

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

**BASIC FINANCIAL STATEMENTS**

**YEAR ENDED JUNE 30, 2013**



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

YEAR ENDED JUNE 30, 2013

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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, 2013, 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*

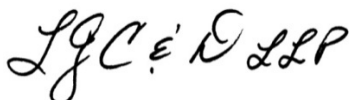
In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Rhode Island Turnpike and Bridge Authority, a Component Unit of the State of Rhode Island, as of June 30, 2013, and the changes in its financial position and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

### *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 October 3, 2013 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 the 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  
October 3, 2013

## **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. 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, 2013 and for the year then ended, with comparison as deemed appropriate to the previous fiscal year ended June 30, 2012. 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 and 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 2013 by \$ 2.1 million, or 2.05%, principally due to a decrease in total assets of \$3.9 million and a decrease in total liabilities of approximately \$ 1.8 million. The \$15.9 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 \$9.2 million of depreciation.

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

#### Statements of Net Position

	June 30, 2013		June 30, 2012	
<b>Assets:</b>				
Capital assets (net)	\$ 151,906	83.1%	\$ 135,977	72.8%
<b>Other:</b>				
Investments	21,699	11.9%	42,693	22.9%
Cash and cash equivalents	7,416	4.0%	6,274	3.3%
Other	1,788	1.0%	1,796	1.0%
	30,903	16.9%	50,763	27.2%
Total assets	182,809	100.0%	186,740	100.0%
<b>Liabilities:</b>				
Noncurrent, bonds payable	63,654	34.8%	63,634	34.1%
Other liabilities	16,141	8.8%	17,934	9.6%
Total liabilities	79,795	43.6%	81,568	43.7%
<b>Net position:</b>				
Net investment in capital assets	80,222	43.9%	58,838	31.5%
Restricted under bond covenants	16,605	9.0%	14,248	7.6%
Unrestricted	6,182	3.5%	32,086	17.2%
Total net position	\$ 103,009	56.4%	\$ 105,172	56.3%

## 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):

	2013		2012	
Operating revenues:				
Toll revenues	\$ 18,394	96.6%	\$ 18,303	97.2%
Transponder revenues	567	3.0%	436	2.3%
Statement and bank fees	70	.4%	85	.5%
Total operating revenues	19,031	100.0%	18,824	100.0%
Operating expenses:				
Personnel services	3,523	18.5%	2,920	15.5%
Insurance	815	4.3%	798	4.2%
Repairs and maintenance	1,572	8.3%	1,892	10.1%
Other	3,601	18.9%	2,176	11.6%
Transponder expense	289	1.5%	309	1.7%
Depreciation	9,250	48.6%	5,861	31.1%
Legal settlement expense	(38)	(.2)%	(260)	(1.4)%
Total operating expenses	19,012	99.9%	13,696	72.8%
Operating income	19	.1%	5,128	27.2%
Nonoperating expenses, net	(2,182)	(11.5)%	(706)	(3.7)%
Change in net position	(2,163)	(11.4)%	4,422	23.5%
Net position, beginning of year	105,172		100,750	
Net position, end of year	\$ 103,009		\$ 105,172	

The Authority had a .4% increase in toll revenues in FY2013 as a result of a slight increase in traffic volumes as well as the residual effect of the fare increase put into effect in September 2009. The E-ZPass customer service center, transaction processing charges and other toll collection expenses totaled approximately \$1,464,000 for FY2013. 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.

### **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.

## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

### Tolls and Operations (Continued)

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, 2013, the Authority had approximately 117,100 active accounts with more than 163,700 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.

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.



## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

### Operating Results

#### *Pell Bridge Traffic and Revenue Summary*

Traffic and revenue statistics are as follows:

	2013		2012	
<b>Traffic (number of passages)</b>				
Vehicle fares paid with ETC	8,679,774	84.1%	8,475,863	83.7%
Vehicle fares paid with cash	1,640,054	15.9%	1,656,460	16.3%
	10,319,828	100.0%	10,132,323	100.0%
	2013		2012	
<b>Revenue</b>				
Vehicle fares paid with ETC	\$11,621,568	62.2%	\$11,548,624	63.1%
Vehicle fares paid with cash	7,073,391	37.8%	6,754,491	36.9%
	\$18,694,959	100.0%	\$18,303,115	100.0%

Pell Bridge traffic increased during 2013 by 187,505 passages, or 1.85%, compared to the previous year. Revenue increased by \$391,844, a 2.14% increase that is directly attributed to the increase in traffic.

### 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.

At June 30, 2013, approximately 82% 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 FY2012, the Board approved an updated 10-year Capital Improvement Plan.

## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

### Engineering and Maintenance (Continued)

During FY2013, 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 current Ten-Year Renewal and Replacement Plan, the Board has approved \$161.7 million allocated to the Pell Bridge, and \$47.8 million toward Mount Hope Bridge projects. Major capital improvement projects in progress during FY2013 included the following:

#### Mount Hope Bridge

- Tower bases rehabilitation project
- Ongoing on-call maintenance of concrete deck and structural steel components
- Design steel repair and protective coating for the north approach

#### Newport/Pell Bridge

- Repairs of the center span of the steel superstructure
- Painting of the center span of the steel superstructure
- Continued patching and sealing of roadway
- Construction for the suspended spans
- Design of bridge painting and steel repairs for the approach spans

At June 30, 2013, the Authority is committed under several construction and maintenance contracts totaling approximately \$45,000,000, of which \$2,350,459 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.

### Debt Service

At June 30, 2013, approximately 86% 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 2013 totaled \$2,475,000.

## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

### Debt Service (Continued)

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 FY2013 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 has authorized the Authority to issue approximately \$68 million 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 million short-term Bond Anticipation Note (BAN), under which \$5,000,000 is outstanding at June 30, 2013. This will be used to fund contract work primarily on the Pell Bridge while the Authority prepares to issue the additional authorized bonds.

### Investments

Approximately 12% and 22.9% of the Authority's assets consist of investments at June 30, 2013 and 2012, respectively, including the proceeds from the sale of the bonds. 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, 2013, 59% of the Authority's investments are in the form of money market mutual funds; U.S. Treasury obligations represent approximately 2% and U.S. Government sponsored asset-backed securities represent approximately 7% of total investments. Approximately 21% 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.

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 FY2012, the Authority competitively bid the commercial insurance policies. The result was significant savings on the property coverage for the bridges with a 3-year premium guarantee, resulting in approximately \$180,000 of annual savings in insurance expense. The Board continues to work to find ways to decrease insurance costs.

## **MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)**

### **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. Capital improvements and annual operating and maintenance costs of this facility, which were previously the responsibility of the Authority, have been assumed by the university, which houses its alumni relations offices in the building. The Authority continues to evaluate its operational and physical needs in Bristol, Rhode Island.

### **Legislative Developments**

In June 2012, the Rhode Island General Assembly passed the FY2013 state budget, which 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 will commence in August 2013 (FY 2014) through General Assembly action taken in the FY 2014 state budget.

### **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, 2013

**ASSETS:**

Current assets:

Cash and cash equivalents	\$ 2,051,365
Accounts receivable	-
Accrued interest receivable	71,701
Prepaid expenses	106,611
Inventory	165,821
Investments	2,727,818
Restricted:	
Cash and cash equivalents	5,365,050
Investments	10,849,783
Accounts receivable	390,244

Total current assets 21,728,393

Noncurrent assets:

Investments, less current portion	5,638,239
Restricted investments, less current portion	2,482,857
Bond issuance costs, net	1,048,607
Capital assets not being depreciated	3,759,762
Capital assets being depreciated, net	148,146,019

Total noncurrent assets 161,075,484

Total assets 182,803,877

(continued)

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

STATEMENT OF NET POSITION – JUNE 30, 2013 (CONTINUED)

**LIABILITIES:**

Current liabilities:

Accounts payable	\$ 2,591,934
Accrued interest payable	278,118
Accrued expenses	4,325,808
Electronic toll liability	3,076,762
Current portion of bonds payable	2,595,000
Legal settlement liability	<u>868,272</u>

Total current liabilities 13,735,894

Note payable	5,000,000
Bonds payable, less current portion	<u>61,058,944</u>

Total liabilities 79,794,838

Commitments and contingencies (Notes 6, 8 and 9)

**NET POSITION:**

Net investment in capital assets	80,221,599
Restricted, bond covenants	16,605,077
Unrestricted	<u>6,182,363</u>

Total net position \$ 103,009,039

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, 2013

Operating revenues:	
Tolls, including violation fees	\$ 18,394,147
Transponder sales	566,981
Other fees	<u>69,783</u>
Total operating revenues	<u>19,030,911</u>
Operating expenses:	
Personnel services	3,522,845
Utilities	169,695
Contractual services	2,416,877
Other supplies and expenses	1,014,604
Insurance	815,238
Repairs and maintenance	1,571,836
Transponder expense	288,802
Legal settlement	(37,879)
Depreciation	<u>9,250,228</u>
Total operating expenses	<u>19,012,246</u>
Operating income	<u>18,665</u>
Nonoperating revenues (expenses):	
Interest expense	(2,932,614)
Amortization of bond issuance costs	(87,432)
Amortization of bond discount	(43,954)
Investment income, net of trustee fees	496,668
Miscellaneous income	<u>385,488</u>
Total nonoperating revenues (expenses)	<u>(2,181,844)</u>
Change in net position	(2,163,179)
Net position, beginning of year	<u>105,172,218</u>
Net position, end of year	<u>\$ 103,009,039</u>

