmental Trust	Certificates of Participation		Tobacco Settlement Financing Corporation	Permanent School	
<b>Revenues:</b>								
Taxes	\$	\$	\$	\$	\$	\$	\$	\$ 170,951
Licenses, fines, sales, and services							246	2,090
Income from investments	112	135	4	14	265	3,300	2	3,809
Other revenues						52,748		52,748
<b>Total revenues</b>	<b>112</b>	<b>135</b>	<b>4</b>	<b>14</b>	<b>265</b>	<b>56,048</b>	<b>248</b>	<b>229,598</b>
<b>Expenditures:</b>								
Current:								
General government						62		168,119
Education							273	273
Natural resources								9
Transportation								1,941
Capital outlays	25,359	94,469	16	20,004	139,848			139,848
Debt service:								
Principal				1,565	1,565	20,340		21,905
Interest and other charges	1,073			281	1,354	35,229		36,583
<b>Total expenditures</b>	<b>26,432</b>	<b>94,469</b>	<b>16</b>	<b>21,850</b>	<b>142,767</b>	<b>55,631</b>	<b>273</b>	<b>368,678</b>
Excess (deficiency) of revenues over (under) expenditures	(26,320)	(94,334)	(12)	(21,836)	(142,502)	417	(25)	(139,080)
<b>Other financing sources (uses)</b>								
Bonds and notes issued	53,150				53,150			53,150
Proceeds from refundings	78,700				78,700			78,700
Premium	14,719				14,719			14,719
Transfers in		104,593		2,030	106,623			108,548
Payment to refunded bonds escrow agent	(91,991)				(91,991)			(91,991)
Transfers out	(19,686)	(12,309)			(31,995)			(41,519)
<b>Total other financing sources (uses)</b>	<b>34,892</b>	<b>92,284</b>		<b>2,030</b>	<b>129,206</b>			<b>121,607</b>
<b>Net change in fund balances</b>	<b>8,572</b>	<b>(2,050)</b>	<b>(12)</b>	<b>(19,806)</b>	<b>(13,296)</b>	<b>417</b>	<b>(25)</b>	<b>(17,473)</b>
Fund balances - beginning	100,528	126,516	5,304	20,428	252,776	94,113	2,039	514,967
Fund balances - ending	\$ 109,100	\$ 124,466	\$ 5,292	\$ 622	\$ 239,480	\$ 94,530	\$ 2,014	\$ 497,494

(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, 2014**  
**(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	\$ 170,951	\$ 170,951	\$ 170,951	\$
Other Revenues	241	241	241	
Total Revenues	<u>171,192</u>	<u>171,192</u>	<u>171,192</u>	
<b>Expenditures:</b>				
Department of Labor and Training	172,549	181,062	169,764	11,298
Treasury Department	229	210	200	10
Total Expenditures	<u>\$ 172,778</u>	<u>\$ 181,272</u>	<u>\$ 169,964</u>	<u>\$ 11,308</u>
Net change in fund balance			1,228	
* Fund balance - beginning			154,004	
Fund balance - ending			<u><u>\$ 155,232</u></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 provision 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 telecommunication services for the State and processes all of the telephone bills for the State and charges the expending department/agency.

**Automotive Maintenance** – approves work orders, pays the corresponding bills for the State's motor vehicle 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 the expenses incurred from the disposition of State surplus property.

**Record Center** – provides a centralized location for the archival of State documents.

**Health Insurance Active** – pays active employee health benefits.

**State Fleet 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 Position**  
**Internal Service Funds**  
**June 30, 2014**  
**(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	\$ 2,739	\$ 1,702	\$	\$	\$ 723	\$ 2,463	\$ 43
Receivables (net)	1,752		423	122	422	20	1,140
Due from other funds		390	114			228	113
Inventories			227		416	506	663
Other assets							
Total current assets	<u>4,491</u>	<u>2,092</u>	<u>764</u>	<u>122</u>	<u>1,561</u>	<u>3,217</u>	<u>1,959</u>
Noncurrent assets:							
Capital assets (net)	<u>22</u>				<u>75</u>	<u>2,575</u>	<u>93</u>
Total noncurrent assets	<u>22</u>				<u>75</u>	<u>2,575</u>	<u>93</u>
Total assets	<u>4,513</u>	<u>2,092</u>	<u>764</u>	<u>122</u>	<u>1,636</u>	<u>5,792</u>	<u>2,052</u>
<b>Liabilities:</b>							
Current liabilities:							
Accounts payable	193	1,109	61	40	438	349	404
Due to other funds	210			85	197		
Loans from other funds	4,650	988	787	149			
Other liabilities	864	8	186	118	80	118	254
Total current liabilities	<u>5,917</u>	<u>2,105</u>	<u>1,034</u>	<u>392</u>	<u>715</u>	<u>467</u>	<u>658</u>
<b>Net Position (Deficit):</b>							
Net investment in capital assets	22				75	2,575	93
Unrestricted	(1,426)	(13)	(270)	(270)	846	2,750	1,301
Total net position (deficit)	<u>\$ (1,404)</u>	<u>\$ (13)</u>	<u>\$ (270)</u>	<u>\$ (270)</u>	<u>\$ 921</u>	<u>\$ 5,325</u>	<u>\$ 1,394</u>

(Continued)

**State of Rhode Island and Providence Plantations**  
**Combining Statement of Net Position**  
**Internal Service Funds**  
**June 30, 2014**  
**(Expressed in Thousands)**

	<b>Surplus Property</b>	<b>Records Center</b>	<b>Health Insurance Active</b>	<b>State Fleet Replacement Revolving Loan</b>	<b>Capitol Police</b>	<b>Total</b>
<b>Assets:</b>						
Current assets:						
Cash and cash equivalents	\$ 70	\$ 207	\$ 29,975	\$ 7,671	\$	\$ 45,593
Receivables (net)		84		3,131		7,094
Due from other funds		1			477	1,323
Inventories						1,812
Other assets			5,994			5,994
Total current assets	70	292	35,969	10,802	477	61,816
Noncurrent assets:						
Capital assets (net)						2,765
Total noncurrent assets						2,765
Total assets	70	292	35,969	10,802	477	64,581
<b>Liabilities:</b>						
Current liabilities:						
Accounts payable		27	16,328			18,949
Due to other funds			5	186		683
Loans from other funds		300			486	7,360
Other liabilities		65			81	1,774
Total current liabilities		392	16,333	186	567	28,766
<b>Net Position (Deficit):</b>						
Net investment in capital assets						2,765
Unrestricted	70	(100)	19,636	10,616	(90)	33,050
Total net position (deficit)	\$ 70	\$ (100)	\$ 19,636	\$ 10,616	\$ (90)	\$ 35,815

(Concluded)

**State of Rhode Island and Providence Plantations**  
**Combining Statement of Revenues, Expenses, and Changes in Net Position**  
**Internal Service Funds**  
**For the Fiscal Year Ended June 30, 2014**  
**(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	\$ 36,290	\$ 14,728	\$ 5,313	\$ 2,564	\$ 12,788	\$ 6,197	\$ 3,880
Total operating revenues	<u>36,290</u>	<u>14,728</u>	<u>5,313</u>	<u>2,564</u>	<u>12,788</u>	<u>6,197</u>	<u>3,880</u>
<b>Operating expenses:</b>							
Personal services	6,037		972	958	690	850	1,540
Supplies, materials, and services	26,974	14,491	4,637	1,728	12,105	4,334	2,793
Depreciation	2				45	94	28
Total operating expenses	<u>33,013</u>	<u>14,491</u>	<u>5,609</u>	<u>2,686</u>	<u>12,840</u>	<u>5,278</u>	<u>4,361</u>
Operating income (loss)	<u>3,277</u>	<u>237</u>	<u>(296)</u>	<u>(122)</u>	<u>(52)</u>	<u>919</u>	<u>(481)</u>
<b>Nonoperating revenues (expenses):</b>							
Interest revenue							
Other nonoperating revenues and (expenses)	17						
Income (loss) before transfers	<u>3,294</u>	<u>237</u>	<u>(296)</u>	<u>(122)</u>	<u>(52)</u>	<u>919</u>	<u>(481)</u>
Transfers in							
Transfers (out)	<u>(1,535)</u>						
Change in net position	<u>1,759</u>	<u>237</u>	<u>(296)</u>	<u>(122)</u>	<u>(52)</u>	<u>919</u>	<u>(481)</u>
Net position (deficit) - beginning	<u>(3,163)</u>	<u>(250)</u>	<u>26</u>	<u>(148)</u>	<u>973</u>	<u>4,406</u>	<u>1,875</u>
Net position (deficit) - ending	<u>\$ (1,404)</u>	<u>\$ (13)</u>	<u>\$ (270)</u>	<u>\$ (270)</u>	<u>\$ 921</u>	<u>\$ 5,325</u>	<u>\$ 1,394</u>

(Continued)

**State of Rhode Island and Providence Plantations**  
**Combining Statement of Revenues, Expenses, and Changes in Net Position**  
**Internal Service Funds**  
**For the Fiscal Year Ended June 30, 2014**  
**(Expressed in Thousands)**

	<u>Surplus Property</u>	<u>Records Center</u>	<u>Health Insurance Active</u>	<u>State Fleet Replacement Revolving Loan</u>	<u>Capitol Police</u>	<u>Total</u>
<b>Operating revenues:</b>						
Charges for services	\$	\$ 882	\$ 215,880	\$ 58	\$ 713	\$ 299,293
Total operating revenues		882	215,880	58	713	299,293
<b>Operating expenses:</b>						
Personal services		478			715	12,240
Supplies, materials, and services	1	393	213,066			280,522
Depreciation						169
Total operating expenses	1	871	213,066		715	292,931
Operating income (loss)	(1)	11	2,814	58	(2)	6,362
<b>Nonoperating revenues (expenses):</b>						
Interest revenue			26	18		44
Other nonoperating revenues and (expenses)						17
Income (loss) before transfers	(1)	11	2,840	76	(2)	6,423
Transfers in						
Transfers (out)						(1,535)
Change in net position	(1)	11	2,840	76	(2)	4,888
Net position (deficit) - beginning	71	(111)	16,796	10,540	(88)	30,927
Net position (deficit) - ending	\$ 70	\$ (100)	\$ 19,636	\$ 10,616	\$ (90)	\$ 35,815

