

**RHODE ISLAND TURNPIKE AND
BRIDGE AUTHORITY
(A COMPONENT UNIT OF THE STATE
OF RHODE ISLAND)**

BASIC FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2014



RHODE ISLAND TURNPIKE AND BRIDGE AUTHORITY
(A COMPONENT UNIT OF THE STATE OF RHODE ISLAND)

YEAR ENDED JUNE 30, 2014

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Independent Auditors' Report

Board of Directors
Rhode Island Turnpike and Bridge Authority
Jamestown, Rhode Island

Report on the Financial Statements

We have audited the accompanying financial statements of the Rhode Island Turnpike and Bridge Authority (the Authority), a component unit of the State of Rhode Island, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Authority'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.

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the 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 opinion.

Independent Auditors' Report (Continued)

Board of Directors
Rhode Island Turnpike and Bridge Authority

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Rhode Island Turnpike and Bridge Authority, a Component Unit of the State of Rhode Island, as of June 30, 2014, and the changes in its financial position and its cash flows for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

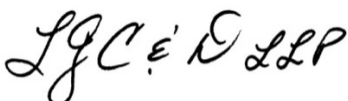
As discussed in Note 1 to the financial statements, for the year ended June 30, 2014 the Authority adopted new accounting guidance affecting the accounting for bond issuance costs and the reporting of the gain on advance debt refunding. Due to the adoption of this guidance, the Authority restated its 2013 financial statements, resulting in a decrease in net deficit position of \$1,047,639 at July 1, 2013. Our opinion is not modified with respect to this matter.

Other Matter

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 3 through 10 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated September 29, 2014 on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the Authority's internal control over financial reporting and compliance.



Providence, Rhode Island
September 29, 2014

MANAGEMENT'S DISCUSSION AND ANALYSIS

The Rhode Island Turnpike and Bridge Authority (the Authority) is a quasi-public agency created by the Rhode Island General Assembly in 1954 to maintain and operate the Claiborne Pell Bridge (Pell Bridge), on the west shore of Narragansett Bay (the Bay) which connects the City of Newport and Town of Jamestown, and the Mount Hope Bridge, on the east shore of the Bay which connects the Towns of Bristol and Portsmouth, Rhode Island. In June of 2012, the Jamestown Verrazano Bridge and the new Sakonnet River Bridge were turned over to the Authority by the state legislature for the operation and maintenance of the bridge structures and associated parcels of land. Day-to-day operations of the Authority are led by an Executive Director who oversees 65 employees and reports to a five-member Board of Directors (Board) comprised of the Director of Transportation, who is a member ex-officio, and four members appointed by the Governor. For over 50 years, the Authority has been committed to maintaining and operating the Pell and Mount Hope Bridges in a fiscally responsible manner that ensures their physical integrity and longevity.

This discussion and analysis of the Authority's financial position and performance provides information as of June 30, 2014 and for the year then ended, with comparison as deemed appropriate to the previous fiscal year ended June 30, 2013. Readers are encouraged to utilize this document in conjunction with their review of the Authority's financial statements.

OVERVIEW OF FINANCIAL STATEMENTS

The Authority's annual financial statements consist of three parts: management's discussion and analysis, the basic financial statements with note disclosures, and supplementary information.

The basic financial statements report information about the self-supporting activities of the Authority funded primarily by toll revenue. They consist of a Statement of Net Position; a Statement of Revenues, Expenses and Changes in Net Position; and a Statement of Cash Flows, all of which are supported by Notes to the Financial Statements.

The financial statements provide indications of the Authority's financial health. The Statement of Net Position summarizes all of the Authority's assets, deferred outflows of resources, liabilities and deferred inflows of resources (on the accrual basis of accounting) as of the fiscal year-end date, and indicates which assets can be used for general purposes and which are restricted by bond covenants as to their use. The Statement of Revenues, Expenses and Changes in Net Position reports revenues earned and expenses incurred during a fiscal year. In addition to reporting cash provided and used by operating activities, the Statement of Cash Flows also reports other cash sources, such as investment income, and other cash uses, such as the purchase of capital additions and the repayment of bond principal and interest obligations.

In order to ensure observance of limitations and restrictions placed on the use of resources available to the Authority, its accounts are classified, for internal accounting purposes, into a number of separate funds.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

FINANCIAL STATEMENTS AND OPERATIONAL SUMMARIES

Activity and Year-End Financial Position

The Authority's total net position decreased in 2014 by \$6.0 million, or 5.9%, principally due to an increase in other liabilities of approximately \$22.7 million. The \$7.9 million increase in capital assets is attributable to projects underway as part of the Authority's ongoing capital improvement program, which was funded by previously held investments, net of \$9.8 million of depreciation.

A comparative summary of the Authority's net position is shown below (dollars in thousands):

Statements of Net Position

	June 30, 2014		June 30, 2013 (Restated)	
Assets:				
Capital assets (net)	\$ 159,782	82.9%	\$ 151,906	83.6%
Other:				
Investments	23,904	12.4%	21,699	11.9%
Cash and cash equivalents	7,914	4.1%	7,416	4.1%
Other	1,080	0.6%	735	.4%
	32,898	17.2%	29,850	16.4%
Total assets	192,680	100.0%	181,756	100.0%
Liabilities:				
Noncurrent, bonds payable	58,273	30.3%	63,544	35.0%
Other liabilities	38,369	19.8%	16,141	9.0%
Total liabilities	96,642	50.1%	79,685	44.0%
Deferred inflow of resources	82	-	110	-
Net position:				
Net investment in capital assets	74,696	38.8%	80,222	44.1%
Restricted, bond covenants	18,271	9.5%	16,605	9.1%
Unrestricted	2,989	1.6%	5,154	2.8%
Total net position	\$ 95,956	49.9%	\$ 101,961	56.0%

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Statements of Revenues, Expenses and Changes in Net Position

Operating results are discussed in the *Operating Results* section below. A condensed summary of activity follows (dollars in thousands):

	2014		2013	
Operating revenues:				
Toll revenues	\$ 19,299	96.3%	\$ 18,394	96.6%
Transponder revenues	668	3.3%	567	3.0%
Statement and bank fees	73	.4%	70	.4%
Total operating revenues	20,040	100.0%	19,031	100.0%
Operating expenses:				
Personnel services	3,908	19.5%	3,523	18.5%
Insurance	904	4.5%	815	4.3%
Repairs and maintenance	1,275	6.4%	1,572	8.3%
Other	4,709	23.5%	3,601	18.9%
Transponder expense	335	1.7%	289	1.5%
Depreciation	9,846	49.1%	9,250	48.6%
Legal settlement expense	-	-	(38)	(.2)%
Total operating expenses	20,977	104.7%	19,012	99.9%
Operating income (loss)	(937)	(4.7)%	19	.1%
Nonoperating expenses, net	(5,068)	(25.3)%	(2,182)	(11.5)%
Change in net position	(6,005)	(30.0)%	(2,163)	(11.4)%
Net position, beginning of year, as originally reported	101,961		105,172	
Restatement – bond issuance cost			(1,048)	
Net position beginning of year, as restated	101,961		104,124	
Net position, end of year	\$ 95,956		\$ 101,961	

The Authority had a 4.9% increase in toll revenues for the year ended June 30, 2014 (FY2014) as a result of a slight increase in traffic volumes as well as the commencement of toll collections on the Sakonnet River Bridge in August 2013. The E-ZPass customer service center, transaction processing charges and other toll collection expenses totaled \$3,150,576 for FY2014. The Authority continually monitors both staffing in the customer service center and the lanes in the toll plaza to ensure the proper level of staff to service its customers.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Tolls and Operations

The Claiborne Pell Bridge toll schedule is based upon financial obligations of the Authority. Toll rates are set at a level sufficient to fund ongoing operations, debt service (including reserves), capital improvements, and regular maintenance of the Authority's capital assets. Tolls were removed from the Mount Hope Bridge effective May 1, 1998.

In 2009, a consultant was hired to conduct a traffic and revenue study to determine the amount of revenue required to meet the financial needs of the Authority. As a result, the \$1 per axle cash toll at the Pell Bridge was increased to \$2 per axle in September 2009, the first increase since the structure opened to traffic in 1969. A schedule of proposed future rate increases was also included in that study.