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, 2013

Cash flows from operating activities:	
Cash received from:	
Tolls	\$ 18,805,919
Transponder sales	566,981
Other	69,783
Cash payments to:	
Suppliers for goods and services	(5,519,279)
Employees for services	(2,880,810)
	<hr/>
Net cash provided by operating activities	11,042,594
Cash flows from capital and related financing activities:	
Acquisition and construction of capital assets	(31,008,064)
Principal paid on bonds	(2,475,000)
Bond discounts	(14,492)
Interest paid on bonds	(2,956,646)
Note proceeds	5,000,000
	<hr/>
Net cash used in capital and related financing activities	(31,454,202)
Cash flows from investing activities:	
Proceeds from sales and maturities of investments	33,424,150
Purchases of investments	(12,430,110)
Investment income received	559,671
	<hr/>
Net cash provided by investing activities	21,553,711
Net increase in cash and cash equivalents	1,142,103
Cash and cash equivalents, beginning of year	<hr/> 6,274,312
Cash and cash equivalents, end of year	<hr/> <hr/> \$ 7,416,415

(continued)



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

STATEMENT OF CASH FLOWS (CONTINUED)

YEAR ENDED JUNE 30, 2013

Reconciliation of operating income to net cash provided by operating activities:	
Operating income	\$ 18,665
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	9,250,228
Miscellaneous income	385,448
Changes in assets and liabilities:	
Accounts receivable	135,239
Inventory	(86,778)
Prepaid expenses	(27,743)
Accounts payable	448,967
Accrued expenses	641,291
Electronic toll liability	<u>277,277</u>
Net cash provided by operating activities	<u><u>\$ 11,042,594</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, 2013

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 to the Authority. Ownership and title of the bridges remains with the State. The Claiborne Pell Bridge, Mount Hope Bridge, Jamestown 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.

*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, 2013

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, 2013, 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, 2013

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. The cost of the Mount Hope Bridge is the amount previously carried on the records of the former Mount Hope Bridge Authority. 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.

*Bond and note payable issuance costs:*

Bond issuance costs are amortized on a straight-line basis over the life of the related bond (14-½ years and 29-½ years for 2003 and 2010 bonds, respectively), and two years for a 2013 bond anticipation note. At June 30, 2013, bond and note issuance costs and accumulated amortization total \$1,342,011 and \$293,404, respectively.

*Bond discounts:*

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, 2013, bond discounts and accumulated amortization total \$1,043,533 and \$257,332, respectively. Bond discounts, net of accumulated amortization, are presented in the accompanying financial statements as a component of bonds payable.

*Gain on refunding:*

The gain on refunding of revenue bonds is amortized on a straight-line basis over the life of the 2003 bond (14-½ years). At June 30, 2013, gain on refunding and accumulated amortization was \$348,464 and \$238,319, respectively. The gain on refunding, net of accumulated amortization, is presented in the accompanying financial statements as a component of bonds payable; annual amortization of the gain is reported as a reduction of interest expense.

RHODE ISLAND TURNPIKE AND BRIDGE AUTHORITY  
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NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2013

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.

Revenue from grants is recognized as the expenditures under such grants are made.

*Investment income:*

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

*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.

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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2013

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

*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 Pronouncements:*

Effective for the year ended June 30, 2013, the Authority adopted Statement No. 63 of the Governmental Accounting Standards Board (GASB), *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* (GASB 63). Deferred outflows of resources represent the consumption of the government's 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. GASB 63 prescribes the reporting requirements for these two elements and requires that the statement of net assets title be changed to statement of net position. The Authority had no deferred inflows or outflows of resources at June 30, 2013.

Effective for the fiscal year ending June 30, 2014, the Authority will adopt the provisions of Statement No. 65 of the GASB, *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 a result of adopting GASB 65, the Authority will be required to expense its deferred financing costs and estimates that net position as of July 1, 2013 will decrease by approximately \$1,049,000 as a result. In addition, deferred gain on advance refundings of debt will be presented as a deferred inflow of resources instead of being included with bonds payable.

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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2013

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

*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 of Rhode Island 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 at June 30, 2013 was \$7,416,415, while the bank balance was \$8,362,155. Of the bank balance, \$752,503 was covered by federal depository insurance and \$1,587,770 was held in fully collateralized repurchase agreements. The remaining balance of \$6,021,882 is uncollateralized.

RHODE ISLAND TURNPIKE AND BRIDGE AUTHORITY  
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NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2013

2. Cash and investments (continued):

*Investments:*

At June 30, 2013, the Authority's investments, including restricted amounts, consisted of the following:

	<u>Fair value</u>	<u>Interest rate</u>	<u>Maturity</u>	<u>Rating</u>
Money market funds	<u>\$ 12,832,070</u>			
United States Treasury/Agency securities:				
United States Treasury Notes	<u>1,113,143</u> *	.025% to 1.750%	7/31/10 to 6/15/16	Aaa
Mortgage-backed securities:				
United States Treasury Inflation Indexed Bond	375,423	.125% to 2.375%	7/15/18 to 1/15/27	Aaa
Federal National Mortgage Association	861,735	2.50% to 6.00%	6/1/13 to 5/1/43	Aaa
Federal Home Loan Mortgage Corp.	<u>651,678</u>	3.00% to 5.50%	4/1/24 to 11/1/42	Aaa
	<u>1,888,836</u>			
Corporate bonds	49,685	4.50%	1/15/20	Aa3
	211,145	2.00% to 4.50%	6/30/16 to 1/11/21	Aa2
	1,229,007 *	1.375% to 6.250%	6/1/15 to 12/15/22	A3
	415,051	1.250% to 5.90%	9/15/15 to 11/6/17	A2
	414,359	1.375% to 7.717%	8/14/14 to 10/1/37	A1
	630,474	2.00% to 8.50%	5/16/14 to 7/15/19	Baa3
	842,483	1.90 % to 6.676%	10/15/13 to 1/25/23	Baa2
	<u>758,780</u>	2.375% to 6.375%	3/1/14 to 6/15/42	Baa1
	<u>4,550,984</u>			

(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, 2013

2. Cash and investments (continued):

*Investments (continued):*

	<u>Fair value</u>	<u>Interest rate</u>	<u>Maturity</u>	<u>Rating</u>
Asset-backed securities	\$ 64,872	.99% to 1.31%	9/15/16 to 12/18/17	Aaa
State and other bonds	157,437	.125% to 5.84%	4/15/18 to 5/15/45	Aaa
	144,820	2.07% to 6.304%	7/1/18 to 1/1/42	Aa3
	57,187	5.435% to 6.282%	5/15/23 to 6/15/42	Aa2
	113,675	4.20% to 6.75 %	12/1/21 to 8/1/49	Aa1
	64,593	7.10%	1/1/14	A3
	114,808	4.21%	1/1/15 to 1/20/15	A2
	55,643	5.95%	4/1/16	A1
	40,059	3.67%	5/1/14	Baa1
	<u>748,222</u>			
Short-term taxable fixed income	<u>500,570</u>			N/A
Total investments	<u>\$ 21,698,697</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, 2013

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 value 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, 2013 and for the year then ended, all of the Authority's investments were direct investments not subject to custodial credit risk.

3. Capital assets:

	<u>Balance, June 30, 2012</u>	<u>Additions</u>	<u>Retirements and disposals</u>	<u>Balance, June 30, 2013</u>
Capital assets not being depreciated:				
Construction in progress	\$ 4,212,949	\$ 28,249,676	\$(28,952,863)	\$ 3,509,762
Licensing fees	250,000			250,000
Total capital assets not being depreciated	<u>4,462,949</u>	<u>28,249,676</u>	<u>(28,952,863)</u>	<u>3,759,762</u>
Capital assets being depreciated:				
Bridges *	165,865,110	18,459,095		184,324,205
Buildings	2,308,267	4,924,348		7,232,615
Land improvements	3,367,986	93,925		3,461,911
Equipment	<u>10,149,681</u>	<u>2,404,549</u>	<u>(2,167)</u>	<u>12,552,063</u>
Total capital assets being depreciated	<u>181,691,044</u>	<u>25,881,917</u>	<u>(2,167)</u>	<u>207,570,794</u>

(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, 2013

3. Capital assets (continued):

	Balance, June 30, 2012	Additions	Retirements and disposals	Balance, June 30, 2013
Capital assets being depreciated (continued):				
Less accumulated depreciation:				
Bridges *	\$ 44,534,909	\$ 7,103,131		\$ 51,638,040
Buildings	2,308,266			2,308,266
Land improvements	421,957	622,365		1,044,322
Equipment	2,911,582	1,524,732	\$ (2,167)	4,429,217
Total accumulated depreciation	50,176,714	9,250,228	(2,167)	59,424,775
Capital assets being depreciated, net	131,514,330	16,631,689	-	148,146,019
Capital assets, net	\$ 135,977,279	\$ 44,881,365	\$ (28,952,863)	\$ 151,905,781

\* Mount Hope and Claiborne Pell bridges

At June 30, 2013, capitalized interest included in capital assets totaled approximately \$236,000.

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. 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, 2013, the Authority had no obligations related to the defeased Series 1997 Bonds.

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, 2013, the Authority has in-substance defeased debt of approximately \$32,300,000, 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.

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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2013

4. Bonds payable (continued):

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, 2013, changes in bonds payable consisted of the following:

	Balance, June 30, 2012	Additions	Retirements/ amortization	Balance, June 30, 2013
Revenue bonds payable	\$ 66,805,000	\$ -	\$ 2,475,000	\$ 64,330,000
Gain on refunding	134,177		24,032	110,145
Bond discounts	(830,155)		(43,954)	(786,201)
Total bonds payable	\$ 66,109,022	\$ -	\$ 2,455,078	\$ 63,653,944

The following represents debt service and sinking fund requirements to maturity as of June 30, 2013:

Fiscal year ending June 30,	Principal	Interest	Total
2014	\$ 2,595,000	\$ 3,049,898	\$ 5,644,898
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
2019-2023	7,375,000	11,170,113	18,545,113
2024-2028	9,145,000	9,401,100	18,546,100
2029-2033	11,555,000	7,003,413	18,558,413
2034-2038	14,860,000	3,708,844	18,568,844
2039-2040	7,065,000	357,623	7,422,623
	\$ 64,330,000	\$ 45,489,910	\$ 109,819,910

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

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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2013

5. Note payable:

In February 2013, the Authority entered into a \$30 million Bond Anticipation Note (BAN), \$5,000,000 of which is outstanding at June 30, 2013. 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.