(Concluded)

**State of Rhode Island and Providence Plantations**  
**Combining Statement of Cash Flows**  
**Internal Service Funds**  
**For the Fiscal Year Ended June 30, 2014**  
**(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	\$ 35,785	\$ 15,614	\$ 5,142	\$ 2,669	\$ 12,851	\$ 6,172	\$ 4,176
Cash payments to suppliers for goods and services	(26,787)	(14,315)	(4,683)	(1,720)	(12,013)	(4,303)	(2,941)
Cash payments to employees	(6,770)		(942)	(955)	(689)	(851)	(1,534)
Other operating revenue (expense)	17						
Net cash provided by (used for) operating activities	<u>2,245</u>	<u>1,299</u>	<u>(483)</u>	<u>(6)</u>	<u>149</u>	<u>1,018</u>	<u>(299)</u>
<b>Cash flows from noncapital financing activities:</b>							
Loans from other funds	1,600	530	787	149	1,000		
Loans to other funds							
Repayment of loans to other funds							
Repayment of loans from other funds		(1,422)	(304)	(143)	(1,200)		
Transfers out	(1,535)						
Net cash provided by (used for) noncapital financing activities	<u>65</u>	<u>(892)</u>	<u>483</u>	<u>6</u>	<u>(200)</u>		
<b>Cash flows from capital and related financing activities:</b>							
Acquisition of capital assets	(24)				(46)	(547)	
Net cash provided by (used for) capital and related financing activities	<u>(24)</u>				<u>(46)</u>	<u>(547)</u>	
<b>Cash flows from investing activities:</b>							
Interest on investments							
Net cash provided by (used for) investing activities							
Net increase (decrease) in cash and cash equivalents	2,286	407			(97)	471	(299)
Cash and cash equivalents - July 1	453	1,295			820	1,992	342
Cash and cash equivalents - June 30	<u>\$ 2,739</u>	<u>\$ 1,702</u>	<u>\$</u>	<u>\$</u>	<u>\$ 723</u>	<u>\$ 2,463</u>	<u>\$ 43</u>

(Continued)

**State of Rhode Island and Providence Plantations**  
**Combining Statement of Cash Flows**  
**Internal Service Funds**  
**For the Fiscal Year Ended June 30, 2014**  
**(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>Reconciliation of operating income (loss) to net cash provided by (used for) operating activities:</b>							
Operating income (loss)	\$ 3,277	\$ 237	\$ (296)	\$ (122)	\$ (52)	\$ 919	\$ (481)
<b>Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:</b>							
Depreciation	\$ 2	\$	\$	\$	\$ 45	\$ 94	\$ 28
Other revenue (expense) and transfers in (out)	19						
(Increase) decrease in assets:							
Receivables	(519)	886	(171)	(2)	(38)	(25)	295
Inventory			(48)		14	(3)	(80)
Prepaid items							
Increase (decrease) in liabilities:							
Accounts payable	200	174	1	115	180	34	(67)
Accrued expenses	(734)	2	31	3		(1)	6
Total adjustments	(1,032)	1,062	(187)	116	201	99	182
Net cash provided by (used for) operating activities	<u>\$ 2,245</u>	<u>\$ 1,299</u>	<u>\$ (483)</u>	<u>\$ (6)</u>	<u>\$ 149</u>	<u>\$ 1,018</u>	<u>\$ (299)</u>

(Continued)

**State of Rhode Island and Providence Plantations**  
**Combining Statement of Cash Flows**  
**Internal Service Funds**  
**For the Fiscal Year Ended June 30, 2014**  
**(Expressed in Thousands)**

	<b>Surplus Property</b>	<b>Records Center</b>	<b>Health Insurance Active</b>	<b>State Fleet Replacement Revolving Loan</b>	<b>Capitol Police</b>	<b>Total</b>
<b>Cash flows from operating activities:</b>						
Cash received from customers	\$	\$ 878	\$ 215,885	\$ 919	\$ 302	\$ 300,393
Cash payments to suppliers for goods and services	(1)	(394)	(211,558)		(1)	(278,716)
Cash payments to employees		(474)			(703)	(12,918)
Other operating revenue (expense)						17
Net cash provided by (used for) operating activities	(1)	10	4,327	919	(402)	8,776
<b>Cash flows from noncapital financing activities:</b>						
Loans from other funds					486	4,552
Loans to other funds				(10,871)		(10,871)
Repayment of loans to other funds				9,660		9,660
Repayment of loans from other funds					(84)	(3,153)
Transfers out						(1,535)
Net cash provided by (used for) noncapital financing activities				(1,211)	402	(1,347)
<b>Cash flows from capital and related financing activities:</b>						
Acquisition of capital assets						(617)
Net cash provided by (used for) capital and related financing activities						(617)
<b>Cash flows from investing activities:</b>						
Interest on investments			26	18		44
Net cash provided by (used for) investing activities			26	18		44
Net increase (decrease) in cash and cash equivalents	(1)	10	4,353	(274)		6,856
Cash and cash equivalents - July 1	71	197	25,622	7,945		38,737
Cash and cash equivalents - June 30	\$ 70	\$ 207	\$ 29,975	\$ 7,671	\$	\$ 45,593

(Continued)

**State of Rhode Island and Providence Plantations**  
**Combining Statement of Cash Flows**  
**Internal Service Funds**  
**For the Fiscal Year Ended June 30, 2014**  
**(Expressed in Thousands)**

	<u>Surplus Property</u>	<u>Records Center</u>	<u>Health Insurance Active</u>	<u>State Fleet 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)	\$ 11	\$ 2,814	\$ 58	\$ (2)	\$ 6,362
<b>Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:</b>						
Depreciation	\$	\$	\$	\$	\$	\$ 169
Other revenue (expense) and transfers in (out)						19
(Increase) decrease in assets:						
Receivables		(3)	5	861	(411)	878
Inventory						(117)
Prepaid items			615			615
Increase (decrease) in liabilities:						
Accounts payable		(2)	893		(1)	1,527
Accrued expenses		4			12	(677)
Total adjustments		(1)	1,513	861	(400)	2,414
Net cash provided by (used for) operating activities	<u>\$ (1)</u>	<u>\$ 10</u>	<u>\$ 4,327</u>	<u>\$ 919</u>	<u>\$ (402)</u>	<u>\$ 8,776</u>

(Concluded)

## Trust Funds

### Pension Trust Funds

**Pension Trust Funds** – used to report resources that are required to be held for the members and beneficiaries of the State sponsored 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.

**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.

**State Police Retirement Benefits Trust** – a single-employer public employee retirement plan for State police hired after July 1, 1987.

**Judicial Retirement Benefits Trust** – a single-employer public employee retirement plan for State judges appointed after December 31, 1989.

**Judicial Retirement Fund Trust** – a single-employer public employee retirement plan for State judges appointed before January 1, 1990.

**Teachers' Survivors Benefit Plan** – a multiple-employer, cost-sharing plan that provides a survivor benefit to certain public school teachers in lieu of Social Security, since not all school districts participate in Social Security.

**Defined Contribution Plan** – a money purchase plan that operates under Section 401 (a) of the Internal Revenue Code. The plan covers members of the Employees' Retirement System, excluding legislators, correctional officers and Municipal Employees' Retirement System police and fire employees who participate in Social Security. Judges and State police officers are also excluded from the plan.

**FICA Alternative Retirement Plan** – a money purchase plan that operates under Section 401 (a) of the Internal Revenue Code. The plan covers any part-time, seasonal, or temporary employees of the State of Rhode Island hired after July 1, 2013, who are ineligible for participation in the Employees' Retirement System of Rhode Island (ERSRI).

### 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 Commerce 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 Education** – covers certain members of the University and Colleges, primarily faculty.

**State of Rhode Island and Providence Plantations**  
**Combining Statement of Fiduciary Net Position**  
**Pension and Other Postemployment Benefits Trust Funds**  
**June 30, 2014**  
**(Expressed in Thousands)**

	<b>Pension Trust</b>	<b>Other Postemployment Benefits Trust</b>	<b>Totals</b>
<b>Assets</b>			
Cash and cash equivalents	\$ 2,386	\$ 3,585	\$ 5,971
Advance held by claims processing agent		775	775
Receivables			
Contributions	30,565	2,311	32,876
Due from state for teachers	15,714		15,714
Miscellaneous	932	1	933
Total receivables	47,211	2,312	49,523
Prepaid expenses	1,800		1,800
Investments, at fair value			
Equity in Pooled Trust	8,205,540	109,199	8,314,739
Other	277,480		277,480
Total investments	8,483,020	109,199	8,592,219
Total assets	8,534,417	115,871	8,650,288
<b>Liabilities</b>			
Accounts payable	6,914	698	7,612
Incurred but not reported claims		2,466	2,466
Unearned revenue		3,033	3,033
Total liabilities	6,914	6,197	13,111
Net position held in trust for pension and other postemployment benefits	\$ 8,527,503	\$ 109,674	\$ 8,637,177

**State of Rhode Island and Providence Plantations**  
**Combining Statement of Changes in Fiduciary Net Position**  
**Pension and Other Post Employment Benefits Trust Funds**  
**For the Fiscal Year Ended June 30, 2014**  
**(Expressed in Thousands)**

	<b>Pension Trust</b>	<b>Other Postemployment Benefits Trust</b>	<b>Totals</b>
<b>Additions</b>			
Contributions			
Member contributions	\$ 178,678	\$ 18,401	\$ 197,079
Employer contributions	344,384	59,785	404,169
Supplemental employer contributions	584		584
State contributions for teachers	76,701		76,701
Interest on service credits purchased	309		309
Service credit transfer payments	13		13
Total contributions	<u>600,669</u>	<u>78,186</u>	<u>678,855</u>
Amortization of unearned income		3,033	3,033
Other income		718	718
Investment income			
Net appreciation in fair value of investments	1,069,661	13,306	1,082,967
Interest	62,418	864	63,282
Dividends	14,414		14,414
Other investment income	10,030		10,030
	<u>1,156,523</u>	<u>14,170</u>	<u>1,170,693</u>
Less investment expense	14,572	50	14,622
Net income from investing activities	<u>1,141,951</u>	<u>14,120</u>	<u>1,156,071</u>
Total additions	<u>1,742,620</u>	<u>96,057</u>	<u>1,838,677</u>
<b>Deductions</b>			
Retirement benefits	898,547		898,547
Death benefits	3,464		3,464
Distributions	2,643		2,643
Refund of contributions	12,526		12,526
Administrative expense	8,482	169	8,651
Service credit transfers	13		13
OPEB benefits		52,334	52,334
Total deductions	<u>925,675</u>	<u>52,503</u>	<u>978,178</u>
Change in net position	816,945	43,554	860,499
Net position held in trust for pension and other postemployment benefits			
Net position - beginning	7,710,558	66,120	7,776,678
Net position - ending	<u>\$ 8,527,503</u>	<u>\$ 109,674</u>	<u>\$ 8,637,177</u>