In December 2008, the Authority implemented E-ZPass, the electronic toll collection system. The conversion to E-ZPass was completed in January 2009. The cash rate for passage is \$2 per axle. The rate for a Rhode Island resident with a Rhode Island transponder is \$.83. Through January 2010, a commuter rate for out-of-state residents with a Rhode Island transponder was established at \$.91 if they made 31 trips in a 30-day period. This program was replaced in February 2010 with a six-trip rate of \$5.46 to be completed in 30 days. An unlimited plan for Rhode Island residents was introduced for \$40, to be completed in 30 days. The rate for out-of-state E-ZPass transponders was set at \$1.75 and increased to \$4 on September 2, 2009.

A customer service center, including a walk-in center and a call center, is set up in Jamestown adjacent to the toll plaza where E-ZPass applications are processed, transponders are sold and accounts replenished. Transponders are sold at cost for \$20.95. As of June 30, 2014, the Authority had 143,277 active accounts with more than 199,000 active transponders.

In January 2012, the Authority engaged Sanef IT America to develop, install, and maintain a new automated Toll Customer Relationship Management System (Toll CRM) which will be utilized in processing Electronic Toll Collections (ETC) (through E-ZPass) transactions, open and close customer E-ZPass accounts on-line, maintain the account information database, and manage transponder inventory. It will also reconcile toll transactions and aid in the resolution of reciprocity disputes between RITBA and its sister E-ZPass agencies. This contract is valid through June 2019.

The operations department is responsible for the collection of tolls from motorists passing through the Authority's toll plaza in Jamestown, adjacent to the Pell Bridge. The department is headed by a Director of Operations, who is assisted by a number of supervisors in order to operate the facility 24 hours per day, 365 days per year. The department employs approximately 14 full-time toll collectors throughout the year, all of whom are covered under a collective bargaining agreement, as well as non-union casual collectors utilized primarily during the busy tourist season of May 30 through October 12. With the introduction of E-ZPass, monitors were placed in the lanes to assist motorists encountering problems. Supervisors are responsible for the smooth operation of all activity during weekdays, and during nights and weekends are also responsible for reporting to the bridge and all Authority buildings and grounds to investigate unusual occurrences and to maintain a safe environment for motorists. The Rhode Island State Police is summoned when circumstances dictate, and also undertakes routine patrols at the toll plaza and elsewhere adjacent to the bridges, especially during weekend evenings during the summer. This is done in cooperation with local police and EMT services provided by the municipalities of Jamestown, Newport, Bristol, and Portsmouth.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Tolls and Operations (Continued)

In June 2012, the Authority initiated Open Road Tolling (ORT) lanes on the Pell Bridge. These lanes, one east-bound and one west-bound, allow vehicles with an E-ZPass transponder to travel through the toll plaza at normal travel speeds without stopping at a gated toll booth.

Operating Results

Pell Bridge Traffic and Revenue Summary

Traffic and revenue statistics are as follows:

	<u>2014</u>		<u>2013</u>	
Traffic (number of passages)				
Vehicle fares paid with ETC	17,101,915	91.5%	8,679,774	84.1%
Vehicle fares paid with cash	<u>1,586,066</u>	<u>8.5%</u>	<u>1,640,054</u>	<u>15.9%</u>
	<u>18,687,981</u>	<u>100.0%</u>	<u>10,319,828</u>	<u>100.0%</u>
	<u>2014</u>		<u>2013</u>	
Revenue				
Vehicle fares paid with ETC	\$ 13,192,073	67.6%	\$ 11,621,568	62.2%
Vehicle fares paid with cash	<u>6,326,528</u>	<u>32.4%</u>	<u>7,073,391</u>	<u>37.8%</u>
	<u>\$ 19,518,601</u>	<u>100.0%</u>	<u>\$ 18,694,959</u>	<u>100.0%</u>

Pell Bridge traffic increased during 2014 by 8,368,153 passages, or 3.81%, compared to the previous year. Revenue increased by \$823,642, a 4.4% increase that is directly attributed to the increase in traffic. The Authority also earned an additional \$737,512 in revenue on 7,375,120 crossings due to the new toll on the Sakonnet River Bridge that commenced on August 19, 2013 and ceased on June 20, 2014.

Engineering and Maintenance

The head of the engineering department is a Director of Engineering who oversees all capital construction activities on behalf of the Authority. In addition, under the Director of Engineering, separate consulting engineering firms, including on-call contracting firms, have been engaged to manage projects undertaken on each structure. Each bridge is subjected to an annual inspection, and a more thorough and complete "in-depth" inspection is performed on each structure every two years.

The Board hired a nationally recognized firm to conduct a risk management study to evaluate the Authority's procedures to avoid, prepare for and respond to natural and manmade concerns. The firm made recommendations to improve the safety and security of the bridges. The Authority has begun implementing these recommendations.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Engineering and Maintenance (Continued)

At June 30, 2014, 82.9% of the Authority's assets are capital assets, most notably the two largest suspension bridges in New England, the operation and maintenance of which the Authority has been charged. In order to continue to protect these assets for the foreseeable future, the Authority's Board (Board) bi-annually revises its ten-year Renewal and Replacement Plan. In April 2014, the Board approved an updated 10-year Capital Improvement Plan (CIP).

During FY2014, the Authority continued its preventive maintenance programs for both the Pell and Mount Hope Bridges, which are designed to ensure the safety, security, and aesthetics of the structures while generating long-term savings for the Authority. As part of this effort, a number of Authority staff have been assigned additional duties, including preventive maintenance of bridge bearings; repair of potholes on approach roads; preventive corrosion treatment on bridges; snow removal at the toll plaza; lawn maintenance, routine inspection on expansion and contraction components of bridges; painting of bridge rails and building interiors; and signage maintenance on bridges.

Capital and Construction Activities

Under the CIP, the Board has approved \$169.9 million, with \$133.4 million allocated to the Pell Bridge and \$36.5 million toward Mount Hope Bridge projects. Major capital improvement projects in progress during FY2014 included the following:

Mount Hope Bridge

- Ongoing on-call maintenance of concrete deck and structural steel components
- Steel repair and protective coating for the north approach

Newport/Pell Bridge

- Design of center median
- Continued patching and sealing of road deck
- Construction for the suspended spans
- Continuation of bridge painting and steel repairs for the east approach span
- Installation of center pylons

At June 30, 2014, the Authority is committed under several construction and maintenance contracts. At June 30, 2014, approximately \$25,755,000 of commitments are outstanding, of which \$1,157,137 is retainage payable. The Authority expects to fund the payment of these commitments through additional bond financings.

Finance and Accounting

Finance and accounting functions are headed by a Chief Financial Officer who is responsible for maintaining the Authority's books and records and for adhering to covenants and other requirements of agreements entered into with bondholders.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Debt Service

At June 30, 2014, 89.4% of the Authority's liabilities are debt service obligations entered into during 2003 and 2010. The total 2003 Series A bond issuance raised \$35,765,000. Principal payments are due annually, and interest payments semiannually, until maturity in 2017. The 2003 Series A bonds are not subject to optional redemption prior to maturity. In April 2010, the Authority sold revenue bonds in the amount of \$50,000,000, which mature in 2039. Principal payments have been deferred until 2017, when the 2003 Series A bonds mature. Principal payments on the revenue bonds during 2014 totaled \$2,595,000.00.

In accordance with the trust agreement entered into between the Authority and BNY Mellon, the trustee, debt service obligations (monthly deposits of toll revenues made into separate principal, interest, and debt service reserve accounts held by the trustee) were made during FY2014 on a timely basis. Compliance with restrictions and covenants stipulated in the trust agreement was monitored during the year by the Authority. The State of Rhode Island (State) has authorized the Authority to issue approximately \$68,000,000 of additional revenue bonds. The terms and expected date for such issuance have not yet been determined.

In February 2013, the Authority entered into an agreement with Sovereign Bank for a \$30,000,000 short-term Bond Anticipation Note (BAN), under which \$25,000,000 is outstanding at June 30, 2014. This will be used to fund contract work primarily on the Pell Bridge while the Authority prepares to issue the additional authorized bonds.