6. Commitments:

Toll Lane Implementation and Maintenance Contract:

Effective June 17, 2008, the Authority entered into a contract with Telvent Caseta Technologies for implementation of the electronic toll system E-ZPass. The initial contract included ongoing maintenance service through May 1, 2013; the contract was extended through May 2014 with an approximate annual cost of \$59,500.

E-ZPass Customer Service Contract:

Effective September 23, 2008, the Authority entered into a three-year contract (Service Contract) with Affiliated Computer Services of Newark, New Jersey (known as Xerox) to process E-ZPass transactions. The Service Contract, based on traffic flow, includes options to extend and a tiered fee schedule for services. This contract terminated on June 19, 2013.

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 RITBA 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, 2013, the Authority has a commitment of approximately \$590,000 remaining on this project.

Construction in progress:

In connection with the Series 2010A Bond Issuance, the Authority entered into a contract for improvements to the bridges and property. As of June 30, 2013, the remaining commitment on this contract is the final payment and release of retainage in the approximate amount of \$1.8 million.

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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2013

6. Commitments (continued):

Construction in progress (continued):

Additionally, the Authority has entered into contracts to provide for the maintenance of the bridges. As of June 30, 2013, remaining commitments on these contracts approximate \$3,027,000.

In May 2012, the Authority entered into an \$8 million contract for the painting and steel repair of the Mount Hope Bridge. The project has been completed and \$550,459 retainage remains payable.

In the spring of 2013, the Authority entered into contracts with Aetna Bridge, Parsons Transportation Group, and Keville Enterprises for Phase II of the steel repairs and painting on the Claiborne Pell Bridge. The total contract value is \$40,825,000 and will take two to three years to complete. As of June 30, 2013, remaining commitments on these contracts approximate \$39,336,000.

Collective bargaining agreement:

Approximately 28 employees of the Authority are under the terms of a contract with the United Service and Allied Workers of Rhode Island, a collective bargaining unit. The contract will expire on 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 2013 was approximately \$177,000, while the total cost of the matching and supplemental employer contribution for fiscal year 2013 was approximately \$172,000. 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 2013 was approximately \$2,282,000 and the Authority's total payroll was approximately \$2,775,000. 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.

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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2013

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, management has not recorded a reserve for such claims at June 30, 2013.

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.

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. In 2011, the Authority recorded a liability for \$1,200,000 as its best estimate of amounts due to certain customers under the terms of the settlement agreement. During the year ended June 30, 2013, further work on the settlement continued, resulting in a reduction of the Authority's liability to \$868,272.

10. Separation incentive agreements:

During fiscal year 2013, the Authority entered into separation incentive agreements with seven employees. In addition to accrued sick and vacation due to the employees, the severance agreements call for separated employees to receive an amount equal to one year's salary plus a stipend in lieu of other benefits and an employer match of the RITBA 401(k) up to the maximum allowable under the terms of the plan. The total cost to the Authority for amounts other than amounts due for sick and vacation was \$514,286.

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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2013

11. 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. As of June 30, 2013, the equipment is installed but not in service. Under the terms of the agreement, the Authority will repay LES its original investment of \$3,000,000 over time through fees collected. This amount is included in accrued expenses in the accompanying statement of net position.

12. Subsequent event:

On August 19, 2013, the Authority began collecting tolls on the Sakonnet River Bridge in accordance with the FY2014 Rhode Island State Budget, which includes an article that states the toll will be temporarily set at \$0.10 through April 1, 2014. The status of tolling on the Sakonnet River Bridge will be finalized in FY2014 by the State of Rhode Island General Assembly.





**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 32 through 39 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.

Providence, Rhode Island  
October 3, 2013

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, 2013

	<u>Claiborne Pell Bridge</u>
Traffic count (unaudited):	
Vehicle fares paid with ETC	8,679,774
Vehicle fares paid with cash	<u>1,640,054</u>
	<u>10,319,828</u>
Toll revenues (audited):	
Vehicle fares paid with ETC	\$ 11,621,568
Vehicle fares paid with cash	<u>7,073,391</u>
	<u>\$ 18,694,959</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, 2013