**State of Rhode Island and Providence Plantations**  
**Combining Statement of Fiduciary Net Position**  
**Pension Trust Funds**  
**June 30, 2014**  
**(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>Judicial Retirement Fund Trust</b>	<b>Teachers' Survivors Benefit Plan</b>	<b>Defined Contribution Plan</b>	<b>FICA Alternative Retirement Program</b>	<b>Totals</b>
<b>Assets</b>									
Cash and cash equivalents	\$ 1,453	\$ 488	\$ 257	\$ 148	\$ 40	\$	\$	\$	\$ 2,386
Receivables									
Contributions	26,559	3,664	194	142	6				30,565
Due from state for teachers	15,714								15,714
Miscellaneous	823	109							932
Total receivables	<u>43,096</u>	<u>3,773</u>	<u>194</u>	<u>142</u>	<u>6</u>				<u>47,211</u>
Prepaid expenses	1,471	296	22	11					1,800
Investments, at fair value									
Equity in Pooled Trust	6,356,009	1,390,161	109,272	55,904	272	293,922			8,205,540
Other-Defined Contribution Plan							277,388	92	277,480
Total investments	<u>6,356,009</u>	<u>1,390,161</u>	<u>109,272</u>	<u>55,904</u>	<u>272</u>	<u>293,922</u>	<u>277,388</u>	<u>92</u>	<u>8,483,020</u>
Total assets	<u>6,402,029</u>	<u>1,394,718</u>	<u>109,745</u>	<u>56,205</u>	<u>318</u>	<u>293,922</u>	<u>277,388</u>	<u>92</u>	<u>8,534,417</u>
<b>Liabilities</b>									
Accounts payable	5,848	971	63	32					6,914
Total liabilities	<u>5,848</u>	<u>971</u>	<u>63</u>	<u>32</u>					<u>6,914</u>
Net position held in trust for pension benefits	<u>\$ 6,396,181</u>	<u>\$ 1,393,747</u>	<u>\$ 109,682</u>	<u>\$ 56,173</u>	<u>\$ 318</u>	<u>\$ 293,922</u>	<u>\$ 277,388</u>	<u>\$ 92</u>	<u>\$ 8,527,503</u>

**State of Rhode Island and Providence Plantations**  
**Combining Statement of Changes in Fiduciary Net Position**  
**Pension Trust Funds**  
**For the Fiscal Year Ended June 30, 2014**  
**(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>Judicial Retirement Fund Trust</b>	<b>Teachers' Survivors Benefit Plan</b>	<b>Defined Contribution Plan</b>	<b>FICA Alternative Retirement Program</b>	<b>Totals</b>
<b>Additions</b>									
Contributions									
Member contributions	\$ 64,412	\$ 11,313	\$ 2,034	\$ 1,093	\$ 153	\$ 609	\$ 98,970	\$ 94	\$ 178,678
Employer contributions	272,246	37,898	3,331	2,544		609	27,756		344,384
Supplemental employer contributions	584								584
State contributions for teachers	76,701								76,701
Interest on service credits purchased	234	70	5						309
Service credit transfer payments	13								13
Total contributions	<u>414,190</u>	<u>49,281</u>	<u>5,370</u>	<u>3,637</u>	<u>153</u>	<u>1,218</u>	<u>126,726</u>	<u>94</u>	<u>600,669</u>
Investment income									
Net appreciation in fair value of investments	807,079	173,596	13,209	6,753	11	37,086	31,927		1,069,661
Interest	48,529	10,452	798	408	1	2,230			62,418
Dividends	11,029	2,375	181	92		507	230		14,414
Other investment income	7,798	1,681	128	65		355		3	10,030
	<u>874,435</u>	<u>188,104</u>	<u>14,316</u>	<u>7,318</u>	<u>12</u>	<u>40,178</u>	<u>32,157</u>	<u>3</u>	<u>1,156,523</u>
Less investment expense	<u>11,310</u>	<u>2,455</u>	<u>190</u>	<u>97</u>		<u>520</u>			<u>14,572</u>
Net income from investing activities	<u>863,125</u>	<u>185,649</u>	<u>14,126</u>	<u>7,221</u>	<u>12</u>	<u>39,658</u>	<u>32,157</u>	<u>3</u>	<u>1,141,951</u>
Total additions	<u>1,277,315</u>	<u>234,930</u>	<u>19,496</u>	<u>10,858</u>	<u>165</u>	<u>40,876</u>	<u>158,883</u>	<u>97</u>	<u>1,742,620</u>
<b>Deductions</b>									
Retirement benefits	801,449	86,388	1,658	1,631		7,421			898,547
Death benefits	2,701	763							3,464
Distributions							2,643		2,643
Refund of contributions	10,064	2,152	108			202			12,526
Administrative expense	5,671	1,162	83	43		261	1,257	5	8,482
Service credit transfers		13							13
Total deductions	<u>819,885</u>	<u>90,478</u>	<u>1,849</u>	<u>1,674</u>		<u>7,884</u>	<u>3,900</u>	<u>5</u>	<u>925,675</u>
Net increase	<u>457,430</u>	<u>144,452</u>	<u>17,647</u>	<u>9,184</u>	<u>165</u>	<u>32,992</u>	<u>154,983</u>	<u>92</u>	<u>816,945</u>
Net position held in trust for pension benefits									
Net position - beginning, as restated	5,938,751	1,249,295	92,035	46,989	153	260,930	122,405		7,710,558
Net position - ending	<u>\$ 6,396,181</u>	<u>\$ 1,393,747</u>	<u>\$ 109,682</u>	<u>\$ 56,173</u>	<u>\$ 318</u>	<u>\$ 293,922</u>	<u>\$ 277,388</u>	<u>\$ 92</u>	<u>\$ 8,527,503</u>

**State of Rhode Island and Providence Plantations**  
**Combining Statement of Fiduciary Net Position**  
**Other Postemployment Benefits Trust Funds**  
**June 30, 2014**  
**(Expressed in Thousands)**

	<b>State Employees</b>	<b>Teachers</b>	<b>Judicial</b>	<b>State Police</b>	<b>Legislators</b>	<b>Board of Education</b>	<b>Totals</b>
<b>Assets</b>							
Cash and cash equivalents	\$ 2,279	\$ 440	\$ 83	\$ 456	\$ 61	\$ 266	\$ 3,585
Advance held by claims processing agent	775						775
Receivables							
Due from other funds	1						1
Contributions receivable	1,878		1	297		135	2,311
Total receivables	1,879		1	297		135	2,312
Investments at fair value - equity in pooled trust	69,401	5,923	2,678	16,486	2,558	12,153	109,199
Total assets	74,334	6,363	2,762	17,239	2,619	12,554	115,871
<b>Liabilities</b>							
Accounts payable	490	79	(7)	83	1	52	698
Incurred but not reported claims	1,728	378	11	229	41	79	2,466
Unearned revenue	2,074	478				481	3,033
Total liabilities	4,292	935	4	312	42	612	6,197
Net position held in trust for other postemployment benefits	\$ 70,042	\$ 5,428	\$ 2,758	\$ 16,927	\$ 2,577	\$ 11,942	\$ 109,674

**State of Rhode Island and Providence Plantations**  
**Combining Statement of Changes in Fiduciary Net Position**  
**Other Postemployment Benefits Trust Funds**  
**For the Fiscal Year Ended June 30, 2014**  
**(Expressed in Thousands)**

	<b>State Employees</b>	<b>Teachers</b>	<b>Judicial</b>	<b>State Police</b>	<b>Legislators</b>	<b>Board of Education</b>	<b>Totals</b>
<b>Additions</b>							
Contributions							
Member contributions	\$ 10,590	\$ 5,032	\$ 461	\$ 404	\$ 443	\$ 1,471	\$ 18,401
Employer contributions	46,998	2,321	13	7,839		2,614	59,785
Total contributions	<u>57,588</u>	<u>7,353</u>	<u>474</u>	<u>8,243</u>	<u>443</u>	<u>4,085</u>	<u>78,186</u>
Amortization of unearned revenue	2,074	478				481	3,033
Other income	552	72	16	43	10	25	718
Investment income							
Net appreciation in fair value of investments	8,272	889	353	1,904	358	1,530	13,306
Interest and dividends	537	58	23	124	23	99	864
	<u>8,809</u>	<u>947</u>	<u>376</u>	<u>2,028</u>	<u>381</u>	<u>1,629</u>	<u>14,170</u>
Less investment expense	32	3	1	7	1	6	50
Net investment income	<u>8,777</u>	<u>944</u>	<u>375</u>	<u>2,021</u>	<u>380</u>	<u>1,623</u>	<u>14,120</u>
Total additions	<u>68,991</u>	<u>8,847</u>	<u>865</u>	<u>10,307</u>	<u>833</u>	<u>6,214</u>	<u>96,057</u>
<b>Deductions</b>							
Benefits	39,538	6,731	322	3,252	523	1,968	52,334
Administrative expense	130	16	1	4	2	16	169
Total deductions	<u>39,668</u>	<u>6,747</u>	<u>323</u>	<u>3,256</u>	<u>525</u>	<u>1,984</u>	<u>52,503</u>
Net increase	29,323	2,100	542	7,051	308	4,230	43,554
Net position held in trust for other postemployment benefits							
Net position - beginning	40,719	3,328	2,216	9,876	2,269	7,712	66,120
Net position - ending	<u>\$ 70,042</u>	<u>\$ 5,428</u>	<u>\$ 2,758</u>	<u>\$ 16,927</u>	<u>\$ 2,577</u>	<u>\$ 11,942</u>	<u>\$ 109,674</u>

## Agency Funds

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

**HealthSource RI Trust**– accounts for health and dental insurance premium payments from qualified employers and individuals and payments for such premiums to issuers of qualified health and dental insurance plans offered through the HealthSource RI Trust.