During FY2014, the Authority entered into a \$2,000,000 short-term note with the Rhode Island Department of Transportation (RIDOT) through the RIDOT State Infrastructure Bank to fund other capital projects that have been included in the CIP. To date, the Authority has used \$394,923 of the \$2,000,000 available. This note matures on December 31, 2029.

Investments

The Authority's investments comprise 12.3% and 11.9% of assets at June 30, 2014 and 2013, respectively, including the proceeds from the sale of the BANS. Under the trust agreement referenced above, "moneys in all funds and accounts shall be invested by the holder of such Fund or Account as soon as practicable upon receipt in Permitted Investments..." The definition of Permitted Investments includes mostly highly-rated fixed-income securities. At June 30, 2014, 66% of the Authority's investments are in the form of money market mutual funds; U.S. Treasury obligations represent approximately 4.5%. Approximately 10.4% of the Authority's investments are in corporate bonds.

Insurance Cost-Saving Initiatives

Insurance continues to be among the Authority's most significant operating expenses. In January 2005, management and the local collective bargaining unit cooperated in an effort to control health care costs while maintaining the current level of service. The Authority entered into a three-year contract with the union, effective July 1, 2012, and received increases in the employees' premium co-pays each year during the term of the contract. The current contract expires June 30, 2014.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Insurance Cost-Saving Initiatives (Continued)

The Authority maintains property and casualty insurance coverage as deemed appropriate in consultation with an insurance industry expert. In fiscal year 2008, in order to contain the cost of insuring the bridges, the Board increased the deductible on the marine insurance on the bridges. In FY2014, the Authority competitively bid the commercial insurance policies. The result was significant savings on the property coverage for the bridges with a three-year premium guarantee, resulting in premiums expense over the three-year period beginning August 1, 2014 remaining essentially flat as compared to the last three years. The Board continues to work to find ways to decrease insurance costs.

Community Involvement

The Authority continues to maintain its relationships with its host communities of Bristol, Jamestown, Newport, and Portsmouth, Rhode Island. The Authority takes an active role with community organizations and continues to make marketing-related sponsorships of cultural and other events in its host municipalities, which it believes contribute directly to an increase in bridge traffic, especially from local patrons.

A lease agreement for use of the Mount Hope Bridge's former Gatekeeper's House with Roger Williams University continues to result in a favorable arrangement for both parties. The Authority continues to evaluate its operational and physical needs in Bristol, Rhode Island.

Legislative Developments

The FY2013 State budget included an article that will allow for the transfer of the Sakonnet River and Jamestown/Verrazano Bridges to the Rhode Island Turnpike and Bridge Authority from the Rhode Island Department of Transportation. The Authority assumed care, custody and control of these new assets in April 2013; however, ownership and title to the bridges and related property remain with the State. Tolls commenced in August 2013 (FY2014) through General Assembly action taken in the FY2014 State budget.

Subsequently, the Rhode Island General Assembly passed the FY2015 State budget, which eliminated the toll on the Sakonnet River Bridge, raised the gas tax and other fees, earmarking \$0.035 of the gas tax to the Authority to fund the additional maintenance costs associated with the addition of the Sakonnet River and Jamestown Verrazano Bridges. The annual estimated revenue expected from the gas tax is approximately \$14.8 million.

Requests for Information

This financial report is designed to provide a general overview of the Authority and its finances. Questions about any of the information contained in this report and requests for additional information may be addressed to the Executive Director at: Rhode Island Turnpike and Bridge Authority, P.O. Box 437, Jamestown, RI 02835.

RHODE ISLAND TURNPIKE AND BRIDGE AUTHORITY
(A COMPONENT UNIT OF THE STATE OF RHODE ISLAND)

STATEMENT OF NET POSITION – JUNE 30, 2014

ASSETS:

Current assets:

Cash and cash equivalents	\$ 2,359,948
Accounts receivable	54,661
Accrued interest receivable	50,844
Prepaid expenses	132,943
Inventory	234,164
Restricted:	
Cash and cash equivalents	5,554,413
Investments	12,109,896
Accounts receivable	<u>606,743</u>

Total current assets 21,103,612

Noncurrent assets:

Investments	7,004,950
Restricted investments, less current portion	4,789,042
Capital assets not being depreciated	250,000
Capital assets being depreciated, net	<u>159,532,313</u>

Total noncurrent assets 171,576,305

Total assets 192,679,917

(continued)

RHODE ISLAND TURNPIKE AND BRIDGE AUTHORITY
(A COMPONENT UNIT OF THE STATE OF RHODE ISLAND)

STATEMENT OF NET POSITION – JUNE 30, 2014 (CONTINUED)

LIABILITIES:

Current liabilities:

Accounts payable	\$ 2,816,934
Accrued interest payable	267,608
Accrued expenses	2,518,169
Electronic toll liability	3,782,962
Bond anticipation note payable	25,000,000
Current portion of bonds payable	2,720,000
Legal settlement liability	<u>868,272</u>

Total current liabilities 37,973,945

Note payable, RIDOT	394,923
Bonds payable, less current portion	<u>58,272,754</u>

Total liabilities 96,641,622

DEFERRED INFLOWS OF RESOURCES:

Deferred gain on advance debt refunding	<u>82,107</u>
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Commitments and contingencies (Notes 6, 8 and 9)

NET POSITION:

Net investment in capital assets	74,696,256
Restricted, bond covenants	18,271,052
Unrestricted	<u>2,988,880</u>

Total net position \$ 95,956,188

See notes to financial statements.

RHODE ISLAND TURNPIKE AND BRIDGE AUTHORITY
(A COMPONENT UNIT OF THE STATE OF RHODE ISLAND)

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

YEAR ENDED JUNE 30, 2014

Operating revenues:	
Tolls, including violation fees	\$ 19,590,659
Transponder sales	667,977
Other fees	73,048
	20,331,684
Operating expenses:	
Personnel services	3,908,406
Utilities	451,825
Contractual services	3,044,772
Other supplies and expenses	1,212,349
Insurance	903,726
Repairs and maintenance	1,274,857
Transponder expense	335,357
Depreciation	9,845,811
	20,977,103
Operating loss	(645,419)
Nonoperating revenues (expenses):	
Interest expense	(3,112,249)
Amortization of bond discount	(43,954)
Investment income, net of trustee fees	752,908
Impairment loss (Note 3)	(3,720,452)
Miscellaneous income	763,954
	(5,359,793)
Change in net position	(6,005,212)
Net position – beginning of year, as originally reported	103,009,039
Restatement – bond issuance costs (Note 1)	(1,047,639)
Net position – beginning of year, as restated	101,961,400
Net position, end of year	\$ 95,956,188

See notes to financial statements.

RHODE ISLAND TURNPIKE AND BRIDGE AUTHORITY
(A COMPONENT UNIT OF THE STATE OF RHODE ISLAND)

STATEMENT OF CASH FLOWS

YEAR ENDED JUNE 30, 2014

Cash flows from operating activities:	
Cash received from:	
Tolls	\$ 20,080,360
Transponder sales	667,977
Other	73,048
Cash payments to:	
Suppliers for goods and services	(6,473,432)
Employees for services	(3,881,492)
	<hr/>
Net cash provided by operating activities	10,466,461
	<hr/>
Cash flows from capital and related financing activities:	
Acquisition and construction of capital assets	(27,596,481)
Principal paid on bonds	(2,595,000)
Note proceeds	394,924
Interest paid on bonds	(3,150,914)
Bond proceeds	20,000,000
	<hr/>
Net cash used in capital and related financing activities	(12,947,471)
	<hr/>
Cash flows from investing activities:	
Proceeds from sales and maturities of investments	63,645,900
Purchases of investments	(61,440,709)
Investment income received	773,765
	<hr/>
Net cash provided by investing activities	2,978,956
	<hr/>
Net increase in cash and cash equivalents	497,946
Cash and cash equivalents, beginning of year	7,416,415
	<hr/>
Cash and cash equivalents, end of year	\$ 7,914,361
	<hr/> <hr/>

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RHODE ISLAND TURNPIKE AND BRIDGE AUTHORITY
(A COMPONENT UNIT OF THE STATE OF RHODE ISLAND)

STATEMENT OF CASH FLOWS (CONTINUED)

YEAR ENDED JUNE 30, 2014

Reconciliation of operating loss to net cash provided by operating activities:	
Operating loss	\$ (645,419)
Adjustments to reconcile operating loss to net cash provided by operating activities:	
Depreciation	9,845,811
Miscellaneous income	763,954
Changes in assets and liabilities:	
Accounts receivable	(271,160)
Inventory	(68,343)
Prepaid expenses	(26,332)
Accounts payable	80,175
Accrued expenses	81,575
Electronic toll liability	706,200
	<hr/>
Net cash provided by operating activities	<u><u>\$ 10,466,461</u></u>

See notes to financial statements.