Check Number	Date Paid	Payee	Purpose	Amount
Payroll	7/24/2012	E. Hernandez	Mileage	\$ 17
12791	7/31/2012	American Express	IAG Meeting, NY	524
12837	8/1/2012	East Ferry Deli	Board Meeting- 8/1	42
12846	8/3/2012	McQuade's Marketplace	8/3	23
12846	8/3/2012	McQuade's Marketplace	8/3/12	12
12816	8/6/2012	Cash	Petty Cash 8/20-8/6	9
12849	8/9/2012	Nancy E. Parrillo	5Below & Pkg.	10
12834	8/15/2012	David Darlington	7/25 & 8/1	375
12834	8/15/2012	David Darlington	Milwaukee Trip	818
12849	8/15/2012	Nancy E. Parrillo	Milwaukee Trip	259
12868	8/21/2012	Kathryn O'Connor	Milwaukee Trip	504
Payroll	8/21/2012	E. Hernandez	Mileage	21
8/28	8/28/2012	American Express	IBTTA Annual Meeting (B. Croft & David Darlington) Duncan Meeting (Nancy Parrillo & Kathy O'Connor)	2,323
12929	9/12/2012	East Ferry Deli	Board Meeting- 9/12	42
Payroll	9/18/2012	Mr. Arthur H. Fletcher	Mileage	100
12978	9/27/2012	Nancy E. Parrillo	Maine Trip	429
12992	9/30/2013	American Express	IBTTA Meeting	730
12981	10/5/2012	Int'l. Bridge,Tunnel & Turnpike	Board Meeting	650
13005	10/10/2012	East Ferry Deli	Board Meeting- 10/10	42
13077	11/7/2012	East Ferry Deli	Board Meeting- 11/7	42
Payroll	11/27/2012	Nancy E. Parrillo	Mileage	384
13172	12/4/2012	Cash	Petty Cash	13
Payroll	12/12/2012	Mr. Arthur H. Fletcher	Mileage- 10/10,11/7 &12/12	150
13156	12/12/2012	East Ferry Deli	Board Meeting- 12/12	42
13200	12/16/2012	American Express	IAG Meeting, NY	218
Payroll	12/24/2012	Paychex - A. DellaPosta	Mileage	36
13264	1/8/2013	East Ferry Deli	Board Meeting- 1/8	42
13278	1/8/2013	Greater Prov. Chamber of Commerce	Breakfast Meeting, B. Croft	140
13261	1/14/2013	East Ferry Deli	Board Meeting- 1/14	83
13274	1/14/2013	McQuade's Marketplace	1/14	23
13240	1/17/2013	Cash	Petty Cash	166
13251	1/22/2013	American Express	IBTTA Meeting	764
014011	2/25/2013	Greater Prov. Chamber of Commerce	4/15 Brkfst 2@\$45	90
13353	2/26/2013	URI Transportation Center	5/15 Breakfast 3@\$25	75

(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, 2013

Check Number	Date Paid	Payee	Purpose	Amount
014023	3/6/2013	Cash	Petty Cash 1/17-3/5/13	\$ 30
014105	4/6/2013	Federal Express	March FedEx	154
014114	4/8/2013	Cash	Petty Cash- 3/11-4/8/13	210
014125	4/17/2013	East Ferry Deli	Board Meeting- 3/13	42
014125	4/17/2013	East Ferry Deli	Board Meeting- 4/17	42
014141	4/17/2013	URI Transportation Center	Breakfast 5/15, B. Croft	75
014147	4/23/2013	R. I. Economic Development Corporation	Luncheon 5/8, David Darlington	90
014168	4/25/2013	American Express	IBTTA Meeting	972
Payroll	4/30/2013	E. Hernandez	Mileage	66
014197	5/1/2013	East Ferry Deli	Board Meeting- 5/1	42
014211	5/15/2013	Cash	Petty Cash- 4/9-5/17/13	59
014322	5/31/2013	American Express	IBTTA Meeting	420
Payroll	6/11/2013	Eric Offenberg	NY Trip	159
Payroll	6/12/2013	J. Reilly	Mileage	88
Payroll	6/25/2013	J. Reilly	Mileage	49
014464	6/26/2013	East Ferry Deli	Board Meeting- 6/26	42
014408	6/29/2013	American Express	EZ-Pass Group Meeting	578
				<u>\$ 12,316</u>

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

STATE OF RHODE ISLAND REQUIRED FORMAT

JUNE 30, 2013

<u>Statement of Net Position</u>	<u>Attachment B</u>
<b>Assets</b>	
Current assets:	
Cash and cash equivalents	\$ 2,051,365
Investments	2,727,818
Receivables	71,701
(Receivables allowance)	
Restricted assets:	
Cash and cash equivalents	5,365,050
Investments	10,849,783
Other assets	390,244
Due from primary government	
Due from other governments	
Inventories	165,821
Other assets	106,611
Total current assets	21,728,393
Noncurrent assets:	
Investments	5,638,239
Receivables	
(Receivables allowance)	
Restricted assets:	
Cash and cash equivalents	
Investments	2,482,857
Other assets	
Capital assets - nondepreciable	3,759,762
Capital assets - depreciable (net)	148,146,019
Other assets, net of amortization	1,048,607
Total noncurrent assets	161,075,484
Total assets	\$ 182,803,877