**RIPTA Health** – accounts for 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, 2014**  
**(Expressed in Thousands)**

	Balance July 1, 2013	Additions	Deductions	Balance June 30, 2014
<b>HealthSource RI Trust</b>				
<b>Assets</b>				
Cash and cash equivalents	\$	\$ 21,631	\$ 20,811	\$ 820
Receivables		14		14
<b>Total assets</b>	<b>\$</b>	<b>\$ 21,645</b>	<b>\$ 20,811</b>	<b>\$ 834</b>
<b>Liabilities</b>				
Deposits held for others	\$	\$ 21,555	\$ 20,773	\$ 782
Accounts payable		90	38	52
<b>Total liabilities</b>	<b>\$</b>	<b>\$ 21,645</b>	<b>\$ 20,811</b>	<b>\$ 834</b>
<b>RIPTA Health Fund</b>				
<b>Assets</b>				
Cash and cash equivalents	\$ 1,494	\$ 15,157	\$ 15,962	\$ 689
Receivables	1,891	3,138	2,097	2,932
<b>Total assets</b>	<b>\$ 3,385</b>	<b>\$ 18,295</b>	<b>\$ 18,059</b>	<b>\$ 3,621</b>
<b>Liabilities</b>				
Deposits held for others	\$ 455	\$ 226	\$	\$ 681
Accounts payable	2,930	15,054	15,044	2,940
<b>Total liabilities</b>	<b>\$ 3,385</b>	<b>\$ 15,280</b>	<b>\$ 15,044</b>	<b>\$ 3,621</b>
<b>Statutory Deposits</b>				
<b>Assets</b>				
Deposits held as security for entities doing business in the State	70,122	\$ 13,927	\$ 25,842	\$ 58,207
<b>Total assets</b>	<b>\$ 70,122</b>	<b>\$ 13,927</b>	<b>\$ 25,842</b>	<b>\$ 58,207</b>
<b>Liabilities</b>				
Deposits held for others	\$ 70,122	\$ 13,927	\$ 25,842	\$ 58,207
<b>Total liabilities</b>	<b>\$ 70,122</b>	<b>\$ 13,927</b>	<b>\$ 25,842</b>	<b>\$ 58,207</b>
<b>Court Deposits</b>				
<b>Assets</b>				
Cash and cash equivalents	\$ 12,993	\$ 8,767	\$ 4,984	\$ 16,776
Receivables	89	675	552	212
<b>Total assets</b>	<b>\$ 13,082</b>	<b>\$ 9,442</b>	<b>\$ 5,536</b>	<b>\$ 16,988</b>
<b>Liabilities</b>				
Deposits held for others	\$ 13,082	\$ 7,832	\$ 3,928	\$ 16,986
Accounts payable		328	326	2
<b>Total liabilities</b>	<b>\$ 13,082</b>	<b>\$ 8,160</b>	<b>\$ 4,254</b>	<b>\$ 16,988</b>
<b>Total - All Agency Funds</b>				
<b>Assets</b>				
Cash and cash equivalents	14,487	\$ 45,555	\$ 41,757	\$ 18,285
Deposits held as security for entities doing business in the State	70,122	13,927	25,842	58,207
Receivables	1,980	3,827	2,649	3,158
<b>Total assets</b>	<b>\$ 86,589</b>	<b>\$ 63,309</b>	<b>\$ 70,248</b>	<b>\$ 79,650</b>
<b>Liabilities</b>				
Deposits held for others	\$ 83,659	\$ 43,540	\$ 50,543	\$ 76,656
Accounts payable	2,930	15,472	15,408	2,994
<b>Total liabilities</b>	<b>\$ 86,589</b>	<b>\$ 59,012</b>	<b>\$ 65,951</b>	<b>\$ 79,650</b>

State of Rhode Island  
Combining Statement of Net Position  
Nonmajor Component Units  
June 30, 2014  
(Expressed in Thousands)

	CFSD	The Met	RIHEAA	RIHMFC	RIIFC	RIIRBA	RIRRC	RIWRBC	QDC	Totals
<b>Assets</b>										
Current Assets:										
Cash and cash equivalents	\$ 3,574	\$ 5,815	\$ 26,814	\$ 1,455	\$ 233	\$ 2,871	\$ 31,404	\$ 460	\$ 1,308	\$ 73,934
Investments			10,832							10,832
Receivables (net)	249	1,576	2,107	1,980	4	8	7,341	243	1,193	14,701
Restricted assets:										
Cash and cash equivalents			963	205,246					226	206,435
Investments				11,774						11,774
Other assets				35,075						35,075
Due from primary government	2,063	671							147	2,881
Due from other governments	1,152		919							2,071
Due from other component units					185				63	248
Inventories							3,840			3,840
Other assets	63	151	189	2,848	14	10	475		169	3,919
Total current assets	7,101	8,213	41,824	258,378	436	2,889	43,060	703	3,106	365,710
Noncurrent Assets:										
Investments								513		513
Receivables (net)				11,469					139	11,608
Restricted assets:										
Cash and cash equivalents			629		697		19,200			20,526
Investments				245,654			83,891			329,545
Other assets				1,454,659						1,454,659
Capital assets - nondepreciable			665				46,660		56,897	104,222
Capital assets - depreciable (net)	2,601	332	1,077				21,418		114,906	140,334
Due from other component units						697				697
Other assets, net of amortization				155,179			609			155,788
Total noncurrent assets	2,601	332	2,371	1,866,961	697	697	171,778	513	171,942	2,217,892
Total assets	9,702	8,545	44,195	2,125,339	1,133	3,586	214,838	1,216	175,048	2,583,602
<b>Deferred outflows of resources</b>										
				1,042						1,042
<b>Liabilities</b>										
Current liabilities:										
Accounts payable	3,924	1,699	1,358	1,517	1	41	19,033	18	752	28,343
Due to other component units					4	188				192
Due to other governments			20							20
Other liabilities		330		167,459				8		167,797
Current portion of long-term debt	111	36	536	129,383	9	511	11,406	604	1,961	144,557
Total current liabilities	4,035	2,065	1,914	298,359	14	740	30,439	630	2,713	340,909
Noncurrent liabilities:										
Due to other component units					697	697				1,394
Unearned revenue			447		53	33			209	742
Notes payable				14,771			1,393			16,164
Loans payable		78							3,224	3,302
Obligations under capital leases									206	206
Net OPEB obligation	6,439			3,352			629			10,420
Other liabilities			1,120	212,598		1,869	73,919		772	290,278
Compensated absences	1,135		130	1,293						2,558
Bonds payable				1,304,405			32,864		5,263	1,342,532
Total noncurrent liabilities	7,574	78	1,697	1,536,419	750	2,599	108,805		9,674	1,667,596
Total liabilities	11,609	2,143	3,611	1,834,778	764	3,339	139,244	630	12,387	2,008,505
<b>Deferred inflows of resources</b>										
<b>Net position (deficit)</b>										
Net investment in capital assets	2,595	218	1,742	7,964			65,325		161,657	239,501
Restricted for:										
Debt				209,160						209,160
Other		22	38,842	2,052			2,670	586		44,172
Unrestricted	(4,502)	6,162		72,427	369	247	7,599		1,004	83,306
Net position (deficit)	\$ (1,907)	\$ 6,402	\$ 40,584	\$ 291,603	\$ 369	\$ 247	\$ 75,594	\$ 586	\$ 162,661	\$ 576,139

**State of Rhode Island and Providence Plantations**  
**Combining Statement of Activities**  
**Nonmajor Component Units**  
**For the Fiscal Year Ended June 30, 2014**  
**(Expressed in Thousands)**

	<b>CFSD</b>	<b>The Met</b>	<b>RIHEAA</b>	<b>RIHMFC</b>	<b>RIIFC</b>	<b>RIIRBA</b>	<b>RIRRC</b>	<b>RIWRBC</b>	<b>QDC</b>	<b>Totals</b>
<b>Expenses</b>	\$ 51,018	\$ 14,954	\$ 24,147	\$ 90,136	\$ 44	\$ 1,020	\$ 58,537	\$ 166	\$ 11,067	\$ 251,089
<b>Program revenues:</b>										
Charges for services	3,031	3,332	22,483	87,270	56	93	50,779	943	11,286	179,273
Operating grants and contributions	46,697	13,050	4,333							64,080
Capital grants and contributions	205								324	529
Total program revenues	49,933	16,382	26,816	87,270	56	93	50,779	943	11,610	243,882
Net (Expenses) Revenues	(1,085)	1,428	2,669	(2,866)	12	(927)	(7,758)	777	543	(7,207)
<b>General revenues:</b>										
Interest and investment earnings		22	184	8,511	4	9	466	45	11	9,252
Miscellaneous revenues	60	19	750				445			1,274
Total general revenues	60	41	934	8,511	4	9	911	45	11	10,526
Change in net position	(1,025)	1,469	3,603	5,645	16	(918)	(6,847)	822	554	3,319
Net position (deficit) - beginning as restated	(882)	4,933	36,981	285,958	353	1,165	82,441	(236)	162,107	572,820
Net position (deficit) - ending	\$ (1,907)	\$ 6,402	\$ 40,584	\$ 291,603	\$ 369	\$ 247	\$ 75,594	\$ 586	\$ 162,661	\$ 576,139

**2014**



## **Statistical Section**

### ***Comprehensive Annual Financial Report***

**State of Rhode Island**

## Statistical Section

### Index

This part of the State's comprehensive annual financial report presents detailed information as to the context for understanding what the information in the financial statements, note disclosures, and required supplementary information says about the State's overall financial health.

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**Financial Trends Information**

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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.

**Revenue Capacity Information**

167

These schedules contain information to help the reader assess the State's most significant taxes, income and sales.

**Debt Capacity Information**

174

These schedules present information to help the reader assess the affordability of the State's current levels of outstanding debt and the State's ability to issue additional debt in the future.

**Demographic and Economic Information**

176

These schedules offer demographic and economic indicators to help the reader understand the environment within which the State's financial activities take place.