RHODE ISLAND TURNPIKE AND BRIDGE AUTHORITY
(A COMPONENT UNIT OF THE STATE OF RHODE ISLAND)

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2014

1. Description of business and summary of significant accounting policies:

Description of business:

The Rhode Island Turnpike and Bridge Authority (the Authority) was created in 1954 by the Rhode Island General Assembly as a body corporate and politic, with powers to construct, acquire, maintain, and operate bridge projects as defined by law. The Authority was responsible for the construction of the Claiborne Pell Bridge (formerly the Newport Bridge), which was opened for traffic on June 28, 1969, and has been responsible for the operation and maintenance of the Mount Hope Bridge between Bristol, Rhode Island and Portsmouth, Rhode Island and the Claiborne Pell Bridge between Newport, Rhode Island and Jamestown, Rhode Island since 1964 and 1969, respectively. On April 25, 2013, the State of Rhode Island (the State) transferred custody, control and supervision of the land and improvements for the Jamestown and the Sakonnet River Bridges from the Rhode Island Department of Transportation (RIDOT) to the Authority. Ownership and title of the bridges remains with the State. The Claiborne Pell Bridge, Mount Hope Bridge, Jamestown Verrazano Bridge and Sakonnet River Bridge are collectively referred to herein as the bridges.

The Authority is a component unit of the State for financial reporting purposes and, as such, the financial statements of the Authority will be included in the State's Annual Financial Report.

The Authority is exempt from federal and state income taxes.

Financial statement presentation, measurement focus and basis of accounting:

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

Accounts of the Authority are maintained in compliance with the provisions of the Master Indenture of Trust (the Trust Agreement) entered into with the Trustee of the bonds. The Trust Agreement secures the Authority's revenue bonds and requires that the accounting policies of the Authority conform to accounting principles generally accepted in the United States of America as applied to governmental entities.

The financial statements of the Authority have been prepared using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis of accounting, all assets and liabilities, and deferred inflows and outflows of resources associated with operations are included on the statement of net position, revenues are recorded when earned, and expenses are recorded at the time the liabilities are incurred.

RHODE ISLAND TURNPIKE AND BRIDGE AUTHORITY
(A COMPONENT UNIT OF THE STATE OF RHODE ISLAND)

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2014

1. Description of business and summary of significant accounting policies (continued):

Deferred outflows and inflows of resources:

Deferred outflows of resources represent the consumption of net assets that is applicable to a future reporting period. Deferred inflows of resources represent the acquisition of net assets that is applicable to a future reporting period. The Authority had no deferred outflows of resources at June 30, 2014. The Authority's deferred inflows of resources at June 30, 2014 consist of deferred gain on advance debt refunding, determined as the difference between the reacquisition price and net carrying amount of the refunded debt. The deferred gain is being amortized over the life of the 2003 bond (14-1/2 years) and is reported as a reduction of interest expense.

Use of estimates:

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

Recent accounting pronouncement:

Effective for the fiscal year ended June 30, 2014, the Authority adopted the provisions of Statement No. 65 of the Governmental Accounting Standards Board, *Items Previously Reported as Assets and Liabilities* (GASB 65). GASB 65 requires that certain items no longer be reported in statements of net position since they do not meet the definition of either assets, liabilities, deferred outflows of resources, or deferred inflows of resources. In addition, GASB 65 requires that certain items previously reported as assets or liabilities be reported as deferred inflows or outflows of resources. As required by GASB 65, effective July 1, 2013, financing costs are expensed as incurred and gain on advance debt refunding is reported as a deferred inflow of resources. Previously, financing costs were deferred and amortized using the straight-line method over the life of the related debt and deferred gain on advance debt refunding was reported as a component of bonds payable. Due to the adoption of GASB 65, net position at July 1, 2013 has been restated, resulting in a decrease in net position of \$ 1,047,639.

RHODE ISLAND TURNPIKE AND BRIDGE AUTHORITY
(A COMPONENT UNIT OF THE STATE OF RHODE ISLAND)

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2014

1. Description of business and summary of significant accounting policies (continued):

Operating and nonoperating revenues and expenses:

Operating revenues and expenses result from providing services for the ongoing operations of the bridges. The principal operating revenue of the Authority is the collection of toll revenue from the users of the Claiborne Pell Bridge. Operating expenses include all expenses for the ongoing management and maintenance of the bridges. Nonoperating revenues and expenses include all items that do not meet the definition of operating revenues and expenses.

Cash and cash equivalents:

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

Investments:

Investments are recorded at fair value, except for money market investments (for example, U.S. Treasury and agency obligations) that have a remaining maturity at the time of purchase of one year or less and nonparticipating interest-earning investment contracts (for example, certificates of deposit) which are recorded at amortized cost. At June 30, 2014, all investments are reported at fair value.

Restricted assets:

Certain assets have been restricted in accordance with the provisions of the Trust Agreement and are classified as either current or noncurrent based on the maturities of the underlying securities.

Inventory:

Inventory consists of E-ZPass transponders valued at cost using the first-in, first-out (FIFO) method.

RHODE ISLAND TURNPIKE AND BRIDGE AUTHORITY
(A COMPONENT UNIT OF THE STATE OF RHODE ISLAND)

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2014

1. Description of business and summary of significant accounting policies (continued):

Capital assets:

All capital assets are stated at cost. The Authority capitalizes substantially all assets acquired with an original cost basis in excess of \$10,000 for equipment and \$25,000 for bridge and building improvements which have an estimated useful life in excess of one year. The cost of the Claiborne Pell Bridge includes engineering, legal, financial, administrative and other costs incident to the construction of the bridge, less income earned on certain investments during construction. All capital assets are depreciated using the straight-line method over the estimated useful lives of the respective assets as follows:

Bridges and bridge improvements	5-100 years
Buildings and land improvements	8-30 years
Equipment	3-20 years

Intangible assets:

Intangible assets, reported within capital assets, are comprised of licensing fees that do not expire unless certain contractual obligations are broken and are therefore reported at cost with no amortization.

Accounts receivable:

Accounts receivable principally consist of tolls due from away agencies and amounts collected by the third-party billing service used by the Authority to collect unpaid tolls and violations from open-road tolling (ORT) and all-electronic tolling (AET) transactions.

Bond discounts and issuance costs:

Bond discounts are amortized on a straight-line basis over the life of the related bond (14-½ years and 29-½ years for the 2003 and 2010 bonds, respectively). At June 30, 2014, bond discounts and accumulated amortization total \$1,043,533 and \$301,287, respectively. Bond discounts, net of accumulated amortization, are presented in the accompanying financial statements as a component of bonds payable.

Bond issuance costs are expensed as incurred.

RHODE ISLAND TURNPIKE AND BRIDGE AUTHORITY
(A COMPONENT UNIT OF THE STATE OF RHODE ISLAND)

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2014

1. Description of business and summary of significant accounting policies (continued):

Revenue recognition - E-ZPass:

The Authority uses an automated electronic toll collection system (E-ZPass) which uses transponders to identify vehicles passing through a toll plaza. Upon enrolling in E-ZPass, customers purchase transponders from the Authority. Upon initial enrollment, and subsequently when minimum dollar maintenance requirements are met, customers fund dollars on their transponders. Prepaid toll receipts are recorded by the Authority as an electronic toll liability until the customer completes a toll transaction. Upon completion of a toll transaction by a customer using a valid E-ZPass transponder, the Authority records revenue for crossing the Claiborne Pell Bridge or records a liability payable to another state for a vehicle crossing another state's toll plaza using a transponder issued by the Authority, charges the customer's account, and reduces the electronic toll liability. The Authority records revenue and a related receivable from another state for customers crossing the Claiborne Pell Bridge using a transponder issued by another state.