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

STATE OF RHODE ISLAND REQUIRED FORMAT

JUNE 30, 2013

<u>Statement of Net Position (continued)</u>	<u>Attachment B</u>
<b>Liabilities</b>	
Current liabilities:	
Cash overdraft	
Accounts payable	\$ 8,064,132
Due to primary government	
Due to (from) other component units	
Due to other governments	
Deferred revenue	
Other liabilities	3,076,762
Current portion of long-term debt	2,595,000
Total current liabilities	<u>13,735,894</u>
Noncurrent liabilities:	
Due to primary government	
Due to other governments	
Deferred revenue	
Notes payable	5,000,000
Loans payable	
Obligations under capital leases	
Other liabilities	
Compensated absences	
Bonds payable	61,058,944
Total noncurrent liabilities	<u>66,058,944</u>
Total liabilities	<u>79,794,838</u>
<b>Net position</b>	
Net investment in capital assets	80,221,599
Restricted for:	
Debt	16,605,077
Other	
Other nonexpendable	
Unrestricted	6,182,363
Total net position	<u>\$ 103,009,039</u>

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, 2013

<u>Statement of Changes in Net Position</u>	<u>Attachment C</u>
<b>Operating revenues:</b>	
Charges for services	\$ 18,394,147
Interest income on loans	
Interest on investments	
Net increase (decrease) in fair value of investments	
Other operating income	636,764
Total operating revenues	19,030,911
<b>Operating expenses:</b>	
Personnel services	3,522,845
Supplies, materials, and services	6,239,173
Interest expense	
Grants, scholarships and contract programs	
Depreciation, depletion and amortization	9,250,228
Other operating expenses	0
Total operating expenses	19,012,246
Operating income	18,665
<b>Nonoperating revenues (expenses):</b>	
Interest revenue	496,668
Grants	0
Payments from primary government	
Gain (loss) on sale of property	
Interest expense	(2,932,614)
Payments (to) from other component units	
Net increase (decrease) in fair value of investments	
Other nonoperating revenue (expenses)	254,102
Total nonoperating revenue (expenses)	(2,181,844)
Income (loss) before contributions	(2,163,179)
Capital contributions	
Special items	
Extraordinary items	
Change in net position	(2,163,179)
Total net position - beginning	105,172,218
Total net position - ending	\$ 103,009,039

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, 2013

Fiscal Year Ending June 30,	<u>Long-Term Debt</u>	<u>Attachment D</u>	
	Principal	Interest	Total
2014	\$ 2,595,000	\$ 3,049,898	\$ 5,644,898
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
2019-2023	7,375,000	11,170,113	18,545,113
2024-2028	9,145,000	9,401,100	18,546,100
2029-2033	11,555,000	7,003,413	18,558,413
2034-2038	14,860,000	3,708,844	18,568,844
2039-2040	7,065,000	357,623	7,422,623
	\$ 64,330,000	\$ 45,489,910	\$ 109,819,910



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, 2013

	<u>Schedule of Changes in Long-Term Debt</u>				<u>Attachment E</u>	
	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year	Amounts Due Thereafter
Bonds payable	\$ 66,805,000	\$ -	\$ 2,475,000	\$ 64,330,000	\$ 2,595,000	\$ 61,735,000
Note payable				0		0
Net unamortized premium/discount	(830,155)	43,954		(786,201)		(786,201)
Deferred amount on refunding	134,177		24,032	110,145		110,145
Bonds payable	<u>66,109,022</u>	<u>43,954</u>	<u>2,499,032</u>	<u>63,653,944</u>	<u>2,595,000</u>	<u>61,058,944</u>
Due to primary government				-		-
Notes payable		5,000,000		5,000,000		5,000,000
Obligations under capital leases				-		-
Net OPEB obligation				-		-
Compensated absences				-		-
Included in other liabilities:						
Arbitrage rebate				-		-
Pollution remediation				-		-
Items not listed above				-		-
-				-		-
-				-		-
-				-		-
-				-		-
-				-		-
-				-		-
-				-		-
Other liabilities	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>\$ 66,109,022</u>	<u>\$ 5,043,954</u>	<u>\$ 2,499,032</u>	<u>\$ 68,653,944</u>	<u>\$ 2,595,000</u>	<u>\$ 66,058,944</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, 2013, 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 October 3, 2013.

**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.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and responses, we identified a deficiency in internal control that we consider to be a material weakness and certain other deficiencies we consider to be significant deficiencies.

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. We consider the deficiency described in the accompanying schedule of findings and responses as Item 2013-1 to be a material weakness.

**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)**

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. We consider the deficiencies described in the accompanying schedule of findings and responses as Items 2013-2 through 2013-4 to be significant deficiencies.

**Compliance and Other Matters**

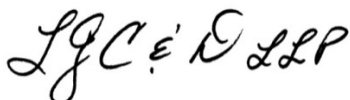
As part of obtaining reasonable assurance about whether the Authority's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material 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.