**Operating Information**

178

These schedules contain service and infrastructure data to help the reader understand how the information in the State's financial report relates to the services the State provides and the activities it performs.

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 Position by Components**  
**Last Ten Fiscal Years**  
(accrual basis of accounting)  
(expressed in thousands)

	Fiscal Year									
	2014	2013**	2012	2011	2010	2009	2008	2007	2006	2005
<b>Governmental activities</b>										
Net investment in capital assets	\$ 2,706,209	\$ 2,486,783	\$ 2,302,368	\$ 2,115,001	\$ 2,064,231	\$ 1,958,718	\$ 1,877,872	\$ 1,691,793	\$ 1,591,074	\$ 816,578
Restricted *	799,274	775,758	696,743	553,421	538,104	507,999	496,630	373,788	369,137	315,370
Unrestricted *	(1,498,728)	(1,436,799)	(1,458,163)	(1,529,992)	(1,644,279)	(1,622,296)	(1,498,314)	(1,082,664)	(929,476)	(936,437)
<b>Total governmental activities net position</b>	<b>\$ 2,006,755</b>	<b>\$ 1,825,742</b>	<b>\$ 1,540,948</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>Business-type activities</b>										
Net investment in capital assets	\$ (62,060)	\$ (67,394)	\$ (64,492)	\$ (63,156)	\$ (61,806)	\$ (59,453)	\$ (60,902)	\$ (109,435)	\$ (131,941)	\$ (71,413)
Restricted	33,795	8,340	9,308	11,036	13,161	20,130	198,928	294,395	302,689	233,476
Unrestricted	(7,068)	(86,571)	(157,396)	(159,388)	(122,955)	(7,251)	(15,345)	(16,616)	(10,691)	(10,183)
<b>Total business-type activities net position</b>	<b>\$ (35,333)</b>	<b>\$ (145,625)</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>Primary government</b>										
Net investment in capital assets	\$ 2,644,149	\$ 2,419,389	\$ 2,237,876	\$ 2,051,845	\$ 2,002,425	\$ 1,899,265	\$ 1,816,970	\$ 1,582,358	\$ 1,459,133	\$ 745,165
Restricted	833,069	784,098	706,051	473,787	497,092	440,345	626,516	668,183	671,826	548,846
Unrestricted	(1,505,796)	(1,523,370)	(1,615,559)	(1,598,710)	(1,713,061)	(1,541,763)	(1,444,617)	(1,099,280)	(940,167)	(946,620)
<b>Total primary government net position</b>	<b>\$ 1,971,422</b>	<b>\$ 1,680,117</b>	<b>\$ 1,328,368</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>

( a ) The increase in total primary government net position 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.

\* Reclassifications from fiscal years 2010 through 2013 were made to conform with fiscal year 2014 presentation

\*\* Restated

**State of Rhode Island and Providence Plantations**  
**Schedule of Changes in Net Position**  
**Last Ten Fiscal Years**  
(accrual basis of accounting)  
(expressed in thousands)

	Fiscal Year									
	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
<b>Expenses</b>										
Governmental activities:										
General government	\$ 736,911	\$ 625,081	\$ 653,003	\$ 644,194	\$ 741,329	\$ 754,386	\$ 894,766	\$ 858,729	\$ 527,841	\$ 503,659
Human services	3,302,590	3,038,841	2,970,269	3,013,081	2,900,673	2,719,346	2,736,956	2,519,745	2,622,935	2,512,628
Education	1,399,347	1,364,575	1,334,355	1,332,453	1,273,985	1,278,391	1,361,310	1,320,384	287,119	264,385
Public safety	478,826	473,580	468,098	436,940	418,485	414,830	428,351	391,354	370,706	336,069
Natural resources	80,690	76,730	85,039	80,360	73,551	75,103	90,087	91,758	74,695	65,913
Transportation	298,626	300,639	268,523	300,366	305,460	324,007	240,644	281,518	323,517	226,529
Intergovernmental									1,213,050	1,127,496
Interest and other charges	129,421	129,714	145,964	148,850	142,924	136,737	133,298	107,211	92,121	116,171
Total governmental activities	<u>6,426,411</u>	<u>6,009,160</u>	<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>
Business-type activities:										
Lottery	462,153	397,625	399,421	368,870	358,127	356,046	365,333	342,662	355,444	334,732
Convention Center	49,255	48,437	49,439	32,986	50,732	48,764	41,007	42,859	37,862	35,746
Employment insurance	257,145	396,909	559,440	645,979	783,878	573,288	259,246	210,060	197,724	209,018
Total business-type activities	<u>768,553</u>	<u>842,971</u>	<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>
Total primary government expenses	<u>\$ 7,194,964</u>	<u>\$ 6,852,131</u>	<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>
<b>Program Revenues</b>										
Governmental activities:										
Charges for services:										
General government	\$ 212,275	\$ 220,376	\$ 212,750	\$ 185,918	\$ 179,646	\$ 168,210	\$ 178,590	\$ 132,152	\$ 146,575	\$ 141,290
Human services	229,047	227,158	204,287	210,905	198,555	187,973	167,241	125,901	127,738	122,212
Education	27,617	26,840	26,044	22,022	18,263	8,335	36,241	11,180	5,638	3,469
Public safety	44,192	47,075	37,339	34,389	35,272	32,770	36,194	49,821	53,851	46,216
Natural resources	27,259	28,975	26,060	29,046	29,746	31,385	31,753	31,932	27,487	30,340
Transportation	7,199	1,076	1,660	372	744	181	(207)	875	(561)	8,257
Operating grants and contributions	2,403,772	2,211,800	2,194,892	2,387,540	2,361,446	2,114,821	1,827,704	1,716,318	1,821,134	1,794,965
Capital grants and contributions	228,649	190,551	210,720	162,032	162,090	103,515	112,712	151,528	156,828	97,681
Total governmental activities program revenues	<u>3,180,010</u>	<u>2,953,851</u>	<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>
Business-type activities:										
Charges for services	1,127,206	1,055,070	1,056,285	985,556	947,825	913,333	923,694	883,893	894,042	839,945
Operating grants and contributions	53,146	166,164	278,671	358,932	418,270	194,857	3,285	4,607	2,342	2,633
Total business-type activities program revenues	<u>1,180,352</u>	<u>1,221,234</u>	<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>
Total primary government program revenues	<u>\$ 4,360,362</u>	<u>\$ 4,175,085</u>	<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>
<b>Net (Expenses)/Revenues</b>										
Governmental activities	(3,246,401)	(3,055,309)	(3,011,499)	(2,924,020)	(2,870,645)	(3,055,610)	(3,495,184)	(3,350,992)	(3,173,294)	(2,908,420)
Business-type activities	411,799	378,263	326,656	296,653	173,358	130,092	261,393	292,919	305,354	263,082
Total primary government net expenses	<u>\$ (2,834,602)</u>	<u>\$ (2,677,046)</u>	<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>

(continued)

**State of Rhode Island and Providence Plantations**  
**Schedule of Changes in Net Position**  
**Last Ten Fiscal Years**  
(accrual basis of accounting)  
(expressed in thousands)

	Fiscal Year									
	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
<b>General Revenue and Other Changes in Net Position</b>										
Governmental activities:										
Taxes	\$ 2,980,387	\$ 2,870,969	\$ 2,824,368	\$ 2,665,169	\$ 2,577,519	\$ 2,588,417	\$ 2,820,709	\$ 2,842,828	\$ 2,794,230	\$ 2,687,684
Interest and investment earnings	4,852	4,893	4,304	5,561	4,309	9,435	32,466	37,539	25,644	14,443
Miscellaneous	108,398	143,240	118,506	102,478	91,110	95,758	121,273	106,543	114,362	104,411
Gain on sale of capital assets	953	3,757				1,656	3,026			853
Transfers	332,824	333,804	344,386	331,186	318,772	315,408	324,928	304,906	312,755	293,993
Payments from component units					7,228	13,569	39,284	10,108	14,715	18,503
Total governmental activities	<u>3,427,414</u>	<u>3,356,663</u>	<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>
Business-type activities:										
Interest and investment earnings	109	117	94	79	164	4,279	9,531	12,137	8,826	10,875
Miscellaneous	31,208	24,490	16,564	(5,454)	20,224	11,782	8,341	8,137	6,752	7,633
Special items										11,948
Transfers	(332,824)	(333,804)	(344,386)	(331,186)	(318,772)	(315,408)	(324,928)	(304,906)	(312,755)	(293,993)
Total business-type activities	<u>(301,507)</u>	<u>(309,197)</u>	<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>
Total primary government	<u>3,125,907</u>	<u>3,047,466</u>	<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>
<b>Changes in Net Position</b>										
Governmental activities	181,013	301,354	280,065	180,374	128,293	(31,367)	(153,498)	(49,068)	88,412	211,467
Business-type activities	110,292	69,066	(1,072)	(39,908)	(125,026)	(169,255)	(45,663)	8,287	8,177	(455)
Total primary government	<u>\$ 291,305</u>	<u>\$ 370,420</u>	<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>

(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				
	2014	2013	2012	2011	2010
General Fund					
Nonspendable	\$	\$	\$	\$ 53,353	\$ 49,302
Restricted	297,617	282,137	232,348	197,885	161,904
Unrestricted					
Committed	18,564	4,035	22,793	5,956	4,285
Assigned	72,005	105,639	97,639	8,425	
Unassigned	7,193	9,323	20,374	5,281	(30,041)
<b>Total General Fund</b>	<b>\$ 395,379</b>	<b>\$ 401,134</b>	<b>\$ 373,154</b>	<b>\$ 270,900</b>	<b>\$ 185,450</b>
All Other Governmental Funds					
Nonspendable	\$ 174	\$ 174	\$ 174	\$ 174	\$ 174
Restricted	615,667	660,198	619,799	528,251	681,782
Unrestricted					
Committed	4,118	163	1,742	1,448	3,366
Assigned		255	318	284	19,704
Unassigned	(4,028)	(4,113)	(4,717)	(5,043)	(6,160)
<b>Total All Other Governmental Funds</b>	<b>\$ 615,931</b>	<b>\$ 656,677</b>	<b>\$ 617,316</b>	<b>\$ 525,114</b>	<b>\$ 698,866</b>