Toll charges received in cash for crossing the Claiborne Pell Bridge are recorded as revenue when collected.

Revenue recognition-violation tolls and fees:

The Authority provides Open Road Tolling (ORT) lanes which utilize both E-ZPass and automatic plate recognition technology. Customers that use ORT lanes that do not have a valid E-ZPass transponder are charged violation tolls and fees. The Authority uses a third-party billing service to send the invoices for violation tolls and fees to customers. Revenue from violation tolls and fees is recognized as collected.

At June 30, 2014, amounts billed to violators for ORT and AET unpaid violation tolls and fees total \$3,985,492. Amounts not yet billed to violators for AET unpaid violation tolls and fees total \$462,424.

Investment income:

Investment income includes unrealized gains and losses recorded to present investments at fair value.

RHODE ISLAND TURNPIKE AND BRIDGE AUTHORITY
(A COMPONENT UNIT OF THE STATE OF RHODE ISLAND)

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2014

1. Description of business and summary of significant accounting policies (continued):

Accrued sick and vacation:

Employees are granted sick and vacation leave in varying amounts. Upon retirement, termination or death, certain employees are compensated for unused vacation and sick leave (subject to certain limitations) at their then current rates of pay. The amount accrued at year-end includes unused vacation and sick leave earned at the employees' current rates of pay, subject to the applicable limitations.

Net position:

The Authority's net position has been segregated into the following three components:

Net investment in capital assets – represents the net book value of all capital assets less the outstanding balances of bonds and other debt, and deferred inflows of resources, if any, used to acquire, construct or improve these assets, increased by deferred outflows of resources related to those assets, if any.

Restricted – those that have been limited to uses specified either externally by creditors, contributors, laws, or regulations of other governments or internally by enabling legislation or law

Unrestricted – a residual category for the balance of net position

2. Cash and investments:

The Trust Agreement specifies the permitted investments that may be used by the Authority. In addition, the State requires that certain uninsured deposits be collateralized. Section 35-10.1-7 of the General Laws of the State of Rhode Island, dealing with the collateralization of public deposits, requires that all time deposits with maturities of greater than 60 days and all deposits in institutions that do not meet the minimum capital requirements of its federal regulator must be collateralized.

Deposits:

The carrying amount of the Authority's cash and cash equivalents, including restricted amounts, at June 30, 2014 was \$7,914,361 while the bank balance was \$7,969,287. Of the bank balance, \$929,466 was covered by federal depository insurance and \$1,587,928 was held in fully collateralized repurchase agreements. The remaining balance of \$5,451,893 is uncollateralized.

RHODE ISLAND TURNPIKE AND BRIDGE AUTHORITY
(A COMPONENT UNIT OF THE STATE OF RHODE ISLAND)

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2014

2. Cash and investments (continued):

Investments:

At June 30, 2014, the Authority's investments, including restricted amounts, consist of the following:

	<u>Fair value</u>	<u>Interest rate</u>	<u>Maturity</u>	<u>Rating</u>
Money market funds	\$ 15,811,592			
United States Treasury/Agency securities:				
United States Treasury Notes	999,763	.0625% to 2.625%	9/15/16 to 11/30/2020	AAA/AA+
United States CMOs/REMICs	65,466	3.00%	3/25/2040	AAA/AA+
Mortgage-backed securities:				
Treasury Inflation Indexed Bonds	278,789	0.125% to 2.375%	4/15/2018 to 1/15/2023	AAA/AA+
Federal Home Loan Mortgage Corporation	830,811	3.000% to 5.500%	6/01/2026 to 4/01/2044	AAA/AA+
Federal National Mortgage Association	1,334,389	2.500% to 6.000%	3/01/2023 to 5/01/2044	AAA/AA+
Foreign Government/Agency Debentures	101,216	2.000% to 4.000%	6/30/2016 to 10/07/2019	AA2/AA-/A+
Corporate bonds:				
	45,080	1.125%	5/16/2017	AA3
	471,040	2.000% to 7.717%	12/01/2014 to 7/15/2022	A3
	282,851	2.875% to 5.650%	02/01/2020 to 7/15/2022	A2
	296,929	2.700% to 6.250%	09/15/2017 to 12/15/2022	A1

(continued)

RHODE ISLAND TURNPIKE AND BRIDGE AUTHORITY
(A COMPONENT UNIT OF THE STATE OF RHODE ISLAND)

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2014

2. Cash and investments (continued):

Investments (continued):

	<u>Fair value</u>	<u>Interest rate</u>	<u>Maturity</u>	<u>Rating</u>
Corporate bonds (continued):	\$ 148,318	3.000% to 4.875%	06/12/2017 to 11/01/2022	Baa3
	728,322	2.500% to 6.75 %	11/21/2017 to 10/01/2037	Baa2
	504,111	2.500% to 6.150%	09/17/2015 to 06/15/2042	Baa1
Foreign corporate bonds:	71,480	4.50%	1/11/2021	AA2
	70,108	1.25%	6/16/2017	AA-
	48,681	4.88%	1/24/2022	A3
	36,547	3.20%	3/11/2016	A2
	94,907	5.13%	4/27/2020	Baa2
	46,900	5.38%	1/27/2021	Baa1
Municipal bonds:	59,913	1.10%	6/15/2016	A2
	112,163	4.42%	1/1/2015	A3
	167,085	2.995% to 5.950%	04/01/2016 to 05/15/2023	AA3
	32,449	4.20%	12/1/2021	AA1

(continued)

RHODE ISLAND TURNPIKE AND BRIDGE AUTHORITY
(A COMPONENT UNIT OF THE STATE OF RHODE ISLAND)

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2014

2. Cash and investments (continued):

Investments (continued):

	<u>Fair value</u>	<u>Interest rate</u>	<u>Maturity</u>	<u>Rating</u>
Municipal bonds (continued):	\$ 45,271	6.28%	6/15/2042	Baa3
	41,103	6.03%	1/1/2042	Baa1
Asset-backed securities	35,026	0.99%	12/8/2014	AAA
Non-agency CMOs/REMICs	56,263	2.684% to 3.400%	11/15/2044 to 5/15/2045	AAA
Short-term taxable fixed income	<u>1,087,315</u>	N/A	N/A	
Total investments	<u>\$ 23,903,888</u>			

* Investments in one issuer greater than 5% of all investments

RHODE ISLAND TURNPIKE AND BRIDGE AUTHORITY
(A COMPONENT UNIT OF THE STATE OF RHODE ISLAND)

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2014

2. Cash and investments (continued):

Investments (continued):

Interest rate risk:

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates.

The Authority does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The majority of the Authority's investments have interest rates that are fixed for long periods and are subject to more variability in their fair value as a result of future changes in interest rates.

Concentration of credit risk:

The Authority does not have an investment policy for concentration of credit risk.

Custodial credit risk:

Custodial credit risk is the risk that in the event of financial institution failure, the Authority's deposits and/or investments may not be returned. The Authority does not have a deposit or investment policy for custodial credit risk. At June 30, 2014 and for the year then ended, all of the Authority's investments were direct investments not subject to custodial credit risk.

3. Capital assets:

	Balance, June 30, 2013	Additions	Retirements and disposals	Balance, June 30, 2014
Capital assets not being depreciated:				
Construction in progress	\$ 3,509,762	\$ -	\$ (3,509,762)	\$ -
Licensing fees	250,000			250,000
Total capital assets not being depreciated	3,759,762	-	(3,509,762)	250,000
Capital assets being depreciated:				
Bridges *	184,324,205	23,138,915	(3,314,473)	204,148,647
Buildings	7,232,615	15,765		7,248,380
Land improvements	3,461,911			3,461,911
Equipment	12,552,063	1,798,128	(1,100,000)	13,250,191
Total capital assets being depreciated	207,570,794	24,952,808	(4,414,473)	228,109,129

(continued)

RHODE ISLAND TURNPIKE AND BRIDGE AUTHORITY
(A COMPONENT UNIT OF THE STATE OF RHODE ISLAND)

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2014

3. Capital assets (continued):

	<u>Balance, June 30, 2013</u>	<u>Additions</u>	<u>Retirements and disposals</u>	<u>Balance, June 30, 2014</u>
Capital assets being depreciated (continued):				
Less accumulated depreciation:				
Bridges *	\$ 51,638,040	\$ 7,518,306	\$ (549,972)	\$ 58,606,374
Buildings	2,308,266	622,490		2,930,756
Land improvements	1,044,322			1,044,322
Equipment	4,434,147	1,705,015	(143,798)	5,995,364
	<u>59,424,775</u>	<u>9,845,811</u>	<u>(693,770)</u>	<u>68,576,816</u>
Total accumulated depreciation				
Capital assets being depreciated, net	<u>148,146,019</u>	<u>15,106,997</u>	<u>(3,720,703)</u>	<u>159,532,313</u>
Capital assets, net	<u>\$ 151,905,781</u>	<u>\$ 15,106,997</u>	<u>\$ (7,230,465)</u>	<u>\$ 159,782,313</u>

* Mount Hope and Claiborne Pell bridges

Due to the legislative actions of the State of Rhode Island in June 2014, the Authority is no longer authorized to collect tolls at the Sakonnet River Bridge. The Authority has determined that the legislative action impaired the value of the ORT collection equipment installed at the Sakonnet River Bridge and the full unamortized value of \$3,720,453 has been recorded in the statement of changes in net position as an impairment loss.