**The Authority's Responses to Findings**

The Authority's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. The Authority's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

**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  
October 3, 2013

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

SCHEDULE OF FINDINGS AND RESPONSES

YEAR ENDED JUNE 30, 2013

We consider the following item to be a material weakness in internal control:

**Item 2013-1 Implementation of Open Road Tolling and New Back Office System**

*Observation:*

During June 2012, the Authority placed into service open road tolling (ORT) lanes. Transactions related to ORT activities (for example, tolls and violations) were captured and reported by an in-house system developed by a third-party service provider. The Authority contracted with an additional third party to bill and collect violation tolls and fees. In July 2012, the contract with the billing contractor was terminated. In connection with that action, in August 2012, the Authority contracted with a new third-party billing service provider to process invoices for violations using information obtained from the newly developed in-house system. However, invoices for violations were not processed by the billing service provider until October 2012 due to the in-house system's inability to communicate to, or receive from, the billing service provider information related to the violation billings. Consequently, financial transactions related to ORT violation transactions were not recorded in the Authority's accounting records as they occurred, violators were not billed timely, and controls could not be implemented to determine whether transactions were accurately and completely recorded.

The Authority used a third party to capture and report all E-ZPass transactions, including ORT E-ZPass transactions, through mid-June 2013, at which time the Authority terminated its contract with the third party. The reports generated by the service provider were used to report financial transactions in the Authority's books and records and to facilitate the settlement of receivables from and payables to other states related to E-ZPass transactions. As part of its contract with the in-house developer, the Authority contracted with the in-house developer to develop an in-house back office system (the Back Office System) to capture and report all E-ZPass transactions, including ORT violations, and to facilitate the (i) recording of transactions in the Authority's accounting records; (ii) settlement of receivables from other states for E-ZPass transactions; and (iii) billing of violations related to ORT transactions. The Back Office System was not adequately tested in an IT test environment by users prior to its implementation, and the system did not appropriately report transactions captured during the period from implementation through year-end until mid-July 2013. Consequently, financial transactions were not reported in the Authority's accounting records timely and controls could not be implemented to determine whether transactions were accurately and completely recorded.

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

SCHEDULE OF FINDINGS AND RESPONSES (CONTINUED)

YEAR ENDED JUNE 30, 2013

**Item 2013-1 Implementation of Open Road Tolling and New Back Office System (Continued)**

*Recommendation:*

Although we were able to use information generated subsequent to year-end during the audit process, we recommend that the Authority design and implement policies and procedures that would (i) require new systems to be adequately tested in an IT test environment by users prior to their implementation to ensure that the system is operating effectively; (ii) determine whether transactions are captured and reported accurately and completely to enable the Authority to record transactions timely and accurately as part of its normal month-end financial closing process prior to system implementation; and (iii) to identify and correct on a timely basis system features that are subsequently noted as not operating effectively or as intended.

*Management's Response:*

Based on discussions, the Authority agrees with the recommendation and has implemented the process.

We consider the following items to be significant deficiencies in internal control:

**Item 2013-2 Recording of Capital Assets and Construction in Progress**

*Observation:*

The Authority records capital additions as construction in progress. However, the Authority does not reclassify amounts previously recorded as construction in progress to the appropriate capital asset category (for example, bridges), or commence the recording of depreciation expense, in the month during which the capital asset was placed in service for assets which are not part of a lengthy completion process. Consequently, significant journal entries are required to be recorded at year-end to reclassify amounts that were incorrectly categorized as construction in progress and to record depreciation expense.

*Recommendation:*

We recommend that the Authority reclassify amounts initially recorded as construction in progress to the appropriate capital asset category in the month in which the capital asset is placed in service, and record depreciation expense commencing in the month the capital asset is placed in service.

*Management's Response:*

Based on discussions, the Authority agrees with the recommendation and has implemented the process.

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

SCHEDULE OF FINDINGS AND RESPONSES (CONTINUED)

YEAR ENDED JUNE 30, 2013

**Item 2013-3 Accounts Payable and Year-End Cutoff Procedures**

*Observation:*

During our audit, we noted that certain capital assets and associated liabilities at year-end related to the construction of certain equipment were not recorded.

*Recommendation:*

We recommend that the Authority review work performed and liabilities incurred related to construction activities to identify liabilities related to goods and/or services received on or prior to year-end in order to record such transactions in the period to which they relate.

*Management's Response:*

Based on discussions, the Authority agrees with the recommendation and has implemented the process.

**Item 2013-4 Recording of Nonrecurring Transactions**

*Observation:*

During our audit, we noted that the Authority recorded as revenue the reduction in the estimated legal settlement liability previously recorded, rather than recording the amount as reduction of settlement expense.

*Recommendation:*

As previously communicated in the prior year, we again recommend that upon the occurrence of a nonrecurring transaction the Authority identify, research, and evaluate applicable accounting guidance based on the nature of the nonrecurring transaction in order to select and apply the appropriate accounting principle to ensure that the transaction is recorded in the general ledger in accordance with U.S. GAAP.

*Management's Response:*

Based on discussions, the Authority agrees with the recommendation and has implemented the process.