	Fiscal Year				
	2009	2008	2007	2006	2005
General Fund					
Reserved	\$ 132,245	\$ 149,605	\$ 144,166	\$ 164,866	\$ 146,103
Unreserved	(62,286)	(42,950)		38,331	38,699
<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>
All Other Governmental Funds					
Reserved	\$ 274,180	\$ 264,727	\$ 260,607	\$ 220,612	\$ 224,483
Unreserved, reported in:					
Special Revenue Funds	93,498	7,805	155,482	22,759	32,588
Permanent Funds	1,368	2,173	1,186	988	917
Capital Projects Funds	459,489	303,965	360,026	469,018	388,829
<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>

\* The 2012 other governmental funds were restated as a result of a change in revenue recognition in the TSFC.  
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									
	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
<b>Revenues:</b>										
Taxes	\$ 2,975,016	\$ 2,868,503	\$ 2,814,331	\$ 2,664,420	\$ 2,577,406	\$ 2,589,751	\$ 2,818,085	\$ 2,848,284	\$ 2,792,961	\$ 2,687,482
Licenses, fines, sales, and services	332,655	320,767	313,724	308,564	311,040	295,662	323,329	242,743	253,857	238,344
Departmental restricted revenue	223,314	222,027	194,279	174,563	150,357	134,029	125,883	110,059	105,181	113,589
Federal grants	2,630,678	2,402,444	2,411,262	2,541,335	2,518,048	2,218,816	1,936,610	1,869,336	1,962,375	1,884,104
Income from investments	4,809	4,840	4,280	5,537	4,207	9,014	31,522	36,068	24,941	13,770
Other revenues	115,804	147,090	121,202	100,164	93,687	104,665	122,723	103,099	107,475	115,955
Total operating revenues	6,282,276	5,965,671	5,859,078	5,794,583	5,654,745	5,351,937	5,358,152	5,209,589	5,246,790	5,053,244
<b>Expenditures:</b>										
Current:										
General government	656,826	634,010	635,554	620,110	714,861	755,366	803,561	806,865	515,677	512,896
Human services	3,325,538	3,042,705	2,969,166	3,009,097	2,884,419	2,711,167	2,727,534	2,512,286	2,616,608	2,506,929
Education	1,357,903	1,330,388	1,282,063	1,287,733	1,239,258	1,216,208	1,289,687	1,267,255	284,294	265,001
Public safety	478,108	463,734	459,114	428,687	394,860	401,976	410,605	396,029	361,647	328,839
Natural resources	76,127	70,202	75,156	71,818	67,435	68,941	72,984	81,518	71,539	64,138
Transportation	383,816	373,887	399,512	367,496	306,730	299,881	244,638	310,019	247,248	209,470
Capital outlays	139,848	130,415	111,044	138,843	250,653	215,600	264,713	269,550	300,404	241,306
Intergovernmental									1,213,050	1,127,496
Debt service:										
Principal	176,885	176,970	164,245	154,475	163,063	157,817	143,368	115,752	117,663	116,322
Interest and other charges	122,663	126,852	135,806	138,066	139,723	132,813	131,575	128,527	105,264	110,243
Total operating expenditures	6,717,714	6,349,163	6,231,660	6,216,325	6,161,002	5,959,769	6,088,665	5,887,801	5,833,394	5,482,640
Excess (deficiency) of revenues over (under) expenditures	(435,438)	(383,492)	(372,582)	(421,742)	(506,257)	(607,832)	(730,513)	(678,212)	(586,604)	(429,396)

(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									
	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
<b>Other financing sources (uses):</b>										
Bonds and notes issued	53,150	81,400	145,035		155,665	427,180	131,755	314,852	320,820	87,095
Refunding bonds issued	78,700	88,175	146,730		78,960	12,445	46,570	74,835		117,010
Proceeds from the sale of Certificates of Participation		26,690	31,980			54,610	59,185	45,325	6,000	139,410
Premium and accrued interest	14,719	27,507	45,437		9,839	8,100	7,241	9,930	16,298	17,602
Transfers in	566,076	592,804	581,679	545,229	586,025	622,212	724,428	828,885	593,902	537,618
Payments from component units					7,228	13,568	39,284	10,108	14,715	18,503
Payment to refunded bonds escrow agent	(91,991)	(101,172)	(172,094)		(84,769)	(12,697)	(111,253)	(78,198)		(123,300)
Discount on issuance of debt						(66)	(4)			
Transfers out	(231,717)	(264,571)	(235,253)	(211,789)	(261,473)	(304,351)	(403,012)	(522,631)	(280,176)	(242,515)
<b>Total other financing sources (uses)</b>	<u>388,937</u>	<u>450,833</u>	<u>543,514</u>	<u>333,440</u>	<u>491,475</u>	<u>821,001</u>	<u>494,194</u>	<u>683,106</u>	<u>671,559</u>	<u>551,423</u>
<b>Net change in fund balances</b>	<u>\$ (46,501)</u>	<u>\$ 67,341</u>	<u>\$ 170,932</u>	<u>\$ (88,302)</u>	<u>\$ (14,782)</u>	<u>\$ 213,169</u>	<u>\$ (236,319)</u>	<u>\$ 4,894</u>	<u>\$ 84,955</u>	<u>\$ 122,027</u>
<b>Debt Service as a Percentage of Noncapital Expenditures</b>	4.7%	5.0%	5.1%	5.0%	5.0%	4.9%	5.0%	4.7%	4.4%	4.0%

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.

Capital outlay	360,267	315,644	264,770	230,746	319,509	185,636	227,169	318,076	308,051	269,228
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A separate calculation has been done to obtain the interest expense.

Interest expense	124,498	125,457	131,793	137,768	138,285	126,935	127,987	126,918	NA	NA
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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 Industry**  
**Prior Ten Calendar Years**  
(expressed in millions)

Taxable Sales By Industry	Calendar Year									
	2013	2012	2011	2010	2009	2008	2007	2006	2005	2004
Grocery, Food Stores, Delis, Bakeries	\$ 1,188.56	\$ 1,097.36	\$ 1,091.81	\$ 1,093.34	\$ 1,084.78	\$ 1,080.13	\$ 1,073.75	\$ 1,052.45	\$ 1,065.10	\$ 879.14
Restaurants and Bars	2,198.74	2,113.00	1,983.05	1,939.09	1,874.93	1,860.96	1,912.54	1,803.19	1,651.39	1,616.72
Room Rentals - Motels, Hotels	429.10	530.74	388.82	407.15	491.30	587.55	574.25	450.46	412.93	345.85
Utilities - Telephone, Electric, Gas, Water	600.82	617.53	583.28	588.48	589.94	641.09	636.72	668.28	549.40	582.11
<b>Total</b>	<b>\$ 4,417.23</b>	<b>\$ 4,358.63</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>
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.

\* **Note:** Reflects adjusted figure for 2005

**State of Rhode Island and Providence Plantations**  
**Schedule of Personal Income by Industry**  
**Prior Ten Calendar Years**  
(expressed in millions)

	Calendar Year									
	2013	2012	2011	2010	2009	2008	2007	2006	2005	2004
Farm Earnings	\$ 16	\$ 15	\$ 14	\$ 17	\$ 17	\$ 17	\$ 23	\$ 22	\$ 24	\$ 25
<b><u>Private Earnings</u></b>										
Forestry, Fishing and Other	47	46	(D)	(D)	40	41	44	47	41	43
Mining	18	17	(D)	(D)	13	18	19	18	16	13
Utilities	143	150	165	160	149	161	131	140	123	133
Construction	1,739	1,650	1,558	1,523	1,565	1,705	1,810	1,847	1,694	1,599
Manufacturing	2,835	2,750	2,797	2,769	2,683	3,062	3,240	3,162	3,154	3,181
Wholesale Trade	1,529	1,473	1,378	1,346	1,309	1,396	1,441	1,340	1,282	1,223
Retail Trade	1,861	1,847	1,811	1,799	1,727	1,804	1,907	1,856	1,835	1,803
Transportation and Warehousing	596	598	562	521	500	519	515	505	480	472
Information	995	1,050	1,089	998	953	927	889	920	955	951
Finance and Insurance	2,819	2,657	2,560	2,549	2,262	2,194	2,131	2,098	1,977	1,928
Real Estate and Rental and Leasing	478	456	430	369	350	353	379	432	459	450
Professional, scientific, and technical services	2,533	2,387	2,300	2,192	2,201	2,344	2,161	2,205	1,891	1,799
Management of companies and enterprises	1,602	1,426	1,256	1,198	1,054	1,189	1,139	1,071	934	860
Administrative and waste services	1,233	1,122	1,064	1,015	951	988	973	946	894	835
Educational services	1,293	1,235	1,264	1,244	1,196	1,138	1,072	1,004	925	883
Health care and social assistance	5,039	4,850	4,742	4,723	4,523	4,362	4,127	4,023	3,804	3,766
Arts, entertainment, and recreation	333	302	291	285	277	286	289	266	250	243
Accommodation and food services	1,126	1,072	1,001	945	903	949	954	932	913	895
Other services, except public administration	1,177	1,135	1,100	1,084	1,063	1,089	1,166	1,188	1,109	1,055
<b><u>Government and Government Enterprises</u></b>										
Federal/Civilian	1,117	1,132	1,114	1,103	1,031	976	955	927	878	856
Military	520	509	508	513	494	475	447	417	429	414
State and Local	4,199	4,162	4,149	4,140	3,956	4,048	3,936	3,804	3,626	3,529
<b>Total Personal Income by Industry*</b>	<b>\$ 33,248</b>	<b>\$ 32,040</b>	<b>\$ 31,212</b>	<b>\$ 30,553</b>	<b>\$ 29,218</b>	<b>\$ 30,038</b>	<b>\$ 29,748</b>	<b>\$ 29,171</b>	<b>\$ 27,691</b>	<b>\$ 26,954</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, 2013 CAFR, as a result of revised data.*

Source: US Bureau of Economic Analysis

(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									
	2013	2012	2011	2010	2009	2008	2007	2006	2005	2004
Personal Income Tax (PIT) Revenue	\$ 1,086	\$ 1,060	\$ 1,021	\$ 898	\$ 941	\$ 1,074	\$ 1,065	\$ 997	\$ 979	\$ 870
Personal Income	49,434	48,184	46,881	45,268	43,471	44,144	43,126	41,258	38,993	38,119
PIT Revenue as a Percent of Personal Income	2.20%	2.20%	2.18%	1.98%	2.16%	2.43%	2.47%	2.42%	2.51%	2.28%