At June 30, 2014, capitalized interest included in capital assets totaled \$3,777,324.

4. Bonds payable:

On July 31, 2003, the Authority issued \$35,765,000 of Series 2003A Taxable Refunding Revenue Bonds as an advance refunding of the Series 1997 Revenue Bonds. At June 30, 2014, principal outstanding under the Series 2003A Bonds is \$11,735,000. The final principal payment of the Series 1997 Bonds was made on December 1, 2003 in the amount of \$1,680,000; accordingly, as of June 30, 2014, the Authority had no obligations related to the defeased Series 1997 Bonds.

RHODE ISLAND TURNPIKE AND BRIDGE AUTHORITY
(A COMPONENT UNIT OF THE STATE OF RHODE ISLAND)

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2014

4. Bonds payable (continued):

The Series 2003A Bonds are fixed-rate bonds bearing interest at rates ranging from 1.15% to 5.23%, payable semi-annually on December 1 and June 1. Principal repayments of the bond are due annually with a final payment due on December 1, 2017. The Series 2003A Bonds will not be subject to optional redemption prior to maturity but are subject to special mandatory redemption as provided in the Series 2003A bond agreement. At June 30, 2014, the Authority has in-substance defeased debt of approximately \$34,895,000, representing outstanding bonds related to the 1965, 1965A, 1965B and 1967 bond issues. The proceeds from the Series 1997 Bonds were placed into an irrevocable trust to provide for all future debt service payments on the refunded revenue bonds. The assets of the trust account and the liability for the defeased bonds have not been included in the financial statements of the Authority.

On April 8, 2010, the Authority issued \$50,000,000 of Series 2010A Revenue Bonds. The proceeds of the Series 2010A Bonds will be used to finance the renovation, renewal, repair, rehabilitation, retrofitting, upgrading and improvement of the Claiborne Pell Bridge, the Mount Hope Bridge and such other activities as are authorized under the Authority Act authorizing the issuance of the Bonds. The Series 2010A Bonds are fixed-rate bonds bearing interest at rates ranging from 3.5% to 5%, payable semi-annually on December 1 and June 1. Principal repayments of the bonds are due annually commencing on December 1, 2018 with a final payment due on December 1, 2039. The Series 2010A Bonds maturing on or after December 1, 2021 are subject to redemption prior to maturity at the option of the Authority.

During the year ended June 30, 2014, changes in bonds payable consisted of the following:

	Balance, June 30, 2013	Additions	Retirements/ amortization	Balance, June 30, 2014	Amount due in one year
Revenue bonds payable	\$ 64,330,000	\$ -	\$ 2,595,000	\$ 61,735,000	\$ 2,720,000
Bond discounts	(786,201)		(43,955)	(742,246)	
Total bonds payable	<u>\$ 63,543,799</u>	<u>\$ -</u>	<u>\$ 2,551,045</u>	<u>\$ 60,992,754</u>	<u>\$ 2,720,000</u>

RHODE ISLAND TURNPIKE AND BRIDGE AUTHORITY
(A COMPONENT UNIT OF THE STATE OF RHODE ISLAND)

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2014

4. Bonds payable (continued):

The following represents debt service and sinking fund requirements to maturity as of June 30, 2014:

<u>Fiscal year ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$ 2,720,000	\$ 2,919,384	\$ 5,639,384
2016	2,855,000	2,779,696	5,634,696
2017	3,005,000	2,629,936	5,634,936
2018	3,155,000	2,469,903	5,624,903
2019	1,345,000	2,363,863	3,708,863
2020-2024	7,705,000	10,842,028	18,547,028
2025-029	9,565,000	8,982,888	18,547,888
2030- 2034	12,140,000	6,420,497	18,560,497
2035-2039	15,625,000	2,941,319	18,566,319
2040	3,620,000	90,500	3,710,500
	<u>\$ 61,735,000</u>	<u>\$ 42,440,014</u>	<u>\$ 104,175,014</u>

The State has authorized the Authority to issue approximately \$68,000,000 of additional revenue bonds. The terms and expected date for such issuance have not yet been determined.

5. Notes payable:

In February 2013, the Authority entered into a \$30,000,000 Bond Anticipation Note (BAN), \$25,000,000 of which is outstanding at June 30, 2014. The BAN bears interest at the thirty-day London InterBank Offered Rate (LIBOR) plus an applicable margin rate based on the Authority's debt rating, payable monthly. The BAN is due in full on February 7, 2015; the Authority intends to refinance the BAN prior to February 7, 2015.

The Authority also entered into a \$2,000,000 note, due in 2029, with RIDOT through the RIDOT State Infrastructure Bank to fund other capital projects that have been included in the Authority's 10-year capital improvement plan. At June 30, 2014, the outstanding balance under the note is \$394,923.

RHODE ISLAND TURNPIKE AND BRIDGE AUTHORITY
(A COMPONENT UNIT OF THE STATE OF RHODE ISLAND)

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2014

6. Commitments:

Toll Lane Implementation and Maintenance Contract:

The Authority has a contract with Telvent Caseta Technologies for ongoing maintenance service related to the electronic toll system E-ZPass. The contract's original term expired on May 1, 2013 and has been extended through April 30, 2016 with an approximate annual cost of \$59,500.

E-ZPass Customer Service Contract:

Early in fiscal year 2012, the Authority entered into a new service contract with CS IT America, now known as Sanef IT America (Sanef). Sanef was engaged to design, implement, and maintain the Authority's customer relationship database, and the Authority's toll transactions in the travel lanes. The system (Toll CRM) processes all monetary transactions related to the Authority's E-ZPass customer accounts, including toll and violation activity. Toll CRM also processes all toll transactions related to the Electronic Toll Collection System (ETC), sorting and processing them with the Authority's sister E-ZPass agencies. At June 30, 2014, the Authority has a commitment of approximately \$45,980 remaining on this project. The contract also engages Sanef to provide operation and maintenance services through 2020 at an annual cost of approximately \$481,800.

In March 2014, the Authority amended its contract with LES to provide billing and collection services related to ORT violations. The contract provides for payments to LES of \$100,000 per month through 2018. Additionally, the contract provides for payments of 33% of all amounts collected by ALS which are collected 14 days after the date of invoice.

Construction in progress:

The Authority has entered into contracts to provide for the maintenance of the bridges. As of June 30, 2014, remaining commitments on these contracts total \$204,475.

During 2013, the 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 \$25,550,316.

Collective bargaining agreement:

The Authority has 22 employees under the terms of a contract with the United Service and Allied Workers of Rhode Island, a collective bargaining unit. The contract expired on June 30, 2014.

RHODE ISLAND TURNPIKE AND BRIDGE AUTHORITY
(A COMPONENT UNIT OF THE STATE OF RHODE ISLAND)

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2014

7. Tax deferred savings incentive plan:

The Authority sponsors an employee tax-deferred savings incentive 401(k) plan (the Rhode Island Turnpike & Bridge Authority Retirement Plan established in 1985; the Plan), which is available to employees who meet the Plan's eligibility requirements. The investments held by the Plan, a defined contribution plan, are managed by third-party service providers and the Plan is administered by Meridien. Under the Plan, employees may contribute up to 5% of compensation and the Authority provides a matching contribution. The Authority may also make a supplemental contribution such that its total annual contribution does not exceed 10% of employee adjusted net compensation. The 10% limit includes the aggregate of the life insurance costs as well as the 401(k) contribution. The employees' contribution to the Plan for fiscal year 2014 was \$138,945, while the total cost of the matching and supplemental employer contribution for fiscal year 2014 was \$302,018. The Authority contributes 3.4% of the employee's salary to the Plan and also provides an additional match of up to 5% of the employee's salary. The payroll for employees covered by the Plan for fiscal year 2014 was \$2,778,906 and the Authority's total payroll was \$2,893,170. The trustees of the Plan are currently comprised of two members of the Authority's Board of Directors and one employee. The trustees are responsible for establishing or amending the Plan's provisions and contributions. The Board of Directors of the Authority must approve all amendments to the Plan.

8. Risk management:

The Authority is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; workers' compensation claims; and natural disasters for which the Authority carries commercial insurance. Settled claims resulting from these risks have not exceeded the Authority's coverage in any of the past three fiscal years and there have been no significant reductions in insurance coverage. Accordingly, the Authority has not recorded a reserve for such claims at June 30, 2014.

9. Contingencies:

Construction project:

Upon completion of a construction project in 2010, a contractor hired by the Authority submitted a claim for approximately \$2,980,000 for amounts alleged to be owed by the Authority in excess of the original contract amount due to limitations imposed by the Authority and for work required to be performed outside the scope of the original contract. The Authority and its external consulting engineer have disputed the claim in writing, and have not received any additional information from the contractor as a result of submitting a written response to the claim. The Authority is unable to determine the final outcome of this claim. The accompanying financial statements do not include any liability related to this uncertainty.

RHODE ISLAND TURNPIKE AND BRIDGE AUTHORITY
(A COMPONENT UNIT OF THE STATE OF RHODE ISLAND)

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2014

9. Contingencies (continued):

Class action lawsuit:

The Authority was subject to a class action lawsuit challenging the toll rate structure for certain drivers using E-ZPass. During 2011, an opinion and order was issued by the court, granting the Authority's request for summary judgment. The parties have negotiated a final settlement which is pending final approval. At June 30, 2014, the Authority has recorded a liability for \$868,272 as its best estimate of amounts due to certain customers under the terms of the settlement agreement.

Environmental remediation:

The Authority has begun a site investigation into a potential lead remediation project around the northern approach of the Mount Hope Bridge. This investigation could take up to another year and one-half to complete before any remedial action will take place. Currently, an estimate for the cost of remediation of this project is not determinable. The accompanying financial statements do not include any liability related to this uncertainty.

10. Accrued expenses:

During the year ended June 30, 2013, the Authority entered into a contract with Duncan Solutions/Law Enforcement Systems (LES) to perform the noticing and collection effort of toll violations on the Claiborne Pell Bridge. In anticipation of the establishment of all-electronic tolling (AET) and subsequent invoicing and collection of post-paid tolls on the Sakonnet River Bridge, the Authority entered into a partnership with LES to design and construct the toll collection system, including the gantry and the purchase and installation of all necessary cameras, laser-readers and computer equipment. Under the terms of the original agreement, the Authority was to repay LES its original investment of \$3,000,000 over time through fees collected. During the fiscal year ended June 30, 2014, the tolls for the Sakonnet River Bridge were materially modified from the tolls set forth in the agreement through legislative actions passed by the State; specifically, the tolls were initially reduced to \$0.10 per vehicle and later totally eliminated. As a result of this modification, the agreement was renegotiated and, in lieu of a payment of \$3,000,000 to LES over time through fees collected, the Authority was required to make a payment of \$2,000,000 with the remaining \$1,000,000 due and payable. The amount due is included in accrued expenses in the accompanying statement of net position.

RHODE ISLAND TURNPIKE AND BRIDGE AUTHORITY
(A COMPONENT UNIT OF THE STATE OF RHODE ISLAND)

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2014

11. Subsequent event:

In June 2014, the General Assembly passed Article 21 of the FY2015 State budget which provides that, commencing FY2015, an allocation of the gasoline tax collected by the State of three and one-half cents (\$0.035) per gallon shall be transferred to the Authority to be used for maintenance, operations, capital expenditures and debt service in lieu of a toll on the Sakonnet River Bridge. On August 30, 2014, the Authority received its first payment of \$1,343,781 for the month of July 2014.



Independent Auditors' Report on Accompanying Information

Board of Directors
Rhode Island Turnpike and Bridge Authority
Providence, Rhode Island

Our audit was performed for the purpose of forming an opinion on the basic financial statements of the Rhode Island Turnpike and Bridge Authority, a component unit of the State of Rhode Island, taken as a whole. The accompanying supplementary information on pages 34 through 42 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The 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 financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.

A handwritten signature in black ink that reads 'LGCD & LLP'.

Providence, Rhode Island
September 29, 2014

RHODE ISLAND TURNPIKE AND BRIDGE AUTHORITY
(A COMPONENT UNIT OF THE STATE OF RHODE ISLAND)

SCHEDULE OF TRAFFIC COUNT AND REVENUES

YEAR ENDED JUNE 30, 2014

	<u>Claiborne Pell Bridge</u>
Traffic count (unaudited):	
Vehicle fares paid with ETC	17,101,915
Vehicle fares paid with cash	<u>1,586,066</u>
	<u>18,687,981</u>
Toll revenues (audited):	
Vehicle fares paid with ETC	\$ 13,192,073
Vehicle fares paid with cash	<u>6,326,528</u>
	<u>\$ 19,518,601</u>

RHODE ISLAND TURNPIKE AND BRIDGE AUTHORITY
(A COMPONENT UNIT OF THE STATE OF RHODE ISLAND)

SCHEDULE OF TRAVEL AND ENTERTAINMENT EXPENSES

YEAR ENDED JUNE 30, 2014

Check Number	Date Paid	Payee	Purpose	Amount
014417	7/10/2013	East Ferry Deli	Board Meeting Coffee	\$ 42
014464	7/21/2013	East Ferry Deli	Board Meeting Coffee	42
014477	7/21/2013	McQuade's Marketplace	Board Room Soda	9
	8/7/2013	Cash	Supplies for IA Meeting	66
014613	9/5/2013	American Express	Verizon Wireless	45
014704	10/1/2013	East Ferry Deli	Board Meeting Coffee	42
014755	10/9/2013	East Ferry Deli	Board Meeting Coffee	42
014836	10/21/2013	American Express	Union Station Parking	9
014904	11/26/2013	American Express	Southwest Airlines	300
015006	12/20/2013	East Ferry Deli	Board Meeting Coffee	42
015012	12/20/2013	McQuade's Marketplace	Items for Board Meeting	19
014995	12/31/2013	American Express	Amtrak, Taxi, Food - B Croft	334
015048	1/11/2014	McQuade's Marketplace	Items for Christmas Party	41
	1/28/2014	Cash	Parking - B Croft, Coffee for Press Conference	55
015099	1/28/2014	American Express	Airport Shuttle, Hotel	698
015201	2/26/2014	American Express	US Airways	324
015250	3/12/2014	Int'l. Bridge, Tunnel & Turnpike Assn.	Conference registration	575
015250	3/12/2014	Int'l. Bridge, Tunnel & Turnpike Assn.	Conference registration	575
015249	3/12/2014	David Darlington	Parking , Hotel, Flight	513
015250	3/12/2014	Int'l. Bridge, Tunnel & Turnpike Assn.	Conference registration	575
015250	3/12/2014	Int'l. Bridge, Tunnel & Turnpike Assn.	Conference registration	575
015276	3/25/2014	McQuade's Marketplace	Board Room Soda	17
015266	3/25/2014	American Express	Travel Expenses - B Croft	380
015302	4/2/2014	Greater Prov. Chamber of Commerce	Congressional Breakfast 2014 - B Croft	45
	4/8/2014	Cash	Taxi, Hotel, Parking - B Croft	69
015330	4/11/2014	James E. Swanberg	Hotel, Parking, Gas	354
015329	4/11/2014	James R. Romano	Hotel	282
015377	4/18/2014	Stanley Ozalis	Hotel	136
015371	5/1/2014	McQuade's Marketplace	Items for Staff Meeting	38
015354	5/1/2014	American Express	Hotel, Food, Gas	700
015408	5/12/2014	Int'l. Bridge, Tunnel & Turnpike Assn.	Conference registration	575
015454	5/29/2014	Newport County Chamber of Com.	Women in Business Luncheon - Buddy and Nancy	70
015487	6/18/2014	East Ferry Deli	Board Meeting Coffee	91
015470	6/9/2014	Affinia Manhattan	Hotel - Engineering Staff Training	620