*Amounts may differ from the amounts presented in the same tables in the June 30, 2013 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 Rate**  
**Prior Ten Calendar Years**

		Tax Rates on the Portion of Taxable Income in Ranges					
Tax Year 2013 All Filing Status Types		Tax Rate Income Bracket	3.75% \$ 0 - 58,600	4.75% \$58,600 - \$133,250	5.99% over \$133,250		
Tax Year 2012 All Filing Status Types		Tax Rate Income Bracket	3.75% \$ 0 - 57,150	4.75% \$57,150 - \$129,900	5.99% over \$129,900		
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		
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
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
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
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

**State of Rhode Island and Providence Plantations**  
**Schedule of Personal Income Tax Rate**  
**Prior Ten Calendar Years**

<b>Tax Year 2006</b>						
Single Filing Status	Tax Rate	3.750%	7.000%	7.750%	9.000%	9.900%
	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	3.750%	7.000%	7.750%	9.000%	9.900%
	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	3.750%	7.000%	7.750%	9.000%	9.900%
	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	3.750%	7.000%	7.750%	9.000%	9.900%
	Income Bracket	\$ 0 - 41,050	\$ 41,050 - 106,000	\$ 106,000 - 171,650	\$ 171,650 - 336,550	over \$ 336,550

<b>Tax Year 2005</b>						
Single Filing Status	Tax Rate	3.750%	7.000%	7.750%	9.000%	9.900%
	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	3.750%	7.000%	7.750%	9.000%	9.900%
	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	3.750%	7.000%	7.750%	9.000%	9.900%
	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	3.750%	7.000%	7.750%	9.000%	9.900%
	Income Bracket	\$ 0 - 39,800	\$ 39,800 - 102,800	\$ 102,800 - 166,450	\$ 166,450 - 326,450	over \$ 326,450

<b>Tax Year 2004</b>						
Single Filing Status	Tax Rate	3.750%	7.000%	7.750%	9.000%	9.900%
	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	3.750%	7.000%	7.750%	9.000%	9.900%
	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	3.750%	7.000%	7.750%	9.000%	9.900%
	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	3.750%	7.000%	7.750%	9.000%	9.900%
	Income Bracket	\$ 0 - 38,900	\$ 38,900 - 100,500	\$ 100,500 - 162,700	\$ 162,700 - 319,100	over \$ 319,100

Source: *Department of Revenue - Division of Taxation*

**State of Rhode Island and Providence Plantations**  
**Schedule of Resident Personal Income Tax Filers & Liability by AGI**  
Tax Years 2003 through 2012

Federal AGI	Tax Year 2012			
	Number of Filers	Percentage of Total	Personal Income Tax Liability	Percentage of Total
\$0 - \$25,000	185,433	38.36%	\$ 15,788,095	1.55%
\$25,001 - \$50,000	114,123	23.61%	83,752,980	8.24%
\$50,001 - \$75,000	67,181	13.90%	107,779,597	10.60%
\$75,001 - \$100,000	43,316	8.96%	108,406,641	10.66%
\$100,001 - \$200,000	58,008	12.00%	273,640,681	26.92%
\$200,001 - \$500,000	12,612	2.61%	186,607,713	18.36%
\$500,001 - \$1,000,000	1,863	0.39%	72,200,723	7.10%
\$1,000,001 and greater	901	0.19%	168,326,180	16.56%
	<u>483,437</u>	<u>100.00%</u>	<u>\$ 1,016,502,611</u>	<u>100.00%</u>

Federal AGI	Tax Year 2011			
	Number of Filers	Percentage of Total	Personal Income Tax Liability	Percentage of Total
\$0 - \$25,000	187,194	38.93%	\$ 16,926,831	1.75%
\$25,001 - \$50,000	113,669	23.64%	85,575,958	8.82%
\$50,001 - \$75,000	67,075	13.95%	108,935,845	11.23%
\$75,001 - \$100,000	42,991	8.94%	109,489,374	11.29%
\$100,001 - \$200,000	56,062	11.66%	270,444,262	27.88%
\$200,001 - \$500,000	11,501	2.39%	171,575,565	17.69%
\$500,001 - \$1,000,000	1,582	0.33%	61,270,009	6.32%
\$1,000,001 and greater	714	0.15%	145,706,695	15.02%
	<u>480,788</u>	<u>100.00%</u>	<u>\$ 969,924,538</u>	<u>100.00%</u>

Federal AGI	Tax Year 2010			
	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>

Federal AGI	Tax Year 2009			
	Number of Filers	Percentage of Total	Personal Income Tax Liability	Percentage of Total
\$0 - \$25,000	183,072	39.16%	\$ 21,585,517	2.56%
\$25,001 - \$50,000	112,295	24.02%	86,815,876	10.28%
\$50,001 - \$75,000	67,079	14.35%	111,368,728	13.19%
\$75,001 - \$100,000	42,121	9.01%	107,753,288	12.76%
\$100,001 - \$200,000	51,242	10.96%	256,844,961	30.41%
\$200,001 - \$500,000	9,771	2.09%	143,328,323	16.97%
\$500,001 - \$1,000,000	1,312	0.28%	48,180,994	5.71%
\$1,000,001 and greater	547	0.12%	68,608,744	8.12%
	<u>467,439</u>	<u>100.00%</u>	<u>\$ 844,486,431</u>	<u>100.00%</u>

Federal AGI	Tax Year 2008			
	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	9.64%
\$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	28.27%
\$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>

**State of Rhode Island and Providence Plantations**  
**Schedule of Resident Personal Income Tax Filers & Liability by AGI**  
Tax Years 2003 through 2012

<u>Tax Year 2007</u>				
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>

<u>Tax Year 2006</u>				
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	14.44%	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	23.54%
\$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%	196,466,444	19.08%
	<u>475,357</u>	<u>100.00%</u>	<u>\$ 1,029,965,685</u>	<u>100.00%</u>

<u>Tax Year 2005</u>				
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>

<u>Tax Year 2004</u>				
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>

<u>Tax Year 2003</u>				
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>

**State of Rhode Island and Providence Plantations**  
**Schedule of Ratios of Outstanding Debt by Type**  
**Last Ten Fiscal Years**  
(expressed in thousands)

	Fiscal Year									
	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
<b>Governmental Activities</b>										
General obligation bonds	\$ 1,074,750	\$ 1,103,945	\$ 1,110,585	\$ 1,049,400	\$ 1,118,030	\$ 1,036,189	\$ 997,398	\$ 916,531	\$ 848,666	\$ 810,485
Revenue bonds (blended component units)	744,821	765,161	779,426	795,161	807,731	828,481	867,776	902,871	729,695	749,445
Capital leases	207,595	232,975	233,800	224,045	244,805	269,340	236,060	256,865	226,755	232,464
Special purpose bonds (a)	415,955	468,730	519,060	567,190	613,355	658,550	358,065	390,110	418,300	228,305
<b>Total governmental activities</b>	<u>2,443,121</u>	<u>2,570,811</u>	<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>
<b>Business-type Activities</b>										
Revenue bonds	226,900	236,960	250,510	259,620	268,280	275,810	270,960	279,935	287,185	202,855
<b>Total business-type activities</b>	<u>226,900</u>	<u>236,960</u>	<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>
<b>Total primary government</b>	<u>\$ 2,670,021</u>	<u>\$ 2,807,771</u>	<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>
Debt as a Percentage of Personal Income	5.4%	5.9%	6.1%	6.3%	7.1%	7.1%	6.9%	6.2%	6.3%	5.9%
Amount of Debt Per Capita	\$ 3	\$ 3	\$ 3	\$ 3	\$ 3	\$ 3	\$ 3	\$ 3	\$ 2	\$ 2

**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									
	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
<b>Revenue Bonds-Tobacco Settlement Finance Corporation</b>										
Revenue - Tobacco Settlement Revenue	\$ 51,757	\$ 46,692	\$ 49,944	\$ 50,166	\$ 48,620	\$ 58,039	\$ 53,247	\$ 44,025	\$ 41,546	\$ 45,831
Less: operating expenses	62	33	74	74	69	99	33	54	40	65
Net available revenue	<u>\$ 51,695</u>	<u>\$ 46,659</u>	<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>
Debt service										
Principal (b)	\$ 20,340	\$ 14,265	\$ 15,735	\$ 12,570	\$ 14,710	\$ 16,620	\$ 16,620	\$	\$	\$
Interest	35,229	36,085	37,029	37,783	38,614	40,918	40,918	41,287	41,609	42,015
Coverage (a)	93.03%	92.67%	94.52%	99.48%	91.05%	100.70%	92.48%	106.50%	99.75%	108.93%
<b>Revenue Bonds-GARVEE (Federal Highway)</b>										
Revenue - FHWA participation	\$ 48,387	\$ 48,382	\$ 48,382	\$ 48,389	\$ 48,391	\$ 43,646	\$ 44,147	\$ 44,182	\$ 41,801	\$ 41,809
Net available revenue	<u>\$ 48,387</u>	<u>\$ 48,382</u>	<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>
Debt service										
Principal	\$ 32,615	\$ 31,075	\$ 29,590	\$ 28,205	\$ 26,910	\$ 28,315	\$ 28,315	\$ 24,560	\$ 32,290	\$ 30,755
Interest	15,772	17,308	18,792	20,184	21,481	15,895	15,895	19,650	9,517	11,054
Coverage (a)	100.00%	100.00%	100.00%	100.00%	100.00%	98.72%	99.86%	99.94%	99.99%	100.00%
<b>Revenue Bonds-GARVEE (Gas Tax)</b>										
Revenue - 2 cents per gallon of the gasoline tax	\$ 8,473	\$ 8,275	\$ 8,412	\$ 8,421	\$ 8,579	\$ 8,656	\$ 9,028	\$ 9,409	\$ 9,496	\$ 9,513
Net available revenue	<u>\$ 8,473</u>	<u>\$ 8,275</u>	<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>
Debt service										
Principal	\$ 3,985	\$ 3,840	\$ 3,710	\$ 3,585	\$ 3,480	\$ 3,730	\$ 3,730	\$ 3,630	\$ 5,150	\$ 5,150
Interest	3,162	3,304	3,439	3,561	3,667	3,241	3,241	3,335	2,105	1,653
Coverage (a)	118.55%	115.83%	117.67%	117.84%	120.04%	124.17%	129.51%	135.09%	130.89%	139.84%
<b>Division of Motor Vehicles Capital Lease</b>										
Revenue - \$1.50 surcharge per transaction	\$ 2,015	\$ 1,889	\$ 2,181	\$ 2,098	\$ 2,602					
Net available revenue	<u>\$ 2,015</u>	<u>\$ 1,889</u>	<u>\$ 2,181</u>	<u>\$ 2,098</u>	<u>\$ 2,602</u>					
Debt service										
Principal	\$ 1,565	\$ 1,500	\$ 1,440	\$ 1,385						
Interest	281	344	405	409						
Coverage (a)	109.15%	102.44%	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 Nominal 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>2014</b>	\$ 14,735.6	4.6%	\$ 51.4	4.0%	\$ 46,267	3.9%	\$ 48,799	3.8%	318,500	0.8%	1,053	0.1%
<b>2013</b>	14,081.2	2.6%	49.4	2.6%	44,543	2.7%	47,012	2.5%	316,129	0.7%	1,052	0.1%
<b>2012</b>	13,729.1	4.2%	48.2	2.8%	43,375	2.5%	45,877	2.8%	313,914	0.7%	1,050	0.0%
<b>2011</b>	13,179.6	6.1%	46.9	3.6%	42,298	5.3%	44,621	3.8%	311,588	0.7%	1,051	-0.2%
<b>2010</b>	12,423.3	2.9%	45.3	4.1%	40,163	2.0%	42,999	4.2%	309,326	0.8%	1,053	-0.1%
<b>2009</b>	12,073.7	-2.9%	43.5	-1.5%	39,357	-3.7%	41,257	-1.4%	306,772	0.9%	1,054	-0.1%
<b>2008</b>	12,429.3	3.7%	44.1	2.4%	40,873	2.7%	41,842	2.6%	304,094	1.0%	1,055	-0.2%
<b>2007</b>	11,990.2	5.4%	43.1	4.5%	39,804	4.4%	40,788	5.1%	301,231	1.0%	1,057	-0.5%
<b>2006</b>	11,376.5	7.3%	41.3	5.8%	38,127	6.2%	38,809	6.3%	298,380	1.0%	1,063	-0.5%
<b>2005</b>	10,605.6	5.6%	39.0	2.3%	35,888	4.6%	36,513	2.9%	295,517	0.9%	1,068	-0.6%

**Source:** *United States Bureau of Economic Analysis  
The 2014 information is estimated by Moody's Analytics.*

**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>2014</b>	558	0.4%	8.2%	-13.9%	9,621	-6.7%
<b>2013</b>	556	-0.6%	9.5%	-7.5%	10,310	14.4%
<b>2012</b>	559	-0.7%	10.3%	-8.6%	9,012	-6.7%
<b>2011</b>	563	-1.7%	11.2%	-4.2%	9,662	-2.9%
<b>2010</b>	572	1.1%	11.7%	7.5%	9,954	-10.6%
<b>2009</b>	566	-1.0%	10.9%	41.4%	11,128	14.5%
<b>2008</b>	572	-0.4%	7.7%	48.6%	9,716	-17.9%
<b>2007</b>	574	0.2%	5.2%	2.6%	11,837	-11.8%
<b>2006</b>	573	2.1%	5.1%	-0.2%	13,422	-5.5%
<b>2005</b>	561	1.1%	5.1%	-3.3%	14,205	1.2%

**Source:** *This information is provided by the State's revenue estimating conference.  
The 2014 information is estimated.  
Amounts for various calendar years may differ from the amounts presented in the same tables in the June 30, 2013 CAFR, as a result of revised data.*

**State of Rhode Island and Providence Plantations  
Principal Employers  
2013 and 2004**

2013				2004			
Rank	Employer	Employed	Percentage	Rank	Employer	Employed	Percentage
1	Lifespan	12,750	2.29%	1	Lifespan	11,110	2.01%
2	Care New England	6,657	1.20%	2	Care New England	5,858	1.06%
3	CVS Caremark Corporation	6,200	1.12%	3	CVS Corporation	5,183	0.94%
4	RBS Citizens Financial Group	5,390	0.97%	4	RBS Citizens Financial Group	4,984	0.90%
5	Brown University	4,264	0.77%	5	Stop and Shop Supermarket Co., Inc.	4,555	0.82%
6	Fidelity Investments	3,629	0.65%	6	Brown University	4,450	0.80%
7	CharterCare Health Partners	2,866	0.52%	7	Bank of America (Fleet Financial Corp)	3,636	0.66%
8	General Dynamics Corp	2,760	0.50%	8	Shaw's Market	2,260	0.41%
9	Naval Undersea Warfare Center	2,718	0.49%	9	Metropolitan Life Insurance Company	2,160	0.39%
10	Bank of America	2,500	0.45%	10	General Dynamics Corp	2,075	0.37%
Total employment		555,578	8.96%	Total employment		554,000	8.36%

**Source:** Rhode Island Economic Development Corporation.

Some employers are not listed because they did not wish to participate.

**Source:** 2013 information is provided by the RI Department of Labor and Training.

**State of Rhode Island and Providence Plantations  
Full Time State Employees by Function  
Last Ten Fiscal Years**

Full Time State Employees as of June 30th for each fiscal year

	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
<b><u>Full-time Employees</u></b>										
General Government	2,384	2,414	2,337	2,561	2,533	2,474	2,508	2,479	2,480	2,531
Human Services	3,353	3,273	3,118	3,247	3,125	3,164	3,671	4,144	4,370	4,176
Education	359	370	354	358	352	343	365	373	373	364
Public Safety	3,057	3,023	3,002	2,685	2,693	2,684	2,865	2,952	2,939	2,953
Natural Resources	904	898	887	865	863	890	905	978	1,015	963
Transportation	771	781	797	802	763	708	719	767	828	813
<b>State Total</b>	<u>10,828</u>	<u>10,759</u>	<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>

**Source: Department of Administration**

**State of Rhode Island and Providence Plantations  
Schedule of Operating Indicators by Function  
Prior Ten Fiscal Years**

	2013	2012	2011	2010	2009	2008	2007	2006	2005	2004
<b>General Government</b>										
Division of Taxation										
Dollars received electronically (expressed in thousands)	\$2,479,404	\$2,422,640	\$2,330,068	\$2,242,867	\$2,135,981	\$2,049,159	\$2,047,671	\$1,920,770	\$1,810,045	\$1,672,875
Number of business transactions processed electronically	1,160,506	988,669	970,394	917,982	857,553	782,659	767,971	719,800	661,209	622,115
Personal Income Tax returns filed electronically -Tax Year	490,000	463,900	451,406	442,383	379,495	349,211	289,346	246,230	217,524	185,154
Department of Labor and Training										
Labor force total (expressed in thousands)	554	560	566	569	567	568	577	575	565	533
Unemployment rate (percentage)	8.9%	11.1%	11.4%	11.6%	11.2%	7.8%	5.0%	5.1%	5.1%	5.2%
<b>Human Services</b>										
Department of Children, Youth and Families										
Average Number of Children in Out of Home Placement	2,141	2,116	2,249	2,201	2,410	2,729	2,436	2,517	2,346	2,331
Health Department										
Diagnosed AIDS cases	28	39	51	36	62	56	69	89	105	139
Number of births (expressed in thousands)	11	12	12	12	12	13	14	13	13	14
<b>Education</b>										
Enrollment - Higher Education	42,786	44,504	43,254	43,224	43,409	42,601	41,503	40,374	40,008	39,920
Number of certificates and degrees awarded - Higher Education	7,256	6,804	6,500	6,516	6,255	5,754	5,518	5,418	5,404	5,567
<b>Public Safety</b>										
Department of Corrections										
Incarcerated offenders (male)	2,988	3,022	3,084	3,154	3,499	3,567	3,542	3,518	3,175	3,354
Incarcerated offenders (female)	173	169	189	187	190	204	231	242	186	200
<b>Natural Resources</b>										
Department of Environmental Management										
Hatchery fish raised and restocked (approximated in thousands)	138	131	114	119	136	148	140	140	140	140
Park visitations (expressed in thousands)	1,302	3,449	5,213	5,386	5,374	5,174	5,928	6,135	6,010	5,861
Recreational registrations (boats)	39,012	38,583	40,525	41,158	42,301	42,999	44,000	41,933	41,366	42,759
<b>Transportation</b>										
Department of Transportation										
Vehicle miles traveled (expressed in millions)	7,775	7,786	7,901	8,280	8,279	8,188	8,679	8,300	8,299	8,472

Amounts for various calendar years may differ from the amounts presented in the same tables in the June 30, 2013 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									
	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
<b><u>General Government</u></b>										
Buildings	16	16	16	15	14	14	15	15	17	17
Vehicles	272	257	251	258	260	271	263	238	104	95
<b><u>Human Services</u></b>										
Buildings	199	199	196	197	201	200	199	198	197	197
Vehicles	291	286	304	337	339	365	360	353	335	320
<b><u>Education</u></b>										
Buildings	12	9	10	10	9	10	12	12	13	13
Vehicles	16	13	14	19	20	20	20	19	23	26
<b><u>Public Safety</u></b>										
Buildings	65	64	62	59	53	52	52	53	54	54
Vehicles	635	643	561	604	586	614	644	580	604	586
<b><u>Natural Resources</u></b>										
Buildings	80	80	67	49	47	45	44	44	43	41
Vehicles	431	419	426	428	420	423	414	417	431	398
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	23	23	21	19	19	19	19	19	23	22
Vehicles	558	547	555	621	611	628	635	708	676	733
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

**The Rhode Island Council on the Arts assisted in providing photos for the  
State of Rhode Island's 2014 Comprehensive Annual Financial Report**

**Cover - Newport Harbor Light**



*Photographer: Elliot Gilfix*

**Introductory Section – Black Point Walk**



*Photographer: Marc Jaffe*

**Financial Section – Sunset at Newport Harbor**



*Photographer: Andrew Palochko*

**Statistical Section - Untitled**



*Photographer: Greg McClain*