(continued)

RHODE ISLAND TURNPIKE AND BRIDGE AUTHORITY
(A COMPONENT UNIT OF THE STATE OF RHODE ISLAND)

SCHEDULE OF TRAVEL AND ENTERTAINMENT EXPENSES (CONTINUED)

YEAR ENDED JUNE 30, 2014

<u>Check Number</u>	<u>Date Paid</u>	<u>Payee</u>	<u>Purpose</u>	<u>Amount</u>
015512	6/25/2014	American Express	Amtrak, Parking	\$ 1,053
	6/30/2014	Cash	Parking, Board Meeting Coffee	<u>64</u>
				<u>\$ 9,417</u>

RHODE ISLAND TURNPIKE AND BRIDGE AUTHORITY
(A COMPONENT UNIT OF THE STATE OF RHODE ISLAND)

STATE OF RHODE ISLAND REQUIRED FORMAT

JUNE 30, 2014

Statement of Net Position

Attachment B

Assets

Current assets:

Cash and cash equivalents	\$	2,359,948
Investments		
Receivables (Receivables allowance)		105,505
Restricted assets:		
Cash and cash equivalents		5,554,413
Investments		12,109,896
Other assets		606,743
Due from primary government		
Due from other governments		
Inventories		234,164
Other assets		132,943
Total current assets		21,103,612

Noncurrent assets:

Investments		7,004,950
Receivables (Receivables allowance)		
Restricted assets:		
Cash and cash equivalents		
Investments		4,789,042
Other assets		
Capital assets - nondepreciable		250,000
Capital assets - depreciable (net)		159,532,313
Other assets, net of amortization		
Total noncurrent assets		171,576,305
Total assets		192,679,917

RHODE ISLAND TURNPIKE AND BRIDGE AUTHORITY
(A COMPONENT UNIT OF THE STATE OF RHODE ISLAND)

STATE OF RHODE ISLAND REQUIRED FORMAT

JUNE 30, 2014

Statement of Net Position (continued)

Attachment B

Liabilities

Current liabilities:

Cash overdraft	
Accounts payable	\$ 6,470,983
Due to primary government	
Due to (from) other component units	
Due to other governments	
Deferred revenue	
Other liabilities	3,782,962
Current portion of long-term debt	27,720,000
Total current liabilities	37,973,945

Noncurrent liabilities:

Due to primary government	394,923
Due to other governments	
Deferred revenue	
Notes payable	
Loans payable	
Obligations under capital leases	
Other liabilities	
Compensated absences	
Bonds payable	58,272,754
Total noncurrent liabilities	58,667,677
Total liabilities	96,641,622

Deferred inflows of resources

Deferred gain on advance debt refunding	82,107
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Net position

Net investment in capital assets	74,696,256
Restricted for:	
Debt	18,271,052
Other	
Other nonexpendable	
Unrestricted	2,988,880
Total net position	\$ 95,956,188

RHODE ISLAND TURNPIKE AND BRIDGE AUTHORITY
(A COMPONENT UNIT OF THE STATE OF RHODE ISLAND)

STATE OF RHODE ISLAND REQUIRED FORMAT

YEAR ENDED JUNE 30, 2014

<u>Statement of Activities</u>	<u>Attachment C</u>
Expenses	\$ 27,853,758
Program revenues:	
Charges for services	20,331,684
Operating grants and contributions	
Capital grants and contributions	
	<hr/>
Total program revenues	20,331,684
	<hr/>
Net (Expenses) Revenues	(7,522,074)
	<hr/>
General revenues:	
Interest and investment earnings	752,908
Miscellaneous revenue	763,954
	<hr/>
Total general revenue	1,516,862
	<hr/>
Special items	
Extraordinary items	
	<hr/>
Change in net position	(6,005,212)
	<hr/>
Total net position - beginning as restated	101,961,400
	<hr/>
Total net position - ending	\$ 95,956,188
	<hr/> <hr/>

RHODE ISLAND TURNPIKE AND BRIDGE AUTHORITY
(A COMPONENT UNIT OF THE STATE OF RHODE ISLAND)

STATE OF RHODE ISLAND REQUIRED FORMAT

YEAR ENDED JUNE 30, 2014

Fiscal Year Ending June 30,	<u>Long-Term Debt</u>	<u>Attachment D</u>	
	Principal	Interest	Total
2015	\$ 2,720,000	\$ 2,919,384	\$ 5,639,384
2016	2,855,000	2,779,696	5,634,696
2017	3,005,000	2,629,936	5,634,936
2018	3,155,000	2,469,903	5,624,903
2019	1,345,000	2,363,863	3,708,863
2020-2024	7,705,000	10,842,028	18,547,028
2025-2029	9,565,000	8,982,888	18,547,888
2030-2034	12,140,000	6,420,497	18,560,497
2035-2039	15,625,000	2,941,319	18,566,319
2040	3,620,000	90,500	3,710,500
	\$ 61,735,000	\$ 42,440,014	\$ 104,175,014

RHODE ISLAND TURNPIKE AND BRIDGE AUTHORITY
(A COMPONENT UNIT OF THE STATE OF RHODE ISLAND)

STATE OF RHODE ISLAND REQUIRED FORMAT

YEAR ENDED JUNE 30, 2014

Schedule of Changes in Long-Term Debt

Attachment E

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year	Amounts Due Thereafter
Bonds payable	\$ 64,330,000	\$ -	\$ 2,595,000	\$ 61,735,000	\$ 2,720,000	\$ 59,015,000
Net unamortized premium/discount	(786,201)	43,955		(742,246)		(742,246)
Bonds payable	63,543,799	43,955	2,595,000	60,992,754	2,720,000	58,272,754
Notes payable	5,000,000	20,000,000		25,000,000	25,000,000	
Loans payable						-
Obligations under capital leases				-		-
Net OPEB obligation				-		-
Compensated absences				-		-
Due to primary government		394,923		394,923		394,923
Due to other governments and agencies				-		-
Unearned revenue				-		-
Due to component units				-		-
Included in other liabilities:				-		-
Arbitrage rebate				-		-
Pollution remediation				-		-
Items not listed above				-		-
Other liabilities	-	-	-	-	-	-
	<u>\$ 68,543,799</u>	<u>\$ 20,438,878</u>	<u>\$ 2,595,000</u>	<u>\$ 86,387,677</u>	<u>\$ 27,720,000</u>	<u>\$ 58,667,677</u>

RHODE ISLAND TURNPIKE AND BRIDGE AUTHORITY
(A COMPONENT UNIT OF THE STATE OF RHODE ISLAND)

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED JUNE 30, 2014

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Expenditures</u>
U.S. Department of Transportation:		
Passed through Rhode Island Department of Transportation:		
Federal-Aid Highway Program		
Federal Lands Highway Program	20.205	<u>\$ 417,288</u>
Total U.S. Department of Transportation and total expenditures of federal awards		<u><u>\$ 417,288</u></u>



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

Board of Directors
Rhode Island Turnpike and Bridge Authority
Jamestown, Rhode Island

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, the financial statements of Rhode Island Turnpike and Bridge Authority (the Authority), which comprise the statement of net position as of June 30, 2014, the related statements of revenues, expenses and changes in net position and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated September 29, 2014.

Internal Control Over Financial Reporting

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

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

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

Board of Directors
Rhode Island Turnpike and Bridge Authority

Internal Control Over Financial Reporting (Continued)

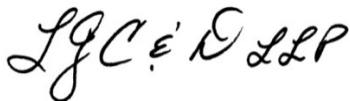
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not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

Compliance and Other Matters

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

Purpose of This Report

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



Providence, Rhode Island
September 29, 